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# VALUE LINE SELECT<sup>®</sup>

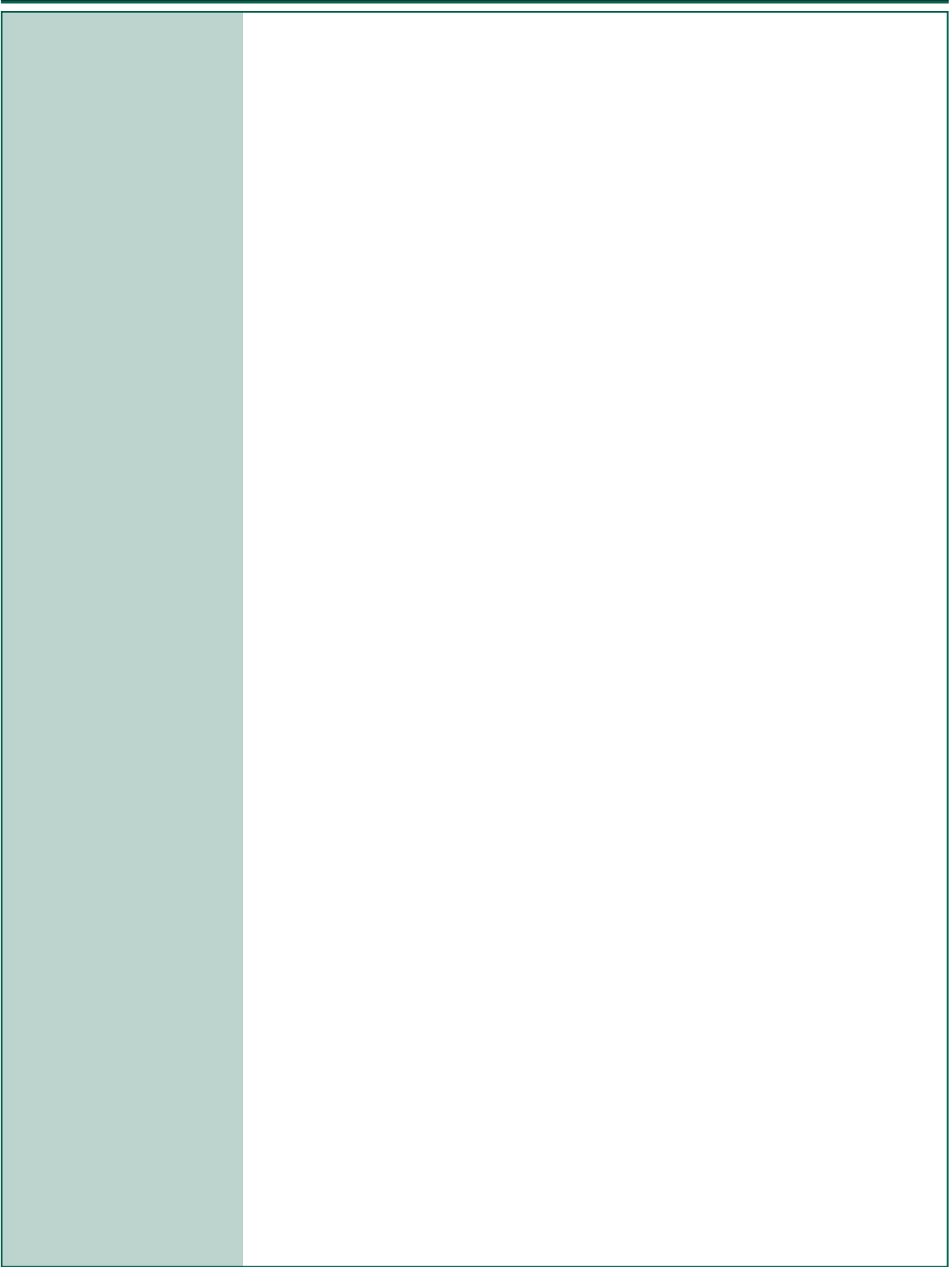
McKesson CORPORATION



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OCTOBER 2011



TIMELINESS<sup>(A)</sup>: 2

TECHNICAL<sup>(B)</sup>: 4

SAFETY<sup>(C)</sup>: 1

RECENT PRICE: \$72

2014-2016 Price Forecast:  
\$110-\$135

Footnotes are on Page 19

VALUE LINE SELECT™

# McKesson Corporation

**INDUSTRY:** Medical Supplies

**DIVIDEND YIELD:** 1.0%

**EXCHANGE:** NYSE

**SHARES OUTSTANDING:** 246 million

**TICKER SYMBOL:** MCK

**INSIDER HOLDINGS:** About 1.6%

**OPTIONS:** Yes

**MARKET CAP:** \$17.7 billion (Large-Cap)

**FINANCIAL STRENGTH:** A+

**ADDRESS:** One Post Street

**ACTUAL E.P.S. FY '10':** \$5.00

San Francisco, CA 94104

**ESTIMATED E.P.S. FY '11:** \$6.00

**TELEPHONE:** (415) 983-8300

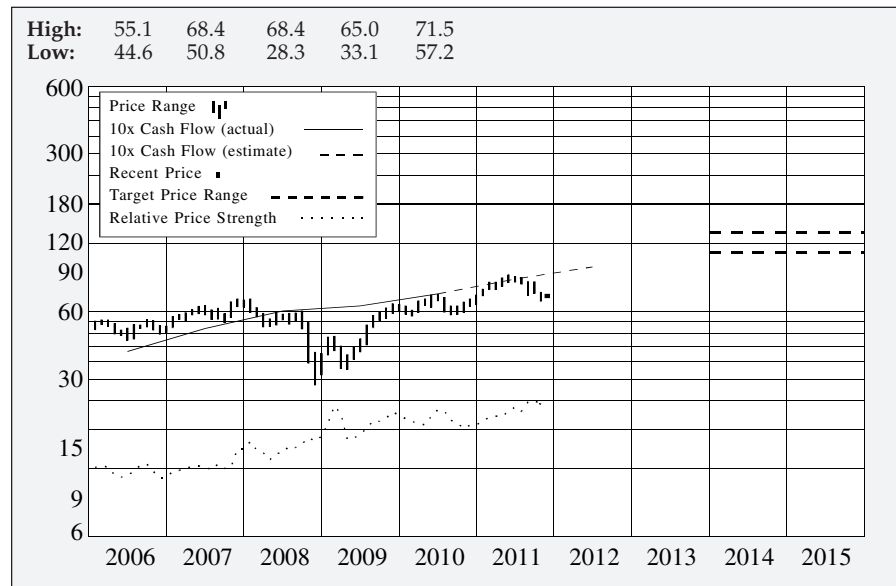
**ESTIMATED E.P.S. FY '12:** \$6.80

**WEB SITE:** www.mckesson.com

**CURRENT P/E RATIO:** 12.0

**REPORT AS OF:** October 10, 2011

**RELATIVE P/E:** 0.90



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# McKesson Corporation

The difficult economic times, and the accompanying poor recent stock market performance, have challenged the resolve of many investors. That said, *we believe that this month's selection, McKesson Corporation, is a prudent choice, as it is a leader in a defensive industry, with a series of catalysts, beginning in the near term, that may cause the shares to outperform in most economic or market environments.*

*McKesson is  
a leading  
pharmaceutical  
distributor*

Founded in 1833, the business began in New York City when John McKesson and Charles Olcott stocked medicine chests aboard sailing ships with drugs acquired from Europe, and medicinal herbs, roots, and spices acquired from Shaker colonies in Pennsylvania. By the early 1900s, McKesson had become the leading drug distributor in the United States.

As the largest pharmaceutical distributor in North America, McKesson today distributes about one-third of the medicines used each day. It supplies more than 40,000 U.S. pharmacy locations, from Wal-Mart to the Department of Veterans Affairs to community pharmacies and hospitals. The company also distributes medical-surgical and homecare supplies, and installs healthcare information technology systems.

The organization is headquartered in San Francisco, and employs more than 36,000 people around the world. It is America's oldest and largest healthcare services company, is a member of the Fortune 500, and its shares trade under the symbol MCK on the New York Stock Exchange.

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*A series of generic conversions could boost profits, over time*

## *Opportunities and Catalysts*

*The projected December, 2011 launch of a generic version of Pfizer's blockbuster cholesterol drug, Lipitor, will mark the beginning of a wave of generic alternatives coming to market. This is the first of a series of generic conversions that could boost McKesson's profits and drive the shares higher, over time.*

Almost one-third of all U.S. branded drugs sales will see generic competition for the first time over the next five years. In addition to *Lipitor*, over the course of 2012 and 2013, *Zyprexa*, *Lexapro*, *Seroquel*, *Plavix*, and *Singulair* should lose patent protection. In all, we expect nearly 100 drugs will lose patent protection between 2011 and 2015, representing about \$90 billion in branded sales.

Furthermore, about 75% of all prescriptions filled in the U.S. are generic. By the end of 2015, industry sources believe that nearly 90% of all scripts filled will be generic.

*Profits should increase as generic manufacturers enlist McKesson to efficiently and quickly distribute the newly available generic drugs within the 180-day-exclusivity period.*

Meanwhile, on July 21st, Medco indicated that it will lose its contract with UnitedHealth at the start of 2013. We expect that UnitedHealth's PBM business will be taken in house, and will be serviced by its OptunRx pharmacy unit. This will likely benefit McKesson, which is Optun's wholesaler.

Too, McKesson's December, 2010 acquisition of US Oncology for \$2.1 billion was the largest in over a decade. The purchase expands the specialty distribution business, and adds

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management services for oncologists. The buy should boost near-term results.

Finally, with more than \$3.1 billion in cash on the balance sheet, management has the wherewithal to repurchase shares, as well as grow via acquisition. In fact, the company has a history of share buybacks, and a good performance with acquisitions.

### *What About The Stock?*

Difficult economic conditions have caused the equity markets to decline over the last several months, and McKesson's shares are now priced at attractive levels. Indeed, with the price to earnings (PE) ratio about 12 as we go to press, *the shares are as inexpensive as they have been since the 2007-2009 bear market.*

Too, the Beta of 0.75 suggests that the shares historically have been relatively insensitive to economic developments, which should stand investors in good stead, if global economic conditions slow still further.

What's more, the shares boast our Highest rank for Safety: 1, the Financial Strength rating is A+, the Price Stability and Growth Persistence are 90 (out of 100), and the Earnings Predictability score is a perfect 100.

Finally, the Timeliness Rank of 2: (Above Average) suggests that the shares are likely to outpace the stock market under any likely scenario over the course of the next 12 months.

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*These  
high-quality  
shares may well  
benefit investors  
even under  
somewhat  
difficult  
circumstances*

*Return on  
principal and  
return of  
principal are  
both important*

## *A Prudent Choice*

With global economic conditions slowing, and the odds of a recession now close to 50%, in our view, we have redoubled our efforts to find a selection whose risk-adjusted total return prospects appear well-defined, and that may well benefit subscribers even under somewhat difficult circumstances.

We suspect that investors may benefit from this month's selection's defensive characteristics before they profit from its longer-term earnings growth prospects. Still, because it is impossible to know with certainty when the stock market will likely resume its multi-decade ascent, and because many professional investors, in particular, are required to stay almost fully invested at all times (in turn, increasing the odds they will push up the price of defensive shares, even if earnings advances are absent), we encourage subscribers to stay the course.

*We believe that this month's selection is a prudent choice for multiyear investors who have accepted the reality that the stock market, at times, fluctuates and sputters, providing selective investment opportunities, only to subsequently regain its footing and once again advance. To quote Warren Buffett and Benjamin Graham: "In the short run, the market is a voting machine but in the long run it is a weighing machine."*

Too, we believe that this issue is a very good choice for the Select portfolio, in that it contains both defensive characteristics and earnings growth opportunities in the relatively near term. Finally, we remain ever mindful that return *on* principal, and return *of* principal are both important.

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## *The Right Product At The Right Time*

McKesson supplies drugs and other healthcare-related products to pharmacies, food/drug chains, and healthcare providers, including hospitals. Its 28 distribution centers enable it to service customers throughout North America and Puerto Rico. Advanced technology and other systems control inventory-related functions, including receiving, storage, and fulfillment. Bar code technology and radio frequency signals are used to provide customers with real-time product availability information, and an Internet-based ordering system has resulted in 99.9% order accuracy. In short, McKesson has proven its ability to deliver the right products at the right time.

## *Customers Trust McKesson*

Why do customers choose McKesson? In a word, it is trust. McKesson has demonstrated that it is dependable, and its customers have benefited from its efficient operations, economies of scale, and purchasing/supply networks for many years. Customers become somewhat dependent on McKesson, and may even opt to shut down warehouses and get rid of in-house buying groups, in order to lower the total cost of their supply chain.

CVS Caremark and Rite Aid account for about 14% and 11% of revenues, respectively. Other meaningful customers include Wal-Mart, Sam's Club, Target, and many regional chains. We believe that the high-quality customer list reflects McKesson's best-of-breed position, including its efficient and far-flung distribution network.

*The impressive customer list has been earned over many years*

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*Generic drug  
producers will  
likely enlist  
McKesson's help*

## *Make Hay While The Sun Shines*

The Food and Drug Administration (FDA) typically grants a 180-day exclusivity period to generic manufacturers. During that time, the generic drug producer works to distribute as much of the newly generic version as possible (to maximize profits), in turn enlisting the help of drug wholesalers, including McKesson.

*The company has thin profit margins distributing expensive branded drugs, but stands to make substantially better margins on generic substitutes.* In fact, some reports estimate that drug wholesalers make 15 to 20 times more on generic alternatives (during the 180-day exclusivity period) than they do on branded drugs.

That said, the lower price of the generic (the average retail branded prescription costs more than \$170, compared to less than \$50 for an average generic script) somewhat offsets this windfall. We estimate that the price declines 30%-40% immediately following the loss of patent protections, where it remains during the 180-day period. Once the 180-day period has expired, the price of the generic drug decreases to roughly 10%-20% of the original branded price.

Although wholesaler revenues from branded drug sales may decline as generic alternatives are introduced, the 180-day period is when profits can be the highest. In all, we expect that profits will likely increase, over time, pushing the shares higher.

## *Important Generic Launches*

The next big generic introduction will be the generic for

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*Lipitor*, which loses patent protection on November 30, 2011. Better margins, even in the face of the declining price, could enable generic Lipitor to be one of the most profitable generic introductions ever for the drug wholesalers.

*Tygacil*, a new class of complex antibiotics called glycylicyclines, should be available in generic form beginning in the third quarter of 2012, as should *Xopenex*, an inhaled drug used to treat asthma and chronic obstructive pulmonary disease.

*Zometa*, an injectible drug used to treat osteoporosis, as well as to prevent fractures in cancer patients, is due out in early 2013. Other drugs expected to go generic over the course of that year include *Dacogen* (used by patients that are unable to produce the myeloid class of blood cells), *Humalog*, a fast-acting insulin drug, and inhalers *Advair* and *Symbicort*.

## *Earnings And Projections*

Share net has improved each year (except once) since 1999, due in part to generic drug offerings. Most recently, June-period adjusted share net of \$1.27 compared favorably to \$1.10 earned during the year-earlier period, driven by a solid 9% advance in the top line.

*Importantly, management raised its full-year share earnings guidance from \$5.99-\$6.19 to \$6.09-\$6.29, and suggested that profit margins are likely to expand due to generic introductions.*

While the generic introductions tend to be very profitable for wholesalers, they simultaneously create a sort of dilemma.

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*New generic  
drug  
introductions  
represent  
substantial  
profit potential*

Specifically, the very good results create difficult comparisons for the year after the initial generic launch. For example, although we expect the launches of generic *Lipitor* and *Zyprexa* will boost profits beginning in the second half of 2012, this makes it even more challenging to beat the earnings figure a year later.

That said, the multiple expected generic introductions should likely offset this somewhat and, at any rate, most investors will probably be aware of this challenge, well ahead of time, limiting the negative impact of possible tough comparisons.

### *Leakage*

The large profit potential from generic launches means that other members of the drug supply chain will likely also work to capture some of the good gains. Retail locations, including large chains and mail service providers, tend to purchase generics directly from the manufacturer, and use wholesalers only for overflow capacity. This “leakage” means that wholesalers, including McKesson, will not capture the full benefit of the \$90 billion brand-to-generic conversion over the next several years.

About half of all generics sold at retail are bought directly from the manufacturer, including mail service providers. The option to receive prescription medicines by mail seems especially appealing for patients on long-term chronic medications, including blockbuster drugs *Lipitor* and *Plavix*, which historically have had sub-20% mail delivery rates.

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Other chronic care medications soon to be available as generics that appear suitable for mail delivery include *Zyprexa* (Q3:11), *Seroquel* (Q1:12), *Viagra* (Q1:12), *Singulair* (Q3:12), and *Nexium* (Q2:14).

We believe that about half of the company's customers could buy generics direct. Still, independent pharmacies and the smaller to midsized regional chains represent attractive potential for McKesson.

## *Risks*

The introduction of a generic alternative is not easy, and not always possible. Manufacturing difficulties, supply constraints, and molecular structures may result in the inability to produce a generic alternative.

Legal challenges and patent extensions could delay generic launches, but could also enable launches to occur sooner than expected.

Too, the better profit margins derived from a generic introduction will narrow, over time, as competitors enter the market.

Finally, the contract with the Department of Veterans Affairs is up for renewal in May of 2012. Although management believes it has a "great relationship with the VA," and would like to keep the business, the outcome remains to be seen.

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## Summary

Founded in 1833, McKesson is the largest pharmaceutical distributor in North America, distributing about one-third of the medicines used each day.

*The projected December, 2011 launch of a generic version of Pfizer's blockbuster cholesterol drug, Lipitor, will mark the beginning of a wave of generic alternatives coming to market. This is the first of a series of generic conversions that could boost McKesson's profits and drive the shares higher, over time.*

*Profits should increase as generic manufacturers enlist McKesson to efficiently and quickly distribute the newly available generic drugs within the 180-day-exclusivity period.*

Meanwhile, difficult economic conditions have caused the equity markets to decline over the last several months, and McKesson's shares are now priced at attractive levels, in our view. Indeed, with the price to earnings (PE) ratio about 12 as we go to press, *the shares are as inexpensive as they have been since the 2007-2009 bear market.*

The Beta of 0.75 suggests that the shares historically have been relatively insensitive to economic developments, which should stand investors in good stead, if global economic conditions slow still further.

What's more, the shares boast our Highest rank for Safety: 1, a Financial Strength rating of A+, Price Stability and Growth Persistence of 90 (out of 100), and an Earnings Predictability score of a perfect 100.

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*We believe that  
the time is right  
to purchase  
shares of  
McKesson  
Corporation*

In addition, the Timeliness Rank of 2: (Above Average) suggests that the shares are likely to outpace the stock market over the course of the next six to 12 months.

With global economic conditions rather anemic, and the odds of a recession almost 50%, we have redoubled our efforts to find a selection whose risk-adjusted total return prospects appear well-defined, and that may well benefit subscribers even under somewhat difficult circumstances.

We believe that this month's selection is a prudent choice for multiyear investors who have accepted the reality that the stock market can often fluctuate and sputter, providing selective investment opportunities, only to subsequently regain its footing and once again advance. To quote Warren Buffett and Benjamin Graham: "In the short run, the market is a voting machine but in the long run it is a weighing machine."

The issue looks to be a very good choice for the portfolio, in that it contains both defensive characteristics and earnings growth opportunities in the relatively near term. We remain ever mindful that return *on* principal, and return *of* principal are both important.

In conclusion, we believe that this month's selection, McKesson Corporation, is a prudent choice, as it is a leader in a defensive industry, with a series of catalysts, beginning in the near term, that may cause the shares to outperform in most economic or market environments.

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# FINANCIAL STATEMENTS

## INCOME STATEMENT DATA

	2010	2011	2012	2013	2014	2015
Net Sales	112084.0	<i>119300</i>	<i>121500</i>	<i>123000</i>	<i>125500</i>	<i>128000</i>
Cost of Goods	105618.0	<i>112261</i>	<i>113967</i>	<i>115128</i>	<i>117343</i>	<i>119680</i>
Gross Profit	6466.0	<i>7039</i>	<i>7533</i>	<i>7872</i>	<i>8158</i>	<i>8320</i>
Operating Expenses	3882.0	<i>4176</i>	<i>4253</i>	<i>4305</i>	<i>4267</i>	<i>4224</i>
Operating Income	2584	<i>2863</i>	<i>3281</i>	<i>3567</i>	<i>3891</i>	<i>4096</i>
Depreciation	496.0	<i>520</i>	<i>550</i>	<i>580</i>	<i>620</i>	<i>620</i>
Interest Expense	222.0	<i>225</i>	<i>225</i>	<i>240</i>	<i>250</i>	<i>250</i>
Non-operating Income	36.0	<i>100</i>	<i>50</i>	<i>40</i>	<i>10</i>	<i>10</i>
Pre-tax Income	1902.0	<i>2218</i>	<i>2556</i>	<i>2787</i>	<i>3031</i>	<i>3236</i>
Income Taxes	586.0	<i>699</i>	<i>831</i>	<i>920</i>	<i>1000</i>	<i>1068</i>
Effective Tax Rate	30.8%	<i>31.5%</i>	<i>32.5%</i>	<i>33.0%</i>	<i>33.0%</i>	<i>33.0%</i>
Minority Interest	0.0	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Equity Income	0.0	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Preferred Dividends	0.0	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Net Income	1316.0	<i>1520</i>	<i>1725</i>	<i>1867</i>	<i>2030</i>	<i>2168</i>
Diluted Shares	263.0	<i>254</i>	<i>253</i>	<i>252</i>	<i>251</i>	<i>250</i>
Earnings per Share	\$5.00	<i>\$6.00</i>	<i>\$6.80</i>	<i>\$7.40</i>	<i>\$8.10</i>	<i>\$8.65</i>

## PERCENTAGE ANALYSIS

	2010	2011	2012	2013	2014	2015
Gross Margin	5.8%	<i>5.9%</i>	<i>6.2%</i>	<i>6.4%</i>	<i>6.5%</i>	<i>6.5%</i>
Operating Margin	2.3%	<i>2.4%</i>	<i>2.7%</i>	<i>2.9%</i>	<i>3.1%</i>	<i>3.2%</i>
Pretax Margin	1.7%	<i>1.9%</i>	<i>2.1%</i>	<i>2.3%</i>	<i>2.4%</i>	<i>2.5%</i>
Net Margin	1.2%	<i>1.3%</i>	<i>1.4%</i>	<i>1.5%</i>	<i>1.6%</i>	<i>1.7%</i>

*All numbers, except percentages and per-share data, are in millions. Numbers in bold italics are Value Line estimates; all estimates except percentages and per-share figures are rounded to the nearest whole number. Footnotes are on page 19.*

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## AVG. ANNUAL RATES OF GROWTH (2010 to 2015)

Net Sales	2.7%
Gross Profit	5.3%
Operating Income	9.7%
Earnings per share	11.6%

## HISTORICAL BALANCE SHEET DATA

	2008	2009	12/31/10
Cash & Equivalents	2109.0	3731.0	3612.0
Receivables	7774.0	8075.0	9187.0
Inventories	8527.0	9441.0	9225.0
Other	261.0	257.0	333.0
<b>Total Current Assets</b>	<b>18671.0</b>	<b>21504.0</b>	<b>22357.0</b>
Net Property, Plant	796.0	851.0	991.0
Intangible Assets	4189.0	4119.0	5820.0
Other	1611.0	1715.0	1718.0
<b>Total Assets</b>	<b>25267.0</b>	<b>28189.0</b>	<b>30886.0</b>
Payables	11739.0	13255.0	14090.0
Debt Due	219.0	3.0	417.0
Taxes Payable	0.0	0.0	0.0
Other	3648.0	3754.0	4219.0
<b>Total Current Liabilities</b>	<b>15606.0</b>	<b>17012.0</b>	<b>18726.0</b>
Long Term Debt	2290.0	2293.0	3587.0
Other Liabilities	1178.0	1352.0	1353.0
Stockholders Equity	6193.0	7532.0	7220.0
<b>Total</b>	<b>25267.0</b>	<b>28189.0</b>	<b>30886.0</b>

*All numbers, except percentages and per-share data, are in millions. Numbers in bold italics are Value Line estimates; all estimates except percentages and per-share figures are rounded to the nearest whole number. Footnotes are on page 19.*

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# FINANCIAL STATEMENTS

## FLOW OF FUNDS DATA

	2010	2011	2012	2013	2014	2015
Cash Flow	1812.0	<i>2040</i>	<i>2275</i>	<i>2447</i>	<i>2650</i>	<i>2788</i>
Debt Financing	1689.0	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Pfd Equity Financing	0.0	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Com. Equity Financing	367.0	<i>50</i>	<i>100</i>	<i>125</i>	<i>100</i>	<i>100</i>
Other	-98.0	<i>-150</i>	<i>-200</i>	<i>-200</i>	<i>-300</i>	<i>-300</i>
<b>Total Funds In</b>	<b>3770.0</b>	<b><i>1940</i></b>	<b><i>2175</i></b>	<b><i>2372</i></b>	<b><i>2450</i></b>	<b><i>2588</i></b>
Capital Spending	388.0	<i>400</i>	<i>600</i>	<i>650</i>	<i>750</i>	<i>850</i>
Other Investments	292.0	<i>450</i>	<i>650</i>	<i>700</i>	<i>1000</i>	<i>1100</i>
Dividends Paid	171.0	<i>192</i>	<i>210</i>	<i>235</i>	<i>260</i>	<i>300</i>
Debt Retired	1730.0	<i>60</i>	<i>100</i>	<i>150</i>	<i>100</i>	<i>150</i>
Pfd Equity Retired	0.0	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Com. Equity Retired	2050.0	<i>800</i>	<i>250</i>	<i>250</i>	<i>300</i>	<i>300</i>
<b>Total Funds Out</b>	<b>4631.0</b>	<b><i>1902</i></b>	<b><i>1810</i></b>	<b><i>1985</i></b>	<b><i>2410</i></b>	<b><i>2700</i></b>
Yearend Working Cap'l	3631.0	<i>3669</i>	<i>4034</i>	<i>4420</i>	<i>4460</i>	<i>4348</i>

## CAPITALIZATION & RETURNS ON CAPITAL

	2010	2011	2012	2013	2014	2015
Long Term Debt	3587	<i>3527</i>	<i>3427</i>	<i>3277</i>	<i>3177</i>	<i>3027</i>
Stockholders Equity	7220	<i>7798</i>	<i>9163</i>	<i>10669</i>	<i>12239</i>	<i>13907</i>
Return on Total Cap'l	13.2%	<i>13.4%</i>	<i>13.7%</i>	<i>13.4%</i>	<i>13.2%</i>	<i>12.8%</i>
Return on Equity	18.2%	<i>19.5%</i>	<i>18.8%</i>	<i>17.5%</i>	<i>16.6%</i>	<i>15.6%</i>

*All numbers, except percentages and per-share data, are in millions. Numbers in bold italics are Value Line estimates; all estimates except percentages and per-share figures are rounded to the nearest whole number. Footnotes are on page 19.*

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# FINANCIAL STATEMENTS

## QUARTERLY NET SALES

	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Year
2008	26704.0	26574.0	27130.0	26224.0	106632.0
2009	26657.0	27130.0	28272.0	26643.0	108702.0
2010	27450.0	27534.0	28247.0	28853.0	112084.0
2011	29980.0	<b>29520.0</b>	<b>29950.0</b>	<b>29850.0</b>	<b>119300.0</b>
2012	<b>30100.0</b>	<b>30300.0</b>	<b>30600.0</b>	<b>30500.0</b>	<b>121500.0</b>

## QUARTERLY NET SALES GROWTH

	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Year
2009	-0.2%	2.1%	4.2%	1.6%	1.9%
2010	3.0%	1.5%	-0.1%	8.3%	3.1%
2011	9.2%	<b>7.2%</b>	<b>6.0%</b>	<b>3.5%</b>	<b>6.4%</b>
2012	<b>0.4%</b>	<b>2.6%</b>	<b>2.2%</b>	<b>2.2%</b>	<b>1.8%</b>

## QUARTERLY EPS <sup>(D)</sup>

	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Year
2008	0.83	1.17	1.05	1.23	4.28
2009	1.06	1.07	1.19	1.26	4.58
2010	1.10	1.03	1.22	1.66	5.00
2011	1.13	<b>1.35</b>	<b>1.47</b>	<b>2.05</b>	<b>6.00</b>
2012	<b>1.40</b>	<b>1.60</b>	<b>1.65</b>	<b>2.15</b>	<b>6.80</b>

## QUARTERLY EPS GROWTH <sup>(D)</sup>

	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Year
2009	27.7%	-8.5%	13.3%	2.4%	7.0%
2010	3.8%	-3.7%	2.5%	31.7%	9.4%
2011	2.7%	<b>31.1%</b>	<b>20.5%</b>	<b>23.5%</b>	<b>19.8%</b>
2012	<b>23.9%</b>	<b>18.5%</b>	<b>12.2%</b>	<b>4.9%</b>	<b>13.3%</b>

## QUARTERLY DIVIDENDS PAID

	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Year
2008	0.06	0.06	0.12	0.12	0.36
2009	0.12	0.12	0.12	0.12	0.48
2010	0.12	0.12	0.18	0.18	0.60
2011	0.18	0.18	0.20		

*All numbers, except percentages and per-share data, are in millions. Numbers in bold italics are Value Line estimates; all estimates except percentages and per-share figures are rounded to the nearest whole number. Footnotes are on page 19.*

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## Footnotes to the McKesson Corporation Report

- (A) *The Timeliness Rank is Value Line's assessment of a stock's probable relative market performance in the 6-12 months ahead. It is computer generated, and uses input items including the company's multi-year price and earnings history, recent price and earnings momentum, and earnings surprises. All data are known and actual. Stocks ranked 1 (Highest) and 2 (Above Average) are deemed likely to outpace the year-ahead market.*
- (B) *The Technical Rank is Value Line's assessment of a stock's expected stock price performance relative to the overall market in the next three to six months, based on an analysis of the stock's relative price performance during the prior 52 weeks. Earnings are not a factor in the Technical Rank. Instead, it is purely a function of relative price action and is primarily a predictor of relative short-term price movements.*
- (C) *The Safety Rank is a measure of potential risk associated with individual common stocks. It is computed by averaging two other Value Line indexes—the Price Stability Index and the Financial Strength Rating. Safety Ranks range from 1 (Highest) to 5 (Lowest). Conservative investors may wish to purchase equities ranked 1 (Highest) or 2 (Above Average) for Safety.*
- (D) *Diluted earnings. Next earnings report due late October.*

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