



McKesson Corporation (MCK)

Updated February 9th, 2025, by Josh Arnold

Key Metrics

Current Price:	\$596	5 Year CAGR Estimate:	11.8%	Market Cap:	\$75 B
Fair Value Price:	\$557	5 Year Growth Estimate:	13.0%	Ex-Dividend Date:	03/02/25 ¹
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date:	04/05/25
Dividend Yield:	0.5%	5 Year Price Target	\$1,026	Years Of Dividend Growth:	17
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

McKesson Corporation traces its lineage to 1833 when its founders began to offer wholesale chemicals and pharmaceuticals in New York City. In the 190 years since, McKesson has grown into a powerhouse in the pharmaceutical and medical distribution industry and today, generates more than \$300 billion in annual revenue and trades with a \$75 billion market capitalization.

McKesson posted third quarter earnings on February 5th, 2025, and results were mixed. Adjusted earnings-per-share narrowly beat expectations by four cents, coming to \$8.03. Revenue was up 18% year-over-year to \$95.3 billion, a record for McKesson. That was, however, \$570 million short of expectations.

Specialty pharmaceutical revenue soared 45% year-over-year to \$10.9 billion. This was helped greatly by the continued adoption of GLP-1 medications.

Medical-Surgical revenues fell 3% to \$2.9 billion due to lower-than-expected illness season demand. Operating profit was up 4% to \$294 million due to cost containment efforts.

Consolidated operating profit was up 16% to \$1.5 billion. The company also noted it took an 80% ownership interest in PRISM Vision Holdings for \$850 million for its ophthalmology and retina management services. The acquisition is expected to add ~25 cents in earnings-per-share in year one, and ~70 cents by year three.

Guidance for this year was reaffirmed at \$32.55 to \$32.95, and we've placed our estimate in the middle of that range.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$11.11	\$9.84	\$11.61	\$12.62	\$13.57	\$14.95	\$17.21	\$23.69	\$25.94	\$27.44	\$32.75	\$60.34
DPS	\$0.96	\$1.08	\$1.12	\$1.30	\$1.51	\$1.62	\$1.67	\$1.83	\$2.09	\$2.48	\$2.84	\$3.98
Shares²	232	225	211	202	191	173	158	145	136	130	125	105

McKesson's earnings-per-share history is quite robust, having grown nearly every year in the past decade. Indeed, McKesson has managed to average more than 10% earnings-per-share growth annually over this time frame through organic revenue growth and many acquisitions. We believe that sort of growth is likely for the foreseeable future as McKesson continues to wow investors with consistent earnings expansion. We've boosted our estimate of growth to 13% annually.

McKesson can achieve this result largely via revenue gains, as it continues to acquire growth in bolt-on acquisitions with companies that supplement its current offerings, a strategy that is unlikely to change. Margins have been flat for some time, so we expect that will continue. Organic sales growth has also been improving.

The buyback should continue to meaningfully reduce the float over time, which we see as a key driver of earnings-per-share growth. We remain somewhat cautious due to an increasingly hostile regulatory environment for drug wholesalers like McKesson. In addition, constant pressure on pricing from regulators, as well as strong generic conversion are

¹ Estimated date

² Share count in millions

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headwinds. However, recent results have been quite supportive of long-term growth, and commentary from management has been very bullish, including updated guidance for fiscal 2025.

The dividend has never been a priority for McKesson and that is not likely to change anytime soon. We see the payout rising from today's \$2.84 to \$3.98 in five years, but the dividend remains just a small fraction of earnings, and the yield is very low as a result.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	17.9	20.1	14.1	12.0	9.7	9.3	9.4	9.3	14.1	19.6	18.2	17.0
Avg. Yld.	0.5%	0.5%	0.7%	0.5%	1.1%	1.2%	1.0%	0.8%	0.6%	0.5%	0.5%	0.4%

The stock's price-to-earnings ratio has ebbed and flowed in the past decade but today, at 18.2 times earnings, it appears to be overvalued relative to its historical norm. We see fair value as 17 times earnings and thus, McKesson looks overvalued at the moment. This could provide a headwind to total returns over the next five years if the stock's valuation reverts to more normalized levels. The yield should remain about where it is for the foreseeable future, and we note McKesson is not a high-income stock, and almost certainly never will be.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	9%	11%	10%	10%	11%	11%	10%	8%	8%	9%	9%	7%

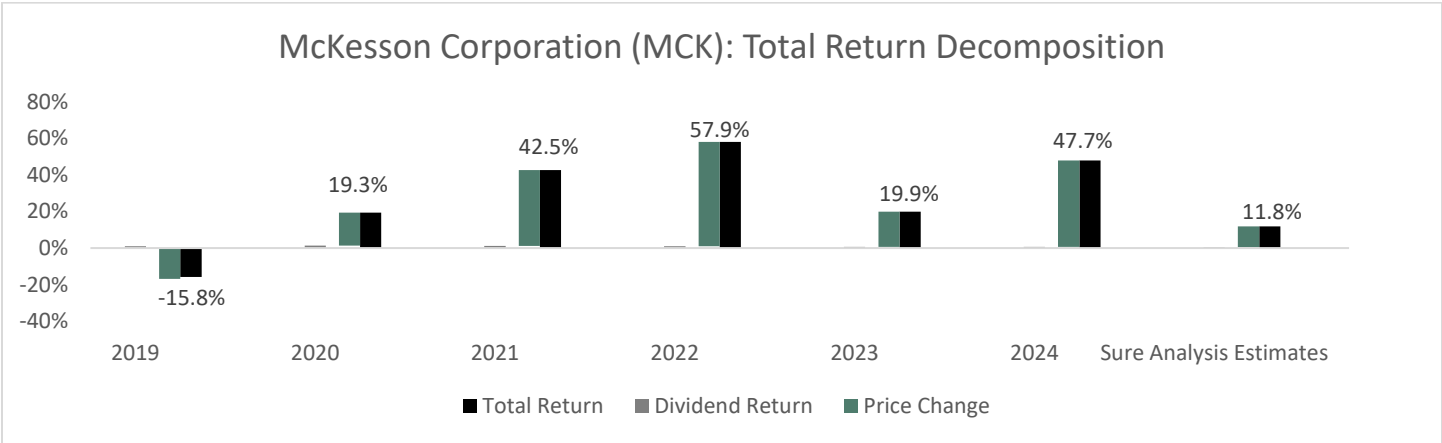
The payout ratio will remain very low, barring a material strategic shift, which we are not forecasting. Instead, McKesson will almost certainly continue to boost earnings-per-share by reducing the float.

Its competitive advantage is in its willingness to adapt and shift to the changing needs of its customers, its willingness to buy growth and its immense scale, which affords purchasing power. In addition, the company is constantly reevaluating its portfolio, divesting non-core assets, and using proceeds to acquire future growth. McKesson held up well during the COVID crisis given its product assortment that offers healthcare consumers things they need, and not discretionary items.

Final Thoughts & Recommendation

McKesson offers a strong growth outlook, a robust share repurchase program and a valuation that is ahead of our view of fair value. We are forecasting 11.8% annual total returns going forward, consisting of the current 0.5% yield, 13% earnings-per-share growth and a 1.4% headwind from a contracting valuation. We boost the stock from hold to buy on stronger total return prospects.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue (\$B)	179.0	190.9	198.5	208.4	214.3	231.1	238.2	264.0	276.7	309.0
Gross Profit	11,411	11,416	11,271	11,184	11,754	12,023	12,148	13,130	12,358	12,828
Gross Margin	6.4%	6.0%	5.7%	5.4%	5.5%	5.2%	5.1%	5.0%	4.5%	4.2%
SG&A Exp.	7,901	7,379	7,447	8,138	8,403	9,168	8,849	10,537	7,776	8,657
D&A Exp.	1,017	885	910	951	949	922	887	760	608	635
Operating Profit	3,118	3,645	3,483	2,921	3,280	2,759	3,299	2,593	4,582	4,171
Operating Margin	1.7%	1.9%	1.8%	1.4%	1.5%	1.2%	1.4%	1.0%	1.7%	1.4%
Net Profit	1,476	2,258	5,070	67	34	900	(4,539)	1,114	3,560	3,002
Net Margin	0.8%	1.2%	2.6%	0.0%	0.0%	0.4%	-1.9%	0.4%	1.3%	1.0%
Free Cash Flow	2,567	2,995	4,182	3,765	3,479	3,868	3,901	3,899	4,601	3,627
Income Tax	815	908	1,614	(53)	356	18	(695)	636	905	629

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	53,870	56,523	60,969	60,381	59,672	61,247	65,015	63,298	62,320	67,443
Cash & Equivalents	5,341	4,048	2,783	2,672	2,981	4,015	6,278	3,532	4,678	4,583
Acc. Receivable	13,117	14,519	14,602	14,349	14,941	17,201	17,106	16,438	17,160	19,439
Inventories	14,296	15,335	15,278	16,310	16,709	16,734	19,246	18,702	19,691	21,139
Goodwill & Int.	13,258	12,807	14,251	15,026	13,047	12,516	12,371	11,510	12,224	12,242
Total Liabilities	45,785	47,515	49,696	50,324	51,385	55,938	64,840	65,090	63,810	69,042
Accounts Payable	25,166	28,585	31,022	32,177	33,853	37,195	38,975	38,086	42,490	47,097
Long-Term Debt	9,844	8,114	8,545	7,880	7,595	7,387	7,148	5,879	5,594	5,629
Total Equity	8,001	8,924	11,095	9,804	8,094	5,092	(21)	(2,272)	(1,857)	(1,971)
LTD/E Ratio	1.23	0.91	0.77	0.80	0.94	1.45	---	-2.59	-3.01	-2.86

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	2.8%	4.1%	8.6%	0.1%	0.1%	1.5%	-7.2%	1.7%	5.7%	4.6%
Return on Equity	17.9%	26.7%	50.7%	0.6%	0.4%	13.7%	-179%	---	---	---
ROIC	7.6%	12.9%	27.4%	0.4%	0.2%	6.3%	-45.3%	17.6%	86.9%	73.8%
Shares Out.	232	225	211	202	191	173	158	154	142	134
Revenue/Share	761.89	819.24	890.28	996.92	1,087.9	1,269.5	1,483.4	1,713.0	1,945.9	2,303.9
FCF/Share	10.92	12.85	18.75	18.01	17.66	21.25	24.29	25.30	32.36	27.0

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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