

# Case: McKesson and the next step for Medical-Surgical Solutions

**Internal ID:** S&F-STR-376

**Topic:** Corporate Strategy, Capital Allocation, Customer Strategy

**Industry:** Health Care Distributors

**Source:** Strategy & Finance

**Publication date:** 5 October 2026

**License:** Not specified

**Decision perspective:** Hypothetical McKesson strategy team

**Information cutoff:** August 4, 2026

**Case convention:** This case combines public historical facts available by the cutoff with a hypothetical decision assignment. The assignment and alternatives are not reported McKesson board deliberations. No information published after the cutoff is included.

## A separation in motion

McKesson Corporation is a large health care services and distribution company. In fiscal 2026, it reported four operating segments: North American Pharmaceutical; Oncology & Multispecialty; Prescription Technology Solutions; and Medical-Surgical Solutions (MMS). McKesson announced that it intended to separate MMS into an independent company. The plan was in progress, but the final structure and timing remained open.

On June 1, 2026, funds affiliated with Apollo Global Management completed a minority investment in MMS. Apollo invested \$1.25 billion in convertible preferred equity for approximately 13% of MMS, at an approximately \$13 billion total enterprise valuation. McKesson retained operating control and majority ownership and continued consolidating MMS in its financial statements. The company described the investment as a milestone toward an independent publicly traded MMS, while cautioning that a planned IPO or separation might be delayed, changed, or not completed.

By May, McKesson management had said MMS was operationally and legally separate, that audited carve-out financial statements and transition-service agreements had been completed, and that financing arrangements were being established. The 10-K described the ultimate exit as a split-off, a spin-off, or a combination, intended to qualify as tax-free. Required steps included a favorable tax opinion, effective SEC registration, approvals, finalization of MMS's capital structure, and board approval.

**Assignment:** Assume you are advising McKesson's strategy leadership on August 4, 2026. Recommend how to sequence the announced MMS separation from the current Apollo minority investment to an eventual exit. Should McKesson prepare for a public offering followed by a later shareholder distribution; accelerate toward a spin-off or split-off when conditions are met; or keep the current staged ownership structure in place longer while testing readiness? Specify the evidence and gates that should determine the next step.

This is a classroom assignment only. It does not assert that McKesson's board was then making this choice or that the company had adopted any timetable beyond public statements.

## Two operating businesses under one parent

MMS is a distribution and service business in non-acute health care settings. The 10-K describes a U.S. network of distribution centers and national-brand and own-brand medical-surgical products, including more than 4,000 own-brand products. On the May earnings call, management described approximately 270,000 national-brand products. MMS also provides operational and clinical support to customers. Its future independence therefore involves more than transferring shares: service levels, systems, supplier relationships, customer arrangements, capital, and corporate functions need to work across the boundary.

McKesson's North American Pharmaceutical segment also distributes health care products and serves pharmacies, hospitals, and alternate sites. The businesses have different products and customer settings, but both depend on distribution scale, reliable fulfillment, and healthcare relationships. The public record does not quantify which capabilities are shared, what would need replacing, or where separation would improve accountability.

### Exhibit 1. McKesson reported segment results

Fiscal years ended March 31; dollars in millions. Source: McKesson FY2026 Form 10-K, Note 20.

| Segment                           | FY2025 revenue | FY2026 revenue | FY2025 segment operating profit | FY2026 segment operating profit | FY2026 operating profit margin |
|-----------------------------------|----------------|----------------|---------------------------------|---------------------------------|--------------------------------|
| North American Pharmaceutical     | \$304,507      | \$336,652      | \$2,945                         | \$3,658                         | 1.09%                          |
| Oncology & Multispecialty         | 36,862         | 48,423         | 767                             | 1,149                           | 2.37%                          |
| Prescription Technology Solutions | 5,216          | 5,805          | 875                             | 1,044                           | 17.98%                         |
| Medical-Surgical Solutions        | 11,380         | 11,507         | 779                             | 938                             | 8.15%                          |

MMS revenue increased 1% in FY2026, while reported segment operating profit increased 20% and margin increased 130 basis points. McKesson attributed the revenue increase to growth in ambulatory-care and extended-care customers. These are reported segment measures. They are not a standalone MMS forecast or a measure of cash available after corporate costs, financing, tax, capital expenditure, working capital, or separation expense.

## What the Apollo investment does-and does not-do

Apollo's investment is a **private convertible preferred investment in MMS**. It establishes a minority owner and transaction-implied valuation while McKesson remains the controlling operator. It is not a public equity carve-out, IPO, spin-off, or split-off. Public reporting does not disclose the full preferred agreement's conversion, governance, liquidation, consent, or exit rights.

McKesson's May earnings call also described borrowing arrangements for MMS and the expected role of transaction proceeds. McKesson said proceeds from Apollo and debt transactions involving MMS would satisfy existing intercompany agreements with McKesson; the company expected to use the resulting receipts principally for share repurchases. Apollo's \$1.25 billion went into MMS preferred equity, not directly to the parent. The total funds flow is not disclosed, and gross proceeds should not be treated as freely available MMS capital or parent

cash before intercompany settlements and financing obligations.

At March 31, 2026, McKesson reported \$5.7 billion of accrued opioid-litigation liabilities and said future payments were expected to be met from existing cash, operating cash flow, existing credit sources, and future borrowings. Public disclosures do not show how these obligations or related indemnities would be allocated in an MMS separation. Students should treat them as part of the parent's capital context, not assume MMS bears any portion.

## Exhibit 2. Separation status visible by the cutoff

| Date           | Publicly reported event                                                                                                                                                       | Strategic implication and limit                                                                                   |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| FY2026         | McKesson announced its intention to make MMS an independent company.                                                                                                          | Establishes stated direction, not a completed transaction.                                                        |
| April 1, 2026  | MMS subsidiaries entered into \$750 million and \$250 million secured term loans and a \$1 billion secured revolver.                                                          | Financing steps toward independence; not proof of final capital adequacy.                                         |
| April 20, 2026 | McKesson announced the definitive Apollo investment agreement.                                                                                                                | Private minority investment, subject at announcement to conditions.                                               |
| May 7, 2026    | Management said operational/legal separation, audited carve-out statements, and transition-service agreements were completed; additional financing remained part of the plan. | Management-reported readiness progress; details and cost schedules are not in this case.                          |
| June 1-2, 2026 | Apollo investment closed; McKesson retained majority and operating control.                                                                                                   | A staged ownership structure exists; no public listing or ultimate distribution had been completed by the cutoff. |
| August 4, 2026 | Case information cutoff.                                                                                                                                                      | Excludes McKesson FY2027 Q1 earnings and 10-Q dated August 5.                                                     |

## Strategic alternatives

Each route could lead to an independent MMS. They differ in information, control, market exposure, and execution risk.

| Route                                            | Potential advantage                                                                                                                                                                                               | Principal question or risk                                                                                                                                                                         |
|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Public offering, then staged distribution</b> | A public listing could create a separate price and investor scrutiny while McKesson retains some ownership; a later spin-off or split-off could complete the exit.                                                | Would a minority public float deliver enough liquidity and governance change to justify the cost and disclosure burden? What conditions should trigger the later distribution?                     |
| <b>Accelerate to spin-off or split-off</b>       | A fuller separation could clarify ownership and focus sooner. A spin-off distributes shares to current shareholders; a split-off lets shareholders exchange parent shares for NewCo shares, subject to its terms. | Is MMS ready to operate and finance independently? Can tax, registration, approval, leverage, market, and shareholder conditions be met without damaging service continuity or parent flexibility? |

| Route                                      | Potential advantage                                                                                                                             | Principal question or risk                                                                                                                                                                    |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Extend the current staged structure</b> | The private minority investment and continued parent control could permit additional readiness testing while preserving operating coordination. | What evidence is gained by waiting, and what does delay cost in duplicated overhead, uncertainty, access to capital, or accountability? What concrete milestone would end the holding period? |

These options are analytical choices for the exercise. McKesson disclosed a future split-off or spin-off, or a combination, as its expected ultimate exit; a public offering was discussed in company disclosures as a planned step. No option here should be read as a known board debate or approved schedule.

## Evidence and uncertainty

Research on corporate separations suggests that focus and capital-market monitoring can matter, but the evidence is not one-size-fits-all. A study of 85 historical spin-offs found stronger announcement and operating-performance patterns when parent and separated businesses were in different industries; it did not find comparable evidence for same-industry spin-offs. A more recent study of 354 completed U.S. public equity carve-outs found post-transaction improvements in parent internal capital-allocation measures in matched comparisons, with additional selection adjustments. Both are observational studies of different transaction forms. Neither predicts results for McKesson or establishes that its private Apollo investment improves capital allocation.

A central question is whether MMS separation will make McKesson more focused or instead add costs and disrupt useful operating relationships. Students should consider evidence on shared services, supplier/customer interfaces, cost of standalone functions, required MMS investment, capital structure, and governance changes. Public materials do not answer these questions in detail.

### Exhibit 3. Publicly disclosed prerequisites and missing decision data

| Disclosed or stated                                                                                                                                 | Not established in the public sources used here                                                                                      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
| Ultimate exit contemplated as spin-off, split-off, or a combination; tax-free treatment intended.                                                   | Final structure, date, size of any IPO, float, ownership-retention period, or board decision.                                        |
| Tax opinion, registration effectiveness, approvals, final capital structure, and board approval are among the stated conditions.                    | Completed tax opinion; final capital structure, debt capacity, and stress-test results.                                              |
| Management reported audited carve-out statements and transition-service agreements completed.                                                       | The statements' detailed reconciliation, TSA scope/duration/pricing, stranded-cost analysis, and operational service metrics.        |
| Apollo holds approximately 13% in convertible preferred equity; McKesson retains operating control and consolidates MMS.                            | Full preferred rights, governance influence, conversion terms, liquidation preferences, and exit provisions.                         |
| FY2026 MMS revenue and segment operating profit are reported in the 10-K.                                                                           | Standalone cash flow, working-capital needs, tax, parent-cost allocation, investment plan, or realized separation economics.         |
| McKesson said MMS proceeds would satisfy existing intercompany agreements; McKesson expected to use resulting receipts principally for repurchases. | Total funds flow, repayment schedule, final MMS liquidity after settlement, or parent capital allocation if separation terms change. |

### Questions for discussion

1. What does “independent” need to mean for MMS operationally, financially, legally, and in governance before McKesson completes an exit?
2. Which route should McKesson sequence next, and what is the strongest case for the alternative you reject?
3. What would a public minority listing reveal that the private Apollo investment does not? What could it cost or complicate?
4. Which customer, supplier, shared-service, financing, and tax facts would you require before setting an exit date?
5. How should the company define a stop, proceed, or delay gate that protects both MMS's standalone resilience and McKesson's remaining shareholders?

### Sources and conventions

1. McKesson Corporation, FY2026 Form 10-K, filed May 8, 2026, for year ended March 31, 2026, [SEC filing](#), especially Item 1, Item 1A, MD&A pp. 42-44 and Note 20 pp. 115-117.
2. McKesson, “McKesson Closes Strategic Investment with Apollo Funds for Minority Interest in Medical-Surgical Solutions,” June 2, 2026, [company release](#).
3. McKesson Q4 FY2026 earnings-call transcript, May 7, 2026, [PDF](#), pp. 7-9. This is a third-party transcript hosted with company materials; attributed statements are not treated as audited data.
4. Daley, Lane, Vikas Mehrotra, and Ranjini Sivakumar. “Corporate Focus and Value Creation: Evidence from Spinoffs.” *Journal of Financial Economics* 45, no. 2 (1997): 257-281. [DOI](#).
5. Vitkova, Valeriya, Siyang Tian, and Sudi Sudarsanam. “Allocative Efficiency of Internal Capital Markets: Evidence from Equity Carve-Outs by Diversified Firms.” *International Review of Financial Analysis* 86 (2023), 102500. [DOI](#).

Company facts are distinguished from management expectations and classroom alternatives. Academic findings are contextual mechanisms, not McKesson forecasts. All figures use the fiscal-year and segment definitions in the FY2026 10-K. No outcomes after August 4, 2026 are used.