

MCKESSON CORP  
Form 10-K  
May 05, 2016  
Table of Contents

---

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, 2016

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  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

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

Indicate by check mark whether the registrant has submitted electronically 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  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

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

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, 2015, was approximately \$42.5 billion.

Number of shares of common stock outstanding on April 30, 2016: 225,020,523

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for its 2016 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

| Item   | Page       |
|--|------------|
| <u>PART I</u>  |            |
| 1. <u>Business</u>   | <u>3</u>   |
| 1A. <u>Risk Factors</u>  | <u>11</u>  |
| 1B. <u>Unresolved Staff Comments</u>   | <u>26</u>  |
| 2. <u>Properties</u>   | <u>26</u>  |
| 3. <u>Legal Proceedings</u>  | <u>26</u>  |
| 4. <u>Mine Safety Disclosures</u>  | <u>26</u>  |
| <u>Executive Officers of the Registrant</u>  | <u>27</u>  |
| <u>PART II</u>   |            |
| 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>28</u>  |
| 6. <u>Selected Financial Data</u>  | <u>31</u>  |
| 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                            | <u>32</u>  |
| 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>52</u>  |
| 8. <u>Financial Statements and Supplementary Data</u>  | <u>53</u>  |
| 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                             | <u>117</u> |
| 9A. <u>Controls and Procedures</u>   | <u>117</u> |
| 9B. <u>Other Information</u>   | <u>117</u> |
| <u>PART III</u>  |            |
| 10. <u>Directors, Executive Officers and Corporate Governance</u>  | <u>118</u> |
| 11. <u>Executive Compensation</u>  | <u>118</u> |
| 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>                  | <u>118</u> |
| 13. <u>Certain Relationships and Related Transactions and Director Independence</u>  | <u>120</u> |

|   |            |
|---|------------|
| 14. <u>Principal Accounting Fees and Services</u> | <u>120</u> |
|---|------------|

PART IV

|  |            |
|--|------------|
| 15. <u>Exhibits and Financial Statement Schedule</u> | <u>121</u> |
|--|------------|

|                   |            |
|-------------------|------------|
| <u>Signatures</u> | <u>122</u> |
|-------------------|------------|

---

Table of Contents

## McKESSON CORPORATION

## PART I

## Item 1. Business.

## General

McKesson Corporation (“McKesson,” the “Company,” the “Registrant” or “we” and other similar pronouns) is a global pharmaceutical distribution services and information technology company, currently ranked 11th on the Fortune 500. We deliver a comprehensive offering of pharmaceuticals and medical supplies and provide services to help our customers improve the efficiency and effectiveness of their healthcare operations. We work with payers, healthcare providers, pharmacies, pharmaceutical companies and others across the healthcare industry to improve patients’ access to high-quality care and make healthcare safer while enhancing efficiency and reducing costs.

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](http://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](http://www.sec.gov).

## Business Segments

We operate our business through two segments: McKesson Distribution Solutions and McKesson Technology Solutions.

Our Distribution Solutions segment distributes branded and generic pharmaceutical drugs and other healthcare-related products worldwide and provides practice management, technology, clinical support and business solutions to community-based oncology and other specialty practices. This segment also provides specialty pharmaceutical solutions for pharmaceutical 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 pharmacies in Europe and supports independent pharmacy networks within North America. It also sells financial, operational and clinical solutions to pharmacies (retail, hospital, alternate site) and provides consulting, outsourcing and other services.

The Technology Solutions segment delivers enterprise-wide clinical, patient care, financial, supply chain and strategic management technology solutions, as well as connectivity, outsourcing and other services, including remote hosting and managed services, to healthcare organizations.

Net revenues for our segments for the last three years were as follows:

|                        | Years Ended March 31, |   |             |   |             |   |
|------------------------|-----------------------|---|-------------|---|-------------|---|
| (Dollars in billions)  | 2016                  |   | 2015        |   | 2014        |   |
| Distribution Solutions | \$188.098             | % | \$176.098   | % | \$134.198   | % |
| Technology Solutions   | 2.9                   | 2 | 3.1         | 2 | 3.3         | 2 |
| Total                  | \$190.9100%           |   | \$179.1100% |   | \$137.4100% |   |

Table of Contents

McKESSON CORPORATION

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 comprised of the following business units: U.S. Pharmaceutical Distribution, McKesson Specialty Health, McKesson Canada, and McKesson Pharmacy Technology & Services.

U.S. Pharmaceutical Distribution: This business supplies branded, specialty and generic pharmaceuticals and other healthcare-related products to customers throughout the United States in three primary customer channels: (1) retail national accounts (including national and regional chains, food/drug combinations, mail order pharmacies and mass merchandisers); (2) independent retail pharmacies; and (3) institutional healthcare providers (including hospitals, health systems, integrated delivery networks, clinics and alternate site providers). This business also provides solutions and services to pharmaceutical manufacturers. This business sources materials and products from a wide-array of different suppliers, including certain generic pharmaceutical drugs produced through a contract-manufacturing program.

Our U.S. pharmaceutical distribution business operates and serves thousands of customer locations through a network of 31 distribution centers, as well as a primary redistribution center, a strategic redistribution center and two repackaging facilities, serving all 50 states and Puerto Rico. We invest in technology and other systems at all of our distribution centers to enhance safety and reliability and to provide the best product availability for our customers. For example, in most of our distribution centers we use Acumax® Plus, an award-winning technology that integrates and tracks all internal inventory-related functions such as receiving, put-away and order fulfillment. Acumax® Plus uses bar code technology, wrist-mounted computer hardware and radio frequency signals to provide customers with real-time product availability and industry-leading order quality and fulfillment in excess of 99.9% adjusted accuracy. In addition, we offer Mobile Manager<sup>SM</sup>, which integrates portable handheld technology with Acumax® Plus to give customers complete ordering and inventory control. We also offer McKesson Connect<sup>SM</sup>, 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. Together, these features help ensure customers have the right products at the right time for their facilities and patients.

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 and minimize errors. 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 — Business solutions that help national account customers increase revenues and profitability. Solutions include:

• Central Fill<sup>SM</sup> — 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<sup>SM</sup> — 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.

Table of Contents

McKESSON CORPORATION

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 radically small footprint.

Independent Retail Pharmacies — Solutions for 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 4,600 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.

AccessHealth® — Comprehensive managed care and reconciliation assistance services that help independent pharmacies save time, access competitive reimbursement rates and improve cash flow.

McKesson Reimbursement Advantage<sup>SM</sup> ("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 retail independent 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 allow pharmacists to earn service fees and to develop stronger patient relationships.

Institutional Healthcare Providers — 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<sup>SM</sup> — Ordering and inventory management system that empowers hospitals to optimize the often complicated and disjointed 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.

- McKesson OneStop Generics® — Described above.

McKesson Specialty Health ("MSH"): This business provides a range of 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. MSH is focused on three core business lines: Manufacturer Solutions, Practice Management and Provider Solutions.

Table of Contents

McKESSON CORPORATION

Manufacturer Solutions help manufacturers accelerate the approval and successful commercialization of specialty pharmaceuticals across the product life cycle. MSH's 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, MSH helps manufacturers minimize reimbursement challenges while offering affordable, safe access to therapies through Risk Evaluation and Mitigation Strategies ("REMS") programs.

In April 2016, we completed the acquisition of Biologics, Inc ("Biologics"), a Cary, North Carolina-based company that provides oncology pharmacy services to providers and patients as well as solutions for manufacturers and payers. For manufacturers, Biologics helps optimize speed-to-therapy, enhance patient adherence and improve patient access to therapy. In addition, Biologics works with manufacturers to develop custom strategies to enhance the clinical and commercial success of their products at each stage of the life-cycle.

Practice Management 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 The U.S. Oncology Network, one of the nation's largest network of 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. In April 2016, we also completed the acquisition of Vantage Oncology Holdings LLC ("Vantage"), a leading national provider of integrated oncology and radiation services headquartered in Manhattan Beach, California. Vantage's comprehensive oncology management services model, including its focus on community-based radiation oncology, medical oncology, and other integrated cancer care services, complements and strengthens the existing offerings of McKesson and The US Oncology Network, while allowing patients to access the care they need in an efficient and cost effective way.

Provider Solutions 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 choice to select the products and commitment levels that best meet their practice needs.

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; 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 pharmaceutical distributors in Canada. McKesson Canada, through its network of 14 distribution centers, provides logistics and distribution for manufacturers - delivering their products to retail pharmacies, hospitals, long-term care centers, clinics and institutions throughout Canada and through its network of infusion clinics, offers specialty services and adherence programs. Beyond pharmaceutical distribution, logistics and order fulfillment, McKesson Canada provides automation solutions to its retail and hospital customers, dispensing millions of doses each year. McKesson Canada also provides health information exchange solutions that streamline clinical and administrative communication and retail banner services that help independent pharmacists compete and grow through innovative services and operation support. In partnership with other McKesson businesses, McKesson Canada provides a full range of services to Canadian manufacturers and healthcare providers, contributing to the quality and safety of care for patients.

In March 2016, we entered into an agreement to purchase Rexall Health from Katz Group for \$3 billion Canadian dollars (or, approximately \$2.3 billion U.S. dollars using the currency exchange ratio of 0.77 Canadian dollar to 1 U.S. dollar as of March 31, 2016). Rexall Health, which operates approximately 470 retail pharmacies in Canada,



particularly in Ontario and Western Canada, will enhance our Canadian pharmaceutical supply chain. The acquisition is subject to regulatory approval and is expected to close during the second half of calendar year 2016.

Table of Contents

McKESSON CORPORATION

McKesson Pharmacy Technology & Services: This business provides offerings that allow large retail chains, hospital outpatient pharmacies and small and independent pharmacies to meet the high demand for prescriptions while maximizing profits and optimizing operations. It supplies integrated pharmacy management systems, automated dispensing systems and related services to retail, outpatient, central fill, specialty and mail order pharmacies. Solutions include:

EnterpriseRx® — A Software as a Service (SaaS) pharmacy management system, that allows large retail chain, health system and retail independent pharmacies to meet demand for prescriptions while maximizing profits and optimizing operations.

Pharmaserv® — A fully integrated, server-based pharmacy management system that gives the customer complete control of their pharmacy data.

PharmacyRx — A cost-effective, SaaS-based pharmacy management system that can be installed quickly and makes processing prescriptions fast and easy.

McKesson 340B Solution Suite and Macro Helix® — Software as a Service (SaaS)-based solutions that help providers manage, track and report on medication replenishment associated with the federal 340B Drug Pricing Program.

Supplylogix® — Develops and delivers practical supply chain intelligence solutions to pharmacy and related businesses and provides a wide array of services to healthcare providers nationwide.

International pharmaceutical distribution and services

Our international pharmaceutical distribution and services business provides distribution and services to the pharmaceutical and healthcare sectors primarily in Europe. The pharmaceutical wholesale business supplies pharmaceuticals and other healthcare-related products generally to retail pharmacies and institutional customers. Its wholesale network consists of approximately 109 branches that deliver to over 65,000 pharmacies daily in ten European countries. This business functions as a vital link between manufacturers and pharmacies in supplying pharmaceuticals to patients, and generally procures the pharmaceuticals approved in each country as well as other products sold in pharmacies directly from the manufacturers. Pharmaceutical and other healthcare-related products are stored at regional wholesale branches with the support of its efficient warehousing management system. The retail pharmacy business serves patients and consumers in six European countries directly through over 2,200 of its own pharmacies and over 4,500 participant pharmacies operating under brand partnership arrangements. The retail business provides traditional prescription pharmaceuticals, non-prescription products and medical services and operates under the Lloyds Pharmacy brand in the United Kingdom (“U.K.”), which accounted for approximately 71% of the total volume of the retail pharmacy business for the year ended March 31, 2016.

In April 2016, we completed the acquisition of the pharmaceutical distribution business of UDG Healthcare Plc (“UDG”) based in Ireland and the U.K. for \$412 million. The acquired UDG business primarily provides pharmaceutical and other healthcare products to retail and hospital pharmacies. We also expect to complete the acquisition of the pharmacy business of J Sainsbury Plc (“Sainsbury”) based in the U.K. during the first quarter of 2017. Once completed, these acquisitions will further enhance our retail pharmacy service capabilities in Ireland and the U.K.

In 2015, we committed to a plan to sell our Brazilian pharmaceutical distribution business, which we acquired through our February 2014 acquisition. The sale is expected to close during the first half of 2017. Refer to Financial Note 9, “Discontinued Operations”, to the consolidated financial statements appearing in this Annual Report on Form 10-K.

Medical-Surgical distribution and services

This business provides medical-surgical supply distribution, equipment, logistics and other services to healthcare providers including physicians’ offices, surgery centers, extended care facilities, homecare and occupational health sites through a network of distribution centers within the U.S. This business is a leading distributor of supplies to the full range of alternate-site healthcare facilities, including physicians’ offices, clinics and surgery centers (primary care), long-term care and homecare sites (extended care). Through a variety of products and services geared towards the supply chain, our Medical-Surgical Distribution business is focused on helping its customers operate more efficiently while providing one of the industry’s most extensive product offerings, including our own private label line.



Table of Contents

McKESSON CORPORATION

Technology Solutions Segment

Our Technology Solutions segment provides a comprehensive portfolio of information technology and services to help healthcare organizations improve quality of care and ensure patient safety, reduce the cost and variability of care and better manage their resources and revenue stream. The Technology Solutions segment markets its products and services to integrated delivery networks, hospitals, physician practices, home healthcare providers, retail pharmacies and payers.

The product portfolio for the Technology Solutions segment is designed to address a wide array of healthcare clinical and business performance needs ranging from medication safety and information access to revenue cycle management, resource utilization and physician adoption of electronic health records (“EHR”). Analytics software enables organizations to measure progress as they automate care processes for optimal clinical outcomes, business and operating results and regulatory compliance. To ensure that organizations achieve the maximum value for their information technology investment, we also offer a wide range of services to support the implementation and use of solutions as well as to assist with business and clinical redesign, process re-engineering and staffing (both information technology and back-office).

Our Technology Solutions segment consists of the following businesses: McKesson Health Solutions, Connected Care and Analytics (“CCA”), Imaging and Workflow Solutions, Business Performance Services and Enterprise Information Solutions.

McKesson Health Solutions: We offer a suite of services and software products designed to manage the cost and quality of care for payers, providers, hospitals and government organizations. Solutions include:

- InterQual® Criteria for clinical decision support and utilization management;
- Clear Coverage™ for point-of-care utilization management, coverage determination and network compliance;
- Claims payment solutions to facilitate accurate and efficient medical claim payments;
- Business intelligence tools for measuring, reporting and improving clinical and financial performance;
- Network management tools to enable health plans to transform the performance of their networks; and
- RelayHealth® financial solutions to facilitate communication between healthcare providers and patients, and to aggregate data for claims management and trend analysis, and optimize revenue cycle management processes.

Connected Care and Analytics: We provide health information exchange solutions that streamline clinical and administrative communication among patients, providers, payers, pharmacies, manufacturers, government entities and financial institutions through our vendor-neutral RelayHealth® and its intelligent network, RelayHealth® pharmacy solutions which help our customers to accelerate the delivery of high-quality care and improve financial performance through online consultation of physicians by patients, electronic prescribing by physicians, and point-of-service resolution of pharmacy claims by payers. We provide clinical and analytical software to support management workflows and analytics for optimization of hospital departments and a comprehensive solution for homecare. We also provide performance management solutions designed to enhance an organization’s ability to plan and optimize quality care delivery. Enterprise visibility and performance analytics provide business intelligence that enables providers to manage capacity, outcomes, productivity and patient flow.

Imaging and Workflow Solutions: We offer medical imaging and information management systems for healthcare enterprises, including a picture archiving communications system, a radiology information system and a comprehensive cardiovascular information system. Our enterprise-wide approach to medical imaging enables organizations to take advantage of specialty-specific workstations while building an integrated image repository that manages all of the images and information captured throughout the care continuum.

Table of Contents

McKESSON CORPORATION

**Business Performance Services:** We help providers focus their resources on delivering healthcare while managing their revenue cycle operations and information technology through a comprehensive suite of managed services. Services include full and partial revenue cycle outsourcing, remote hosting and business office administration. We also provide a complete solution for physician practices of all sizes, whether they are independent or employed, that includes software, revenue cycle outsourcing and connectivity services. Software solutions include practice management and EHR software for physicians of every size and specialty. Our physician practice offering includes outsourced billing, collection, data input, medical coding, billing, contract management, cash collections, accounts receivable management and extensive reporting of metrics related to the physician practice. We also offer a full suite of physician and hospital consulting services, including financial management, coding and compliance services, revenue cycle services and strategic services.

**Enterprise Information Solutions:** We provide comprehensive clinical and financial information systems for hospitals and health systems of all sizes. These systems are designed to improve the safety and quality of patient care and improve clinical, financial and operational performance. We also provide professional services to help customers achieve business results from their software or automation investment. In addition, workflow management solutions assist caregivers with staffing and maintaining labor rule continuity between scheduling, time and attendance and payroll. We also offer a comprehensive supply chain management solution that integrates enterprise resource planning applications, including financials, materials, human resources/payroll, scheduling, point of use, surgical and anesthesia services and enterprise-wide analytics.

**Business Combinations, Discontinued Operations and Other 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, and 9 “Business Combinations,” “Divestiture of Businesses,” and “Discontinued Operations,” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

**Competition**

Our Distribution Solutions segment 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.

Our Technology Solutions segment 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.

**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 enjoinder 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.

Table of Contents

McKESSON CORPORATION

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 2016, sales to our ten largest customers, including group purchasing organizations ("GPOs") accounted for approximately 52.4% of our total consolidated revenues. Sales to our largest customer, CVS Health ("CVS"), accounted for approximately 20.3% of our total consolidated revenues. At March 31, 2016, trade accounts receivable from our ten largest customers were approximately 32% of total trade accounts receivable. Accounts receivable from CVS were approximately 18% 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 receivables 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 2016. 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, as a whole, are good. The ten largest suppliers in 2016 accounted for approximately 44% 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 a material adverse impact on our gross profit margin.

**Research and Development:** Research and development costs were \$392 million, \$392 million and \$457 million during 2016, 2015 and 2014. These costs do not include \$30 million, \$34 million and \$40 million of costs capitalized for software held for sale during 2016, 2015 and 2014. Development expenditures are primarily incurred by our Technology Solutions segment. Our Technology Solutions segment's product development efforts apply computer technology and installation methodologies to specific information processing needs of hospitals and other customers. We believe that a substantial and sustained commitment to such expenditures is important to the long-term success of this business. 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.

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.

Table of Contents

McKESSON CORPORATION

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 2016 and is not expected to be material in the next year.

Employees: On March 31, 2016, we employed approximately 68,000 full-time equivalent employees.

Financial Information About Foreign and Domestic Operations: Certain financial information relating to foreign and domestic operations is included in Financial Note 27, “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,” “intends,” 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.

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, consolidation of pharmaceutical and medical-surgical supply distributors and the development of large, sophisticated purchasing groups. We expect the healthcare industry in the United States to continue to change and for healthcare delivery models to evolve in the future.





Table of Contents

McKESSON CORPORATION

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. 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 declines, which we do not control. In addition, we distribute generic pharmaceuticals, which can be subject to both price deflation and price inflation. During 2016, our Distribution Solutions segment experienced weaker generic pharmaceutical pricing trends, which are expected to continue in 2017. 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 January 21, 2016, the Centers for Medicare and Medicaid Services (“CMS”) released the Covered Outpatient Drugs final rule with comment. The final rule, with limited exceptions, establishes the FUL to be 175% of the weighted average (determined on the basis of utilization) of the most recently reported monthly average manufacturer price (“AMP”) using a smoothing process. States had until May 2016 to implement the FULs. 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). 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 March 2015, we reached an agreement in principle with the DEA and Department of Justice pursuant to which we agreed to pay 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.

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.

Table of Contents

McKESSON CORPORATION

**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 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:** State, federal and foreign laws regulate the confidentiality of personal information, how that information may be used, and the circumstances under which such information may be released. These regulations govern the disclosure and use of confidential personal and patient medical record information and require the users of such information to implement specified privacy and security measures. Regulations currently in place, including regulations governing electronic health data transmissions, continue to evolve and are often unclear and difficult to apply. Although we modified our policies, procedures and systems to comply with the current requirements of applicable state, federal and foreign laws, including the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) and the Health Information Technology for Economic and Clinical Health (“HITECH”) Act portion of the American Recovery and Reinvestment Act of 2009, new laws and regulations in this area could further restrict our or our customers’ ability to obtain, use or disseminate personal or patient information, or could require us to incur significant additional costs to re-design our products or services in a timely manner, either of which could have a material adverse impact on our results of operations. In addition, the HITECH Act expanded HIPAA privacy and security requirements and increased financial penalties for violations. It also extended certain provisions of the federal privacy and security standards to us in our capacity as a business associate of our payer and provider customer. These standards may be interpreted by a regulatory authority in a manner that could require us to make a material change to our operations. Furthermore, our failure to maintain the confidentiality of personal information in accordance with applicable regulatory requirements could expose us to breach of contract claims, tort damages, fines and penalties, costs for remediation, media attention and harm to our customer relationships and reputation.

**Healthcare Reform:** The Affordable Care Act 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 Affordable Care Act 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). We do not currently anticipate that the Affordable Care Act or any resulting federal and state healthcare reforms will have a material impact on our financial position and results of operations. However, given the scope of the changes made and under consideration, as well as the uncertainties associated with implementation of healthcare reforms, we cannot predict their full effect on the Company at this time.

Table of Contents

## McKESSON CORPORATION

**Interoperability and Meaningful Use Requirement:** There is increasing demand among customers, industry groups and government authorities that healthcare information technology products provided by various vendors be compatible with each other. In 2013, in order to address this demand for interoperability we and a number of other healthcare information technology (“IT”) companies co-founded the CommonWell Health Alliance with the aim of developing a standard for data sharing among doctors, hospitals, clinics and pharmacies. Certain federal and state agencies also are developing standards that could become mandatory for software and systems purchased by these agencies, or used by our customers. With respect to legislation addressing interoperability, MACRA promotes and defines interoperability, requires metrics to measure interoperability, and requires vendors and providers to attest that they are not blocking data. Regarding meaningful use requirements, the HITECH Act requires meaningful use of “certified” healthcare information technology products by healthcare providers in order to receive stimulus funds from the federal government. Further, the 21st Century Cures bill that passed the U.S. House of Representatives last year contained language focused on promoting greater interoperability of health IT. Specifically the bill creates penalties for so-called “information blocking” by IT vendors or providers. 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. Finally, the bill included additional funding for the National Institutes of Health, and the FDA. The Senate is currently considering similar legislation with final passage possible this year.

Although several of our healthcare information technology products have received certification, rules regarding meaningful use may be changed or supplemented in the future. As a result of interoperability and meaningful requirements, we may incur increased development costs and delays in receiving certification for our products, and changing or supplementing rules also may lengthen our sales and implementation cycle. We also may incur costs in periods prior to the corresponding recognition of revenue. To the extent these requirements subsequently are changed or supplemented, or we are delayed in receiving certification for our products, customers may postpone or cancel their decisions to purchase or implement these products.

**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 2011 the FDA issued a rule on medical device data systems that regulates certain software that electronically stores, transfers or displays data originating from medical devices as Class 1 medical devices themselves (i.e., those devices deemed by the FDA to be low risk and subject to the least regulatory controls). However, 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. The 21st Century Cures bill would also change 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. The Senate is currently considering similar legislation with final passage probable this year.

**Standards for Submission of Healthcare Claims:** HHS previously adopted two rules that impact healthcare claims submitted for reimbursement. The first rule modified the standards for electronic healthcare transactions (e.g., eligibility, claims submission and payment and electronic remittance) from Version 4010/4010A to Version 5010. The second rule updated and expanded the standard medical code sets for diagnosis and procedure coding from International Classification of Diseases, Ninth Revision (“ICD-9”) to International Classification of Diseases, Tenth Revision (“ICD-10”). The compliance date for ICD-10 conversion was postponed from October 1, 2014 to October 1,

2015. Updating systems to Version 5010 for electronic healthcare transactions (e.g., eligibility, claims submission and payment and electronic remittance) is required for use of the ICD-10 code set. Generally, claims submitted not using Version 5010 and ICD-10 will not be processed, and health plans not accepting transactions using Version 5010 and ICD-10 may experience significant increases in customer service inquiries. We may incur increased development costs and delays in delivering solutions and upgrading our software and systems as the healthcare industry moves towards compliance with these rules. In addition, these rules may lengthen our sales and implementation cycle and we may incur costs in periods prior to the corresponding recognition of revenue. Delays in providing software and systems that are in compliance with these rules may result in postponement or cancellation of our customers' decisions to purchase our software and systems.

Table of Contents

McKESSON CORPORATION

**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. The Company's acquisition of Celesio AG ("Celesio") significantly increases the importance of our foreign operations to our future operations and growth.

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.

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 steps to reform the rules regarding the sale of generic drugs. These changes include 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. These reforms may adversely affect the distribution of drugs as well as the pricing for prescription drugs for the Company's operations in Canada. Other 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.

16

---

Table of Contents

McKESSON CORPORATION

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.

The Company's acquisition of Celesio increased our assets and operations within Europe and, accordingly, our exposure to economic conditions in Europe. 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 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.

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, we are subject to the 1995 European Union ("EU") Directive on Data Protection ("1995 Data Protection Directive"), which requires EU member states to impose minimum 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 Company had addressed these requirements by certification to the U.S.-EU Safe Harbor Frameworks prior to such Frameworks being invalidated in October 2015 by the European Court of Justice. Although recent negotiations between the U.S. and the EU have yielded the likely successor to the Safe Harbor Framework, the EU-U.S. Privacy Shield, this new framework has not yet been approved by all of the necessary EU regulatory bodies. In the interim, we are pursuing alternative methods of compliance, but those methods may be subject to scrutiny by data protection authorities in EU member states. On December 15, 2015, the European Parliament and the Council of the European Union (Council) reached a political agreement on the future EU data protection legal framework. Subject to formal adoption by the European Parliament in the first half of 2016, the General Data Protection Regulation ("GDPR") will replace the 1995 Data Protection Directive. Although the GDPR has not yet been finalized and minor modifications remain possible, the GDPR will have significant impacts on how businesses can collect and process the personal data of EU individuals. The GDPR is expected to become effective sometime in 2018, two years after its final adoption in 2016. 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.

Table of Contents

McKESSON CORPORATION

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.

On February 6, 2014, we completed the acquisition of 77.6% of the then outstanding common shares of Celesio and certain convertible bonds of Celesio. Upon the acquisition, our ownership of Celesio's fully diluted shares was 75.6%.

Celesio is an international wholesale and retail company and provider of logistics and services to the pharmaceutical and healthcare sectors. On December 2, 2014, we obtained the ability to pursue the integration of the two companies upon the effectiveness of the domination and profit and loss transfer agreement (the "Domination Agreement").

Achieving the anticipated benefits of our acquisition of Celesio is subject to a number of risks and uncertainties, including foreign exchange fluctuations, challenges of managing new international operations, and whether we can ensure continued performance or market growth of Celesio's products and services. The integration process is subject to a number of uncertainties and no assurance can be given that the anticipated benefits of the 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 the Celesio acquisition and which could have a material adverse impact on our financial position, results of operations, liquidity and cash flows.

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 the Celesio acquisition 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 the market price of Celesio shares that we did not acquire in the acquisition, changes in regulations and laws, as well as economic trends, could also adversely affect our ability to realize the expected benefits from our acquisition of Celesio.

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. For example, during the fourth quarter of 2015, we committed to a plan to sell our Brazilian pharmaceutical distribution business and a small business from our Distribution Solutions segment, as well as a small business from our Technology Solutions segment. 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.



Table of Contents

McKESSON CORPORATION

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. 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.

Competition and industry consolidation may erode our profit.

Our Distribution Solutions segment 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 Technology Solutions segment 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.

Table of Contents

McKESSON CORPORATION

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 2016, sales to our ten largest customers, including group purchasing organizations (“GPOs”) accounted for approximately 52.4% of our total consolidated revenues. Sales to our largest customer, CVS Health (“CVS”), accounted for approximately 20.3% of our total consolidated revenues. At March 31, 2016, trade accounts receivable from our ten largest customers were approximately 32% of total trade accounts receivable. Accounts receivable from CVS were approximately 18% 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.

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.

Table of Contents

McKESSON CORPORATION

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 and our customers use a variety of security measures to protect our and their computer systems, a failure or compromise of our or our customers' 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 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.

Despite our implementation of a variety of security measures, our and our customers' 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 or our customers' computer systems may 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, 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.





Table of Contents

McKESSON CORPORATION

The acquisition of Celesio exposes 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.

The failure of our healthcare technology businesses to attract and retain customers due to challenges in software product integration or to keep pace with technological advances may significantly reduce our results of operations. Our healthcare technology businesses, the bulk of which resides in our Technology Solutions segment, deliver enterprise wide and single entity clinical, patient care, financial, supply chain and strategic management software solutions to hospitals, physicians, homecare providers, retail and mail order pharmacies and payers. Challenges integrating software products could impair our ability to attract and retain customers and could have a material adverse impact on our consolidated results of operations and a disproportionate impact on the results of operations of our Technology Solutions segment.

Future advances in healthcare information technology could lead to new technologies, products or services that are competitive with the technology products and services offered by our various businesses. Such technological advances could also lower the cost of such products and services or otherwise result in competitive pricing pressure or render our products obsolete.

The success of our technology businesses will depend, in part, on our ability to be responsive to technological developments, pricing pressures and changing business models. To remain competitive in the evolving healthcare information technology marketplace, our technology businesses must also develop new products and services on a timely basis. The failure to develop competitive products and to introduce new products and services on a timely basis could curtail the ability of our technology businesses to attract and retain customers, and thereby 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.

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, our Technology Solutions segment's 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.

Table of Contents

McKESSON CORPORATION

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) cyber attacks, 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.

The length of our sales and implementation cycles for our Technology Solutions segment could have a material adverse impact on our future results of operations.

Many of the solutions offered by our Technology Solutions segment have long sales and implementation cycles, which could range from a few months to two years or more from initial contact with the customer to completion of implementation. How and when to implement, replace, or expand an information system, or modify or add business processes, are major decisions for healthcare organizations. Many of the solutions we provide typically require significant capital expenditures and time commitments by the customer. Any decision by our customers to delay or cancel implementation could have a material adverse impact on our results of operations. Furthermore, delays or failures to meet milestones established in our agreements may result in a breach of contract, termination of the agreement, damages and/or penalties as well as a reduction in our margins or a delay in our ability to recognize revenue.

We may be required to record a significant charge to earnings if our goodwill or intangible assets 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 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 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 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 and intangible assets. Any changes in key assumptions, including failure to meet business plans, a further deterioration in the market or other unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.



Table of Contents

McKESSON CORPORATION

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. For example, if legislation is passed to repeal the LIFO (last-in, first-out) method of inventory accounting for income tax purposes, it would adversely impact our cash flow. Additionally, if legislation is passed to change the current U.S. taxation treatment of income from foreign operations, or if legislation is passed at the state level to establish or increase taxation on the basis of our gross revenues, it may adversely impact our tax expense. 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.

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, decreased liquidity and increased costs in the commercial paper market and the reduced market for securitizations, may adversely affect the availability and cost of credit already arranged and the availability, terms and cost of credit in the future, including any arrangements to renew or replace our current credit or financing arrangements. Although we believe that our operating cash flow, financial assets, current access to capital and credit markets, including our existing credit and sales 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. 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 financial statements.

Our 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 revenue recognition, leases, and share based payments, 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.

Table of Contents

McKESSON CORPORATION

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 reported to have underfunded liabilities.

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.

On March 14, 2016, the Company 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. Expense reduction 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.

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.





Table of Contents

McKESSON CORPORATION

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.

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     | 57  | 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 — 20 years.   |
| James A. Beer          | 55  | Executive Vice President and Chief Financial Officer since October 2013; Executive Vice President and Chief Financial Officer, Symantec Corporation from 2006 to October 2013; Senior Vice President and Chief Financial Officer, AMR Corporation and its principal subsidiary, American Airlines, Inc., from 2004 to 2006, Service with the Company — 2 years.   |
| Patrick J. Blake       | 52  | Executive Vice President and Group President since June 2009; President of McKesson Specialty Care Solutions (now McKesson Specialty Health) from April 2006 to June 2009. Service with the Company — 20 years.   |
| Jorge L. Figueredo     | 55  | Executive Vice President, Human Resources since May 2008; Service with the Company — 8 years.   |
| Paul C. Julian         | 60  | Executive Vice President and Group President since April 2004. Service with the Company — 20 years.   |
| Kathleen D. McElligott | 60  | 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 — 9 months.   |
| Bansi Nagji            | 51  | 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 — 1 year, 3 months. |
| Lori A. Schechter      | 54  | 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 — 4 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:

|                | 2016     |          | 2015     |          |
|----------------|----------|----------|----------|----------|
|                | High     | Low      | High     | Low      |
| First quarter  | \$243.61 | \$219.51 | \$192.03 | \$162.90 |
| Second quarter | \$236.86 | \$160.10 | \$200.00 | \$185.66 |
| Third quarter  | \$202.20 | \$169.00 | \$214.37 | \$178.28 |
| Fourth quarter | \$196.84 | \$148.29 | \$232.69 | \$205.72 |

(b) Holders: The number of record holders of the Company's common stock at March 31, 2016 was approximately 6,204.

(c) Dividends: In July 2015, the Company's quarterly dividend was raised from \$0.24 to \$0.28 per common share for dividends declared after such date, until further action by the Company's Board of Directors (the "Board"). The Company declared regular cash dividends of \$1.08 and \$0.96 per share in the years ended March 31, 2016 and 2015.

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.

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 2014, we made no share repurchases. In 2015, we repurchased 1.5 million shares for \$340 million at an average price of \$226.55 per share. In 2016, we repurchased 4.5 million shares of the Company's common stock 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 and we repurchased 4.2 million shares at an average price per share of \$154.04. All share repurchases were funded with cash on hand.

The total authorization outstanding for repurchases of the Company's common stock was \$1.0 billion at March 31, 2016. In 2016, we retired 115.5 million or \$7.8 billion of the Company's previously repurchased treasury shares. Under the applicable state law, these shares resumed the status of authorized and unissued shares upon retirement.

Table of Contents

## McKESSON CORPORATION

The following table provides information on the Company's share repurchases during the fourth quarter of 2016:

| (In millions, except price per share) | Share Repurchases <sup>(1)</sup>             |                                       |  | Approximate<br>Dollar Value<br>of Shares<br>that May<br>Yet Be<br>Purchased<br>Under the<br>Programs |
|---------------------------------------|--|---------------------------------------|--|--|
|                                       | Total<br>Number<br>of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Programs |  |
| January 1, 2016 - January 31, 2016    | —  | \$ —                                  | —  | \$ 1,646   |
| February 1, 2016 - February 29, 2016  | 3.2  | 154.04                                | 3.2  | 1,148  |
| March 1, 2016 - March 31, 2016        | 1.0  | 154.04                                | 1.0  | 996  |
| Total                                 | 4.2  |                                       | 4.2  | \$ 996   |

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

Table of Contents

## McKESSON CORPORATION

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, |          |          |          |          |          |
|---------------------------|-----------|----------|----------|----------|----------|----------|
|                           | 2011      | 2012     | 2013     | 2014     | 2015     | 2016     |
| McKesson Corporation      | \$100.00  | \$112.13 | \$139.12 | \$229.03 | \$294.79 | \$206.10 |
| S&P 500 Index             | \$100.00  | \$108.54 | \$123.69 | \$150.73 | \$169.92 | \$172.95 |
| S&P 500 Health Care Index | \$100.00  | \$116.36 | \$145.65 | \$188.21 | \$237.45 | \$225.15 |

\* Assumes \$100 invested in McKesson Common Stock and in each index on March 31, 2011 and that all dividends are reinvested.

Table of Contents

## McKESSON CORPORATION

## Item 6. Selected Financial Data.

## FIVE-YEAR HIGHLIGHTS

| (In millions, except per share data and ratios)  | As of and for the Years Ended March 31, |           |           |           |           |
|--|---|-----------|-----------|-----------|-----------|
|  | 2016                                    | 2015      | 2014      | 2013      | 2012      |
| <b>Operating Results</b>   |   |           |           |           |           |
| Revenues   | \$190,884                               | \$179,045 | \$137,392 | \$122,196 | \$122,453 |
| Percent change   | 6.6                                     | % 30.3    | % 12.4    | % (0.2)   | )% 9.5    |
| Gross profit   | \$11,416                                | \$11,411  | \$8,352   | \$6,881   | \$6,435   |
| Income from continuing operations before income taxes  | 3,250                                   | 2,657     | 2,171     | 1,950     | 1,915     |
| Income (loss) after income taxes   |   |           |           |           |           |
| Continuing operations  | 2,342                                   | 1,842     | 1,414     | 1,363     | 1,394     |
| Discontinued operations  | (32                                     | ) (299    | ) (156    | ) (25     | ) 9       |
| Net income   | 2,310                                   | 1,543     | 1,258     | 1,338     | 1,403     |
| Net (income) loss attributable to noncontrolling interests <sup>(1)</sup>                    | (52                                     | ) (67     | ) 5       | —         | —         |
| Net income attributable to McKesson Corporation  | 2,258                                   | 1,476     | 1,263     | 1,338     | 1,403     |
| <b>Financial Position</b>  |   |           |           |           |           |
| Working capital  | \$3,366                                 | \$3,173   | \$3,221   | \$1,813   | \$1,917   |
| Days sales outstanding for: <sup>(2)</sup>   |   |           |           |           |           |
| Customer receivables   | 28                                      | 26        | 29        | 26        | 24        |
| Inventories  | 32                                      | 31        | 33        | 33        | 31        |
| Drafts and accounts payable  | 59                                      | 54        | 54        | 51        | 49        |
| Total assets   | \$56,563                                | \$53,870  | \$51,759  | \$34,786  | \$33,093  |
| Total debt, including capital lease obligations  | 8,154                                   | 9,844     | 10,594    | 4,873     | 3,980     |
| Total McKesson stockholders' equity <sup>(3)</sup>   | 8,924                                   | 8,001     | 8,522     | 7,070     | 6,831     |
| Payments for property, plant and equipment   | 488                                     | 376       | 278       | 241       | 221       |
| Acquisitions, net of cash and cash equivalents acquired                                      | 40                                      | 170       | 4,634     | 1,873     | 1,051     |
| <b>Common Share Information</b>  |   |           |           |           |           |
| Common shares outstanding at year-end  | 225                                     | 232       | 231       | 227       | 235       |
| Shares on which earnings per common share were based   |   |           |           |           |           |
| Diluted  | 233                                     | 235       | 233       | 239       | 251       |
| Basic  | 230                                     | 232       | 229       | 235       | 246       |
| Diluted earnings (loss) per common share attributable to McKesson Corporation <sup>(4)</sup> |   |           |           |           |           |
| Continuing operations  | \$9.84                                  | \$7.54    | \$6.08    | \$5.69    | \$5.56    |
| Discontinued operations  | (0.14                                   | ) (1.27   | ) (0.67   | ) (0.10   | ) 0.04    |
| Total  | 9.70                                    | 6.27      | 5.41      | 5.59      | 5.60      |
| Cash dividends declared  | 249                                     | 226       | 214       | 192       | 202       |
| Cash dividends declared per common share   | 1.08                                    | 0.96      | 0.92      | 0.80      | 0.80      |
| Book value per common share <sup>(4) (5)</sup>   | 39.66                                   | 34.49     | 36.89     | 31.15     | 29.07     |
| Market value per common share - year-end   | 157.25                                  | 226.20    | 176.57    | 107.96    | 87.77     |

Supplemental Data

|  |         |         |         |         |         |   |
|--|---------|---------|---------|---------|---------|---|
| Debt to capital ratio <sup>(6)</sup>                   | 43.7    | % 50.3  | % 55.4  | % 40.6  | % 36.8  | % |
| Average McKesson stockholders' equity <sup>(7)</sup>   | \$8,688 | \$8,703 | \$7,803 | \$7,294 | \$7,108 |   |
| Return on McKesson stockholders' equity <sup>(8)</sup> | 26.0    | % 17.0  | % 16.2  | % 18.3  | % 19.7  | % |

Footnotes to Five-Year Highlights:

Primarily reflects guaranteed dividends and annual recurring compensation that McKesson became obligated to (1) pay to the noncontrolling shareholders of Celesio AG upon the effectiveness of the Domination Agreement in December 2014.

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

(3) Excludes noncontrolling and redeemable noncontrolling interests.

(4) Certain computations may reflect rounding adjustments.

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

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

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

(8) 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 the Company 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 operating segments: McKesson Distribution Solutions and McKesson Technology Solutions. Refer to Financial Note 27, "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 ContentsMcKESSON CORPORATION  
FINANCIAL REVIEW (Continued)

## RESULTS OF OPERATIONS

## Overview:

| (Dollars in millions, except per share data)                                  | Years Ended March 31, |           |           | Change |      |         |   |
|---|-----------------------|-----------|-----------|--------|------|---------|---|
|   | 2016                  | 2015      | 2014      | 2016   | 2015 |         |   |
| Revenues  | \$190,884             | \$179,045 | \$137,392 | 7      | %    | 30      | % |
| Gross Profit  | \$11,416              | \$11,411  | \$8,352   | -      | %    | 37      | % |
| Operating Expenses  | \$7,871               | \$8,443   | \$5,913   | (7)    | %    | 43      | % |
| Income from Continuing Operations Before Income Taxes                         | \$3,250               | \$2,657   | \$2,171   | 22     | %    | 22      | % |
| Income Tax Expense  | (908)                 | (815)     | (757)     | 11     |      | 8       |   |
| Income from Continuing Operations   | 2,342                 | 1,842     | 1,414     | 27     |      | 30      |   |
| Loss from Discontinued Operations, Net of Tax                                 | (32)                  | (299)     | (156)     | (89)   |      | 92      |   |
| Net Income  | 2,310                 | 1,543     | 1,258     | 50     |      | 23      |   |
| Net (Income) Loss Attributable to Noncontrolling Interests                    | (52)                  | (67)      | 5         | (22)   |      | (1,440) |   |
| Net Income Attributable to McKesson Corporation                               | \$2,258               | \$1,476   | \$1,263   | 53     | %    | 17      | % |
| Diluted Earnings (Loss) Per Common Share Attributable to McKesson Corporation |                       |           |           |        |      |         |   |
| Continuing Operations   | \$9.84                | \$7.54    | \$6.08    | 31     | %    | 24      | % |
| Discontinued Operations   | (0.14)                | (1.27)    | (0.67)    | (89)   |      | 90      |   |
| Total   | \$9.70                | \$6.27    | \$5.41    | 55     | %    | 16      | % |

Weighted Average Diluted Common Shares 233 235 233 (1) % 1 %

Revenues for 2016 and 2015 increased 7% and 30% compared to the same periods a year ago. Excluding unfavorable foreign currency effects of 2%, revenues increased 9% for 2016. Revenues benefited from market growth and expanded volume with existing customers within our North America pharmaceutical distribution businesses.

Revenues for 2015 also increased as a result of our February 2014 acquisition of Celesio AG ("Celesio"). Market growth reflects growing drug utilization, which includes newly launched drugs and price increases, partially offset by price deflation associated with brand to generic drug conversions.

Gross profit was flat in 2016 and increased 37% in 2015 compared to the same periods a year ago. Excluding unfavorable foreign currency effects of 4%, gross profit increased 4% in 2016. Gross profit margin decreased in 2016 primarily due to a lower sell margin within our North America distribution business driven by increased customer sales volume with some of our largest customers, partially offset by higher buy margin including benefits from our global procurement arrangements, lower LIFO-related inventory charges and \$76 million in cash receipts representing our share of antitrust legal settlements. Additionally, this business has been experiencing weaker generic pharmaceutical pricing trends, which are expected to continue in 2017. Gross profit margin increased in 2015 primarily due to our Celesio acquisition, higher buy margin including the effects of generic price increases and our mix of business, partially offset by lower sell profit. Gross profit included LIFO-related inventory charges of \$244 million, \$337 million and \$311 million in 2016, 2015 and 2014.

Operating expenses decreased 7% and increased 43% in 2016 and 2015 compared to the same periods a year ago. Excluding unfavorable foreign currency effects of 5%, operating expenses decreased 2% in 2016 primarily due to pre-tax gains of \$103 million from the sale of two businesses and lower acquisition-related expenses, partially offset by pre-tax restructuring charges of \$203 million, as further discussed below. Additionally, 2015 operating expenses

included a pre-tax and after-tax \$150 million charge associated with the settlement of controlled substance distribution claims with the Drug Enforcement Administration (“DEA”), Department of Justice (“DOJ”) and various U.S. Attorney’s offices.

33

---

Table of Contents

McKESSON CORPORATION

FINANCIAL REVIEW (Continued)

On March 14, 2016, the Company 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. During the fourth quarter of 2016, we recorded \$229 million of pre-tax restructuring charges primarily representing severance and employee-related costs. The charges were included in our results as follows: \$26 million in cost of sales and \$203 million in operating expenses.

Operating expenses increased in 2015 primarily due to our business acquisitions, including increases in acquisition-related expenses and intangible asset amortization, and higher compensation and benefit costs.

Additionally, operating expenses for 2015 included the \$150 million settlement charge and for 2014, included \$68 million of pre-tax charges associated with our Average Wholesale Price (“AWP”) litigation.

Income from continuing operations before income taxes increased in 2016 compared with the prior year primarily due to lower operating expenses, and increased in 2015 primarily due to higher gross profit, partially offset by higher operating and interest expense.

Our reported income tax rates were 27.9%, 30.7% and 34.9% in 2016, 2015 and 2014. Income tax expense for 2014 included a charge of \$122 million relating to our litigation with the Canadian Revenue Agency (“CRA”).

Net income attributable to noncontrolling interests for 2016 and 2015 primarily reflects the recurring annual compensation and the guaranteed dividends that McKesson is obligated to pay to the noncontrolling shareholders of Celesio under the domination and profit and loss transfer agreement (the “Domination Agreement”), which became effective in December 2014.

Loss from discontinued operations, net of tax, for 2015 included pre-tax non-cash impairment charges of \$241 million (\$235 million after-tax) associated with our Brazilian pharmaceutical distribution business, which we acquired through our acquisition of Celesio. On January 31, 2016, we entered into an agreement to sell this business to a third party. The sale is expected to be completed during the first half of 2017, subject to regulatory approval and customary closing conditions. We expect to recognize an after-tax charge of approximately \$80 million to \$100 million upon the disposition of the business within discontinued operations as a result of settlement of certain indemnifications. Loss from discontinued operations, net of tax, for 2014 included a non-cash pre-tax and after-tax impairment charge of \$80 million related to our International Technology business, which was sold in part in 2015.

Net income attributable to McKesson Corporation was \$2,258 million, \$1,476 million and \$1,263 million in 2016, 2015 and 2014. Diluted earnings per common share attributable to McKesson Corporation from continuing operations were \$9.84, \$7.54 and \$6.08 and diluted loss per common share attributable to McKesson Corporation from discontinued operations were \$0.14, \$1.27 and \$0.67 in 2016, 2015 and 2014.

We have recently acquired or have agreements to acquire a number of businesses whose financial results will be reported within our Distribution Solutions segment from their respective acquisition date. These businesses are described in Financial Note 2, “Business Combinations” to the consolidated financial statements appearing in this Annual Report on Form 10-K for additional information.

Table of ContentsMcKESSON CORPORATION  
FINANCIAL REVIEW (Continued)

## Revenues:

| (Dollars in millions)                                | Years Ended March 31, |           |           | Change |      |
|--|-----------------------|-----------|-----------|--------|------|
|  | 2016                  | 2015      | 2014      | 2016   | 2015 |
| Distribution Solutions                               |                       |           |           |        |      |
| North America pharmaceutical distribution & services | \$158,469             | \$143,711 | \$123,929 | 10 %   | 16 % |
| International pharmaceutical distribution & services | 23,497                | 26,358    | 4,485     | (11)   | 488  |
| Medical-Surgical distribution & services             | 6,033                 | 5,907     | 5,648     | 2      | 5    |
| Total Distribution Solutions                         | 187,999               | 175,976   | 134,062   | 7      | 31   |
| Technology Solutions - products and services         | 2,885                 | 3,069     | 3,330     | (6)    | (8)  |
| Total Revenues                                       | \$190,884             | \$179,045 | \$137,392 | 7 %    | 30 % |

Revenues increased 7% and 30% in 2016 and 2015 compared to the same periods a year ago. Excluding unfavorable foreign currency effects of 2%, revenues increased 9% in 2016. These increases were primarily driven by our Distribution Solutions segment, which accounted for approximately 98% of our consolidated revenues.

## Distribution Solutions

North America pharmaceutical distribution and services revenues increased over the last two years primarily due to market growth, expanded business with existing customers and our mix of business. These increases were partially offset by customer losses. Market growth reflects growing drug utilization, which includes newly launched drugs and price increases, partially offset by price deflation associated with brand to generic drug conversions. Additionally, our 2015 revenues benefited from newly launched drugs for the treatment of Hepatitis C.

International pharmaceutical distribution and services revenues for 2016 decreased 11%. Excluding unfavorable foreign currency effects of 12%, revenues increased 1% in 2016 primarily reflecting higher revenues in the United Kingdom due to a new distribution agreement with a manufacturer, which was almost fully offset by lower revenues in Norway associated with the loss of a hospital contract. Revenues increased in 2015 primarily due to our acquisition of Celesio in February 2014.

Medical-Surgical distribution and services revenues increased over the last two years primarily due to market growth. Revenues for 2016 were unfavorably affected by the sale of our ZEE Medical business in the second quarter of 2016. Our Distribution Solutions segment is experiencing customer consolidation, including business combinations that impact our customers.

## Technology Solutions

Technology Solutions revenues decreased over the last two years primarily due to a decline in hospital software revenues, partially offset by higher revenues in our other businesses. Additionally, 2016 revenues decreased as a result of the sale of our nurse triage business and the transition of our workforce business within our International Technology business to a third party during the first quarter of 2016. Revenues decreased in 2015 compared to 2014 primarily due to a decline in hospital software revenues, the planned elimination of a product line and lower revenues from the workforce business within our International Technology business, which was transitioned to another service provider during the first quarter of 2016. These decreases were partially offset by higher revenues in our other businesses.

Table of ContentsMcKESSON CORPORATION  
FINANCIAL REVIEW (Continued)

## Gross Profit:

| (Dollars in millions)                     | Years Ended March 31, |          |         | Change |        |
|---|-----------------------|----------|---------|--------|--------|
|   | 2016                  | 2015     | 2014    | 2016   | 2015   |
| Gross Profit                              |                       |          |         |        |        |
| Distribution Solutions <sup>(1) (2)</sup> | \$9,948               | \$9,937  | \$6,745 | -      | % 47 % |
| Technology Solutions <sup>(2)</sup>       | 1,468                 | 1,474    | 1,607   | -      | (8 )   |
| Total                                     | \$11,416              | \$11,411 | \$8,352 | -      | % 37 % |

## Gross Profit Margin

|                        |       |        |        |           |       |
|------------------------|-------|--------|--------|-----------|-------|
| Distribution Solutions | 5.29  | % 5.65 | % 5.03 | % (36 )bp | 62 bp |
| Technology Solutions   | 50.88 | 48.03  | 48.26  | 285       | (23)  |
| Total                  | 5.98  | 6.37   | 6.08   | (39 )     | 29    |

bp - basis points

Gross profit for our Distribution Solutions segment includes LIFO expenses of \$244 million, \$337 million and (1) \$311 million for 2016, 2015 and 2014, and for 2016 and 2014 includes \$76 million and \$37 million of net cash proceeds representing our share of antitrust legal settlements.

(2) Gross profit includes pre-tax restructuring charges of \$5 million and \$21 million for the Cost Alignment Plan within our Distribution Solutions segment and Technology Solutions segment in 2016.

Gross profit was flat in 2016 and increased 37% in 2015 compared to the same periods a year ago. Excluding unfavorable foreign currency effects of 4%, gross profit increased 4% in 2016. Gross profit margin decreased in 2016 and increased in 2015. These changes were primarily due to our Distribution Solutions segment.

## Distribution Solutions

Distribution Solutions segment's gross profit was flat in 2016 and increased in 2015. Excluding unfavorable foreign currency effects of 4%, gross profit increased 4% in 2016. Gross profit margin decreased in 2016 primarily due to a lower sell margin within our North America distribution business driven by increased customer sales volume with some of our largest customers, partially offset by higher buy margin including benefits from our global procurement arrangements, lower LIFO-related inventory charges and \$76 million in cash receipts representing our share of antitrust legal settlements. Additionally, this business has been experiencing weaker generic pharmaceutical pricing trends, which are expected to continue in 2017. Buy margin primarily reflects volume and timing of compensation we receive from pharmaceutical manufacturers, including the effects of price increases of both branded and generic drugs. Gross profit margin increased in 2015 primarily due to our Celesio acquisition, higher buy margin including the effects of generic price increases and our mix of business, partially offset by lower sell profit. Gross profit margin for 2015 was unfavorably affected by the increased sales associated with newly launched drugs for the treatment of Hepatitis C. Additionally, gross profit margin for 2014 included a \$50 million charge for the reversal of a fair value step-up of inventory acquired through our Celesio acquisition and \$37 million of cash receipts representing our share of antitrust settlements.

Our LIFO-related inventory expenses were \$244 million, \$337 million and \$311 million in 2016, 2015 and 2014. 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 expense 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 expense is affected by changes in year-end

inventory quantities, product mix and manufacturer pricing practices, which may be influenced by market and other external influences. Changes to any of the above factors could have a material impact to our annual LIFO expense. LIFO expense decreased in 2016 primarily due to the impact of lower price increases.

Table of ContentsMcKESSON CORPORATION  
FINANCIAL REVIEW (Continued)

As a result of cumulative net price deflation, at March 31, 2013, pharmaceutical inventories at LIFO were more than market and accordingly, a \$60 million lower-of-cost or market (“LCM”) reserve reduced inventories to market. Starting in 2014, we have experienced net inflation in our pharmaceutical inventories and LIFO-related charges were incurred, and accordingly, the \$60 million LCM reserve was fully released resulting in an increase in gross profit. As of March 31, 2016 and 2015, pharmaceutical inventories at LIFO did not exceed market.

## Technology Solutions

Technology Solutions segment’s gross profit decreased over the last two years. Gross profit margin increased in 2016 and decreased in 2015. In addition to changes in our mix of business, gross profit margin was impacted by:

2016 vs. 2015: Gross profit margin benefited from the sale of our nurse triage business, transitioning of our workforce business within our International Technology business to a third party, and higher pull-through of deferred revenue. These increases were partially offset by \$49 million of pre-tax reduction-in-force severance charges, including charges associated with the Cost Alignment Plan. Additionally, in 2015 we recorded a \$34 million pre-tax non-cash charge representing a catch-up in depreciation and amortization expense associated with our workforce business within our International Technology business. This business, which was previously designated as a discontinued operation, was reclassified to a continuing operation in 2015 when we decided to retain the business.

2015 vs. 2014: In 2015, gross profit margin was negatively impacted by the \$34 million non-cash depreciation and amortization charge, partially offset by a decrease in product alignment charges. In 2014, we recorded \$57 million of pre-tax product alignment charges, which primarily relate to employee severance and asset impairments. Charges were recorded in our 2014 financial results as follows: \$34 million in cost of sales and \$23 million in operating expenses. Additionally, gross profit margin was favorably impacted by the planned elimination of a product line.

## Operating Expenses:

| (Dollars in millions)                         | Years Ended March 31, |         |         | Change |       |
|---|-----------------------|---------|---------|--------|-------|
|   | 2016                  | 2015    | 2014    | 2016   | 2015  |
| Operating Expenses                            |                       |         |         |        |       |
| Distribution Solutions <sup>(1) (2) (3)</sup> | \$6,436               | \$6,938 | \$4,301 | (7 )%  | 61 %  |
| Technology Solutions <sup>(1) (2)</sup>       | 951                   | 1,039   | 1,161   | (8 )   | (11 ) |
| Corporate                                     | 484                   | 466     | 451     | 4      | 3     |
| Total   | \$7,871               | \$8,443 | \$5,913 | (7 )%  | 43 %  |

## Operating Expenses as a Percentage of Revenues

|                        |       |       |       |          |       |    |
|------------------------|-------|-------|-------|----------|-------|----|
| Distribution Solutions | 3.42  | %3.94 | %3.21 | % (52)bp | 73    | bp |
| Technology Solutions   | 32.96 | 33.85 | 34.86 | (89)     | (101) |    |
| Total                  | 4.12  | 4.72  | 4.30  | (60)     | 42    |    |

(1) Operating expenses for 2016 include pre-tax charges associated with the Cost Alignment Plan of \$156 million, \$30 million and \$17 million within our Distribution Solutions and Technology Solutions segments, and Corporate.

Operating expenses for 2016 include pre-tax gains of \$52 million from the sale of our ZEE Medical business (2) within our Distribution Solutions segment and \$51 million from the sale of our nurse triage business within our Technology Solutions segment.

(3) Operating expenses for 2015 and 2014 include pre-tax claim and litigation charges of \$150 million and \$68 million.

Operating expenses for 2016 decreased 7% and increased 43% in 2015 compared to the same periods a year ago. Excluding unfavorable foreign currency effects of 5%, operating expenses decreased 2% for 2016.

On March 14, 2016, the Company committed to a restructuring plan to lower its operating costs, as previously discussed. 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. Business process initiatives primarily include plans to



reduce operating costs of our distribution and pharmacy operations, administrative support functions, and technology platforms, as well as the disposal and abandonment of certain non-core businesses.

37

---

Table of Contents

## McKESSON CORPORATION

## FINANCIAL REVIEW (Continued)

As a result of the Cost Alignment Plan, the Company expects to record total pre-tax charges of approximately \$270 million to \$290 million. During the fourth quarter of 2016, we recorded \$229 million of pre-tax restructuring charges primarily representing severance and employee-related costs. The charges were included in our results as follows: \$26 million in cost of sales and \$203 million in operating expenses. Estimated remaining charges primarily consist of exit-related costs and accelerated depreciation and amortization, which are largely attributed to our Distribution Solutions segment. Estimated savings in 2017 as a result of this plan are approximately \$200 million to \$220 million. Additional information on our Cost Alignment Plan is included in Financial Note 3, “Restructuring” to the consolidated financial statements appearing in this Annual Report on Form 10-K.

**Distribution Solutions**

Distribution Solutions segment’s operating expenses for 2016 decreased 7% compared to the prior year. Excluding unfavorable foreign currency effects of 5%, operating expenses decreased 2%. Operating expenses and operating expenses as a percentage of revenues decreased primarily due to a \$150 million charge associated with the settlement of controlled substance distribution claims recorded in the prior year, lower acquisition-related expenses relating to integration activities for our acquisitions and the sale of our ZEE Medical business, including a \$52 million pre-tax gain on sale. These decreases were partially offset by pre-tax charges of \$156 million associated with the Cost Alignment Plan, higher compensation and benefit costs and bad debt expense.

Operating expense and operating expenses as a percentage of revenues increased in 2015 compared to the prior year primarily due to our business acquisitions, including increases in acquisition-related expenses and intangible asset amortization, and higher compensation and benefit costs. Operating expenses in 2015 also included a \$150 million charge associated with the settlement of controlled substance distribution claims with the DEA, DOJ and various U.S. Attorney’s offices, and 2014 operating expenses included \$68 million of charges associated with our AWP litigation. Refer to Financial Note 24, “Commitments and Contingent Liabilities,” to the consolidated financial statements in this Annual Report on Form 10-K for further information on the controlled substance distribution claims and the AWP litigation.

**Technology Solutions**

Technology Solutions segment’s operating expenses and operating expenses as a percentage of revenues in 2016 decreased compared to the prior year primarily due to the sale of our nurse triage business in the first quarter of 2016, including a pre-tax gain on sale of \$51 million, and lower compensation and benefit costs. These decreases were partially offset by pre-tax charges of \$30 million for the Cost Alignment Plan as well as the write-off of internal-use software. Operating expenses and operating expenses as a percentage of revenue in 2015 decreased from the comparable year primarily due to lower research and development expenses, integration-related expenses and severance charges.

**Corporate**

Corporate expenses increased in 2016 compared to the prior year primarily due to pre-tax charges of \$17 million associated with the Cost Alignment Plan, partially offset by lower acquisition-related expenses and a decrease in compensation and benefit costs. Corporate expenses increased in 2015 compared to the prior year primarily due to higher compensation and benefit costs and asset impairments, partially offset by lower acquisition-related expenses and lower costs associated with corporate initiatives.

**Acquisition Expenses and Related Adjustments**

Acquisition expenses and related adjustments, which include transaction and integration expenses that are directly related to acquisitions by the Company were \$114 million, \$224 million and \$218 million in 2016, 2015 and 2014. Expenses primarily related to our business acquisitions and integrations of our February 2014 acquisition of Celesio and February 2013 acquisition of PSS World Medical, Inc. (“PSSI”).



Table of ContentsMcKESSON CORPORATION  
FINANCIAL REVIEW (Continued)

| (Dollars in millions)                              | Years Ended |       |       |
|--|-------------|-------|-------|
|  | March 31,   |       |       |
|  | 2016        | 2015  | 2014  |
| Cost of Sales                                      | \$—         | \$1   | \$3   |
| Operating Expenses                                 |             |       |       |
| Transaction closing expenses                       | 10          | 6     | 39    |
| Restructuring, severance and relocation            | —           | 57    | 43    |
| Outside service fees                               | 27          | 66    | 27    |
| Other  | 73          | 94    | 46    |
| Total  | 110         | 223   | 155   |
| Other Income, Net                                  | 4           | —     | 14    |
| Interest Expense - bridge loan fees                | —           | —     | 46    |
| Total Acquisition Expenses and Related Adjustments | \$114       | \$224 | \$218 |

Acquisition expenses and related adjustments by segment were as follows:

| (Dollars in millions)                              | Years Ended |       |       |
|--|-------------|-------|-------|
|  | March 31,   |       |       |
|  | 2016        | 2015  | 2014  |
| Cost of Sales                                      | \$—         | \$1   | \$3   |
| Operating Expenses and Other Income, Net           |             |       |       |
| Distribution Solutions                             | 112         | 211   | 120   |
| Technology Solutions                               | —           | —     | 15    |
| Corporate  | 2           | 12    | 34    |
| Total  | 114         | 223   | 169   |
| Corporate - Interest Expense                       | —           | —     | 46    |
| Total Acquisition Expenses and Related Adjustments | \$114       | \$224 | \$218 |

During 2016, 2015 and 2014, we incurred \$9 million, \$109 million and \$129 million of acquisition-related expenses for our acquisition of Celesio and \$70 million, \$110 million, and \$68 million for our acquisition of PSSI. These expenses primarily include restructuring, severance, employee retention incentives, outside service fees and other costs to integrate the business, and bridge loan fees. Additionally, our acquisition-related expenses for our PSSI acquisition include amounts associated with distribution center rationalization and information technology conversions to common platforms. Integration activities for our PSSI acquisition are substantially completed.

Amortization Expenses of Acquired Intangible Assets

Amortization expenses of acquired intangible assets in connection with acquisitions recorded in operating expenses were \$423 million, \$483 million and \$308 million in 2016, 2015 and 2014. Amortization expenses decreased in 2016 primarily due to foreign currency effects and intangible assets that were fully amortized. Amortization expenses increased in 2015 primarily due to our Celesio acquisition.

Amortization expense by segment was as follows:

| (Dollars in millions)  | Years Ended |       |       |
|------------------------|-------------|-------|-------|
|                        | March 31,   |       |       |
|                        | 2016        | 2015  | 2014  |
| Distribution Solutions | \$389       | \$442 | \$255 |
| Technology Solutions   | 34          | 40    | 52    |
| Corporate              | —           | 1     | 1     |
| Total                  | \$423       | \$483 | \$308 |



Table of ContentsMcKESSON CORPORATION  
FINANCIAL REVIEW (Continued)

## Other Income, Net:

|                        | Years Ended |      |      | Change |      |
|------------------------|-------------|------|------|--------|------|
|                        | March 31,   |      |      | 2016   | 2015 |
| (Dollars in millions)  | 2016        | 2015 | 2014 | 2016   | 2015 |
| Distribution Solutions | \$41        | \$48 | \$28 | (15)%  | 71%  |
| Technology Solutions   | 2           | 3    | 2    | (33)   | 50   |
| Corporate              | 15          | 12   | 2    | 25     | 500  |
| Total                  | \$58        | \$63 | \$32 | (8)%   | 97%  |

Other income, net in 2016 approximated the prior year and increased in 2015 primarily due to our acquisition of Celesio which included higher equity investment income. Additionally, 2014 other income, net included a loss on a foreign exchange option relating to our acquisition of Celesio.

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

| (Dollars in millions)  | Years Ended March 31, |         |         | Change |      |
|--|-----------------------|---------|---------|--------|------|
|  | 2016                  | 2015    | 2014    | 2016   | 2015 |
| Segment Operating Profit <sup>(1)</sup> <sup>(2)</sup>               |                       |         |         |        |      |
| Distribution Solutions   | \$3,553               | \$3,047 | \$2,472 | 17%    | 23%  |
| Technology Solutions   | 519                   | 438     | 448     | 18     | (2)  |
| Subtotal   | 4,072                 | 3,485   | 2,920   | 17     | 19   |
| Corporate Expenses, Net <sup>(2)</sup>                               | (469)                 | (454)   | (449)   | 3      | 1    |
| Interest Expense   | (353)                 | (374)   | (300)   | (6)    | 25   |
| Income From Continuing Operations Before Income Taxes <sup>(2)</sup> | \$3,250               | \$2,657 | \$2,171 | 22%    | 22%  |

## Segment Operating Profit Margin

|                        |       |       |       |     |    |        |
|------------------------|-------|-------|-------|-----|----|--------|
| Distribution Solutions | 1.89  | %1.73 | %1.84 | %16 | bp | (11)bp |
| Technology Solutions   | 17.99 | 14.27 | 13.45 | 372 | 82 |        |

(1) Segment operating profit includes gross profit, net of operating expenses, plus other income, net, for our two operating segments.

(2) In connection with the Cost Alignment Plan, the Company recorded pre-tax