

The Two Words That Will Wipe Out Half of McKesson's Equity – “Public Nuisance”

New court documents show a reality that takes McKesson stock price to \$80.

Citron is not going to waste the readers' time by detailing in pages how McKesson, the nation's largest drug distributor was complicit in fueling the opioid crisis, which is now known as the “worst man-made epidemic in modern medical history.” From 2006-2012 alone McKesson distributed 14 billion pills.

The human side of the opioid crisis has been felt throughout our country over the past decade and for those Wall Street analysts isolated from the world, look to the words of Mark Zuckerberg as he traveled the nation in 2017 and said his largest surprise was “the extent of the opioid crisis and how it has affected people, communities, and become a public health issue that is tearing apart the communities.”

In this report Citron will present new legal statutes in the National Opioid Litigation that have not been considered by Wall Street Analysts and will directly impact the share price of McKesson. The key piece of supporting documentation was filed as recently as yesterday.

McKesson

There is nothing Citron can write that can even compare to the investigative work done by *60 Minutes* in a series of segments and *The Washington Post* in their award-worthy coverage of the opioid crisis and trials. The findings were clear; in order to maximize profits McKesson turned a blind eye to all monitoring of the deadly drug and ignored necessary controls when distributing a pill that kills more people in one year than the total body count of the Vietnam War.

While blame for the crisis no doubt lies in the hands of the manufacturers whose stocks are all down over 90% or have claimed bankruptcy, the findings show that none of this would have been possible without the distributor.

Links to *60 Minutes* and *The Washington Post* coverage of McKesson's role in the opioid crisis:

<https://www.cbsnews.com/news/whistleblowers-dea-attorneys-went-easy-on-mckesson-the-countrys-largest-drug-distributor/>

<https://www.cbsnews.com/news/the-opioid-epidemic-who-is-to-blame-60-minutes/>

https://www.washingtonpost.com/investigations/mckesson-dea-opioids-fine/2017/12/14/ab50ad0e-db5b-11e7-b1a8-62589434a581_story.html

https://www.washingtonpost.com/investigations/76-billion-opioid-pills-newly-released-federal-data-unmasks-the-epidemic/2019/07/16/5f29fd62-a73e-11e9-86dd-d7f0e60391e9_story.html

https://www.washingtonpost.com/investigations/internal-drug-company-emails-show-indifference-to-opioid-epidemic-ship-ship-ship/2019/07/19/003d58f6-a993-11e9-a3a6-ab670962db05_story.html

https://www.washingtonpost.com/health/feds-probe-manager-of-mckesson-narcotics-distribution-warehouse-in-ohio/2019/09/18/0878fd26-d644-11e9-9610-fb56c5522e1c_story.html

Without rehashing all of the details about the lack of controls at McKesson, just look at one quote from former DEA agent David Schiller.

“This is the best case we’ve ever had against a major distributor in the history of the Drug Enforcement Administration. How do we not go after the number one organization? In the height of the epidemic, when people are dying everywhere, doesn’t somebody have to be held accountable? McKesson needs to be held accountable.”

Citron reached out to Schiller but he could not comment for the story, as he is an expert witness in the current MDL case against McKesson.

The Two Words That Change Everything – Public Nuisance.

On August 26, 2019, District Court Judge Thad Balkman of Cleveland County, Oklahoma, issued a 42-page decision ordering Johnson & Johnson to pay more than \$570 million for harm it allegedly caused the state of Oklahoma by marketing its opioid products. This judgment was to be paid **upfront** as it was tried under a rarely used legal theory of public nuisance.

This set off a chain of events that McKesson shareholders have ignored.

“Since all the other states and governments want to use their nuisance statutes against the opioid makers and distributors, it’s not good news for the companies that this judge found it was a valid theory.” – University of Kentucky law professor Richard Ausness

<https://www.insurancejournal.com/news/national/2019/08/27/538017.htm>

Just a week after the J&J decision, Judge Dan Polster in the Northern District of Ohio, who is presiding in the McKesson case, had to determine if in fact this was a public nuisance and in a court ruling from **this week** we read:

“Before the Court is the question of whether the Court or the jury will adjudicate the public nuisance claims asserted by Plaintiffs under Ohio law. For the reasons that follow, the Court concludes that public nuisance liability will be determined by the jury.”

How does this change everything? How does the Public Nuisance standard change the nature of the inevitable settlement or judgment? As described in a recent article by Manatt, Phelps & Phillips, LLP:

“[A public nuisance] judgment is specifically tied to a remediation plan based on public health, rather than punitive damages principles.”

“Monetary awards under a common-law nuisance claim are tied to the cost of remediating the nuisance.”

<https://www.jdsupra.com/legalnews/can-a-novel-legal-theory-combat-the-14278/>

Wall St. consensus currently assumes that a settlement/fine will be manageable and spread over 15 years for McKesson. Under Public Nuisance with the focus on immediate remediation their penalties will be much greater and probably assigned even if shareholders consider this unfair to the remaining companies who can afford to pay. You cannot remedy a problem by fining a bankrupt company.

Given the size of the J&J fine and that J&J must pay this upfront, public nuisance completely blows up any assumption made on the totality of damages in the multi state opioid cases assigned McKesson.

The long reach and unique nature of the public nuisance lawsuit was best described in *Politico* when discussing the role of public nuisance in negotiating the master settlement agreement with Big Tobacco.

*“When most of the states sued the tobacco companies to try to recoup their expenses attributable to their citizens’ tobacco use, **they invoked public nuisance law**. But those cases became part of the [Master Settlement Agreement](#), by which **the companies agreed to pay the states a total of more than \$200 billion in order to avoid further legal proceedings. So the viability of the public nuisance claim never went to trial, though it drove the settlement.**”*

<https://www.politico.com/magazine/story/2019/08/28/johnson-and-johnson-decision-opioids-227913>

The introduction of public nuisance is a financial rabbit hole that Wall St. has not even begun to comprehend. This MDL is the first of many, and the costs of immediately fixing the broken communities are a stark contrast to the Wall St. consensus of a manageable fine to be paid over 15 years.

Momentum is against McKesson and its problems are only getting worse. As reported by *Bloomberg Law*, there are **currently >2,000 local governments in the MDL but on 9/11/19 a**

federal judge in Ohio approved a novel settlement structure that could expand the number of parties to >34,000!

<https://news.bloomberglaw.com/health-law-and-business/novel-nationwide-opioid-settlement-structure-blessed-by-court>

Wolfe Research has published a detailed map of the 34 states where public nuisance laws could potentially include opioid-related damages.

We see 34 states where public nuisance laws could potentially include opioid-related damages ...



Here is an example of how crazy the math can get:

Based on the J&J fine (6% market share) in Oklahoma, the **implied national fine for MCK (>18% market share) is over \$100B or 4x its current market cap!**

J&J Opioid Market Share in Oklahoma	6%
Oklahoma Population in mn	4
J&J Public Nuisance Fine in Oklahoma in mn	\$572

McKesson Opioid Market Share Nationwide	18%
States with Public Nuisance Laws Population in mn	235

Implied McKesson Public Nuisance Fine Nationwide in bn \$101

The Trial

As we stated in the introduction, we are not going to use this article to attempt to predict a case that we all know the outcome of. BUT, for those who live in a cave and do not understand the role of the distributor, in this case McKesson, we recommend that investors read the McKesson case studies in the Energy and Commerce Committee report titled:

“Red Flags and Warning Signs Ignored: Opioid Distribution and Enforcement Concerns in West Virginia”

<https://republicans-energycommerce.house.gov/wp-content/uploads/2018/12/Opioid-Distribution-Report-FinalREV.pdf>

The case studies are chilling as they show a company who put profits over any form of controls as this Appalachian region was falling into crisis (e.g., distributing to pharmacies that were allegedly involved in the diversion of controlled substances, distributing to pharmacies with pharmacists with a felony conviction related to controlled substances, distributing 36 times the threshold amount, etc.).

McKesson distributed almost 300 million doses of hydrocodone and oxycodone to West Virginia pharmacies from 2006-2016. However, McKesson did not submit a single suspicious order report to the DEA regarding orders placed by West Virginia pharmacies until late 2013.

Here is a sample and backup documentation for one finding of McKesson supplying 5.66 million pills in just two years to a pharmacy in a town in West Virginia with just 400 people. During these two years, McKesson’s CEO sold \$257 million of stock.

- *“McKesson supplied Sav-Rite No. 1 with more than 5.66 million doses of hydrocodone and oxycodone in 2006 and 2007. Based on these two years alone, Sav-Rite No. 1 was McKesson’s third largest hydrocodone and oxycodone purchaser in West Virginia between 2006 and 2017.”*
- *“McKesson’s due diligence file for Sav-Rite No. 1 contained only one document, a November 2007 written declaration from the pharmacy’s owner representing that the pharmacy sells only legitimate prescriptions.”*
- *“In 2007, McKesson shipped an average of 9,650 hydrocodone pills a day to the Sav-Rite No. 1 pharmacy in Kermit, West Virginia. This was 36 times the threshold amount set by the Lifestyle Drug Monitoring Program.”*
- *“McKesson continued to supply Sav-Rite No. 1 with massive quantities of opioids for five months after representing to the DEA that it had reviewed all customers pursuant to the Lifestyle Drug Monitoring Program.”*

Here is another sample of a finding against McKesson supplying its largest purchaser of opioid pills in West Virginia:

- *“Family Discount Pharmacy in Mount Gay-Shamrock was McKesson’s biggest purchaser of hydrocodone and oxycodone in West Virginia between 2006 and 2017. McKesson supplied the pharmacy with more than 5.91 million doses of hydrocodone and oxycodone during six years between 2006 and 2014, including more than 3.82 million doses in 2006 and 2007 alone.”*
- *“McKesson did not retain sufficient due diligence files documenting its relationship with Family Discount Pharmacy in Mount Gay-Shamrock during 2006 and 2007, including documentation regarding the company’s apparent decision to terminate the pharmacy as a customer for “compliance reasons.”*
- *“McKesson did not consider its prior relationship with Family Discount Pharmacy when evaluating the pharmacy’s new customer application in 2010, with a member of McKesson’s regulatory affairs division at one point stating, “I cannot see any reason we should be hesitant” with respect to the pharmacy.”*
- *“In 2010, McKesson set the hydrocodone threshold for Family Discount Pharmacy, a pharmacy previously terminated by McKesson for compliance reasons, at a level that was 31 times higher than what the company determined warranted supplementary explanation on its new customer questionnaire.”*
- *“Family Discount Pharmacy in Mount Gay-Shamrock purchased nearly five times the amount of hydrocodone from McKesson than a nearby Rite Aid Pharmacy. McKesson fulfilled the orders placed by Family Discount Pharmacy during a time when the surrounding area had “serious prescription drug abuse issues” per a local law enforcement officer.”*
- *“McKesson terminated Family Discount’s Mount Gay-Shamrock pharmacy in April 2014, but did not undertake an on-site regulatory review of the co-owned Stollings location until sixteen months later. McKesson did review purchase data from the Stollings pharmacy around the time it terminated the Mount Gay-Shamrock location, however, documentation produced to the Committee regarding that review consisted of only a single page of handwritten notes.”*

Below is an image of the 2012 new customer questionnaire where Family Discount provided its estimated dispensing data:

McKESSON
Empowering Healthcare

V. Controlled Substance Purchases

a. Estimate dose units (tablets/capsules) dispensed per month for each of the following Controlled Substances. Total of all brand and generic for the base items, including combination products. (Initial visit entries here. Please use table at end of document for subsequent visits.)

✓ Hydrocodone <u>112,000</u>	See attached reports
✓ Phentermine <u>6,000</u>	
✓ Oxycodone <u>18,000</u>	
Methadone <u> </u>	
✓ Alprazolam <u>57,000</u>	✓ Suboxone <u>8,000</u>

b. If any of the above is greater than 5000 dose units please provide information (6 month dispensing information (less than 6 months if approved by DRA), frequent referrals from pain clinics, etc.) to support purchase levels. *We do a large volume of business & we*
Explanation: *live a coal mining area where a lot of disabled patients reside*

c. Has the pharmacy established policies and procedures to verify controlled substances prescriptions? If so, how? **Explanation:** _____
Check out new customers on our controlled website also check out doctors we are not familiar with

McKesson’s defense in the case as we read in this week’s pleadings are nothing short of offensive to everyone involved:

“In short, evidence relating to McKesson’s alleged failure to refuse to ship suspicious order should be excluded. For similar reasons, evidence regarding McKesson’s alleged failure to report suspicious orders to DEA is likewise irrelevant and inadmissible.”

“Plaintiffs have no evidence demonstrating a direct causal relationship between the opioid pills shipped by McKesson and Plaintiffs’ alleged injuries.”

<https://www.dropbox.com/s/dnhvidj20lgyvtd/National%20Prescription%20Opiate%20Litigation%20%289.25.19%29%20MCK.pdf?dl=0>

The trial will be judged by a jury as noted by the judge:

“While a bench trial may insulate litigants from the inflamed passions of a jury, there is also great virtue in entrusting the judgment of any case – especially one with such broad social significance – to the collective deliberation of twelve citizens representing a cross-section of society, properly instructed by the Court, rather than reposing the entire responsibility in the mind and sensibilities of just one individual.”

<https://www.dropbox.com/s/cqt1m81tpfu49z8/National%20Prescription%20Opiate%20Litigation%20%289.24.19%29.pdf?dl=0>

The Judge – The Honorable Dan Aaron Polster

This is THE most important part of the story that has changed. Judge Polster will decide the damages for the public nuisance charge. McKesson and the other distributors viewed Judge Polster as biased and attempted to get him removed from the case. In a decision just filed yesterday in denying to motion for his removal we get a glimpse into the mentality of the judge at the pulse of the damages. These are direct quotes from September 26, 2019 court filing:

“The opioid epidemic is historic, one of the greatest tragedies of our time. It cuts across all ages, races, religions, and socio-economic groups. The human toll is staggering, and the continuing economic burden on government at all levels is extreme. Publicly acknowledging this human toll does not suggest I am biased; it shows that I am human.”

“The opioid crisis is a topic of everyday conversation. There are few if any Ohioans who don’t have a family member, a friend, a parent of a friend, or a child of a friend who has not been impacted.”

“It goes without saying that if even a small fraction of the 2,000 cases in the MDL requires a months-long trial, the federal judiciary will be overwhelmed and most of the defendants would be forced into bankruptcy, simply because of litigation costs. (Two manufacturer defendants – Insys and Purdue – have filed for bankruptcy this year.)”

“Ordinarily, the resolution of a social epidemic should be the responsibility of our other two branches of government, but these are not ordinary times. I feel it is important for our citizens to know what I am doing and to have confidence that the judicial branch is up to the task – I have said so publicly.”

<https://www.dropbox.com/s/bss70jc76aktfnb/National%20Prescription%20Opiate%20Litigation%20%289.26.19%29.pdf?dl=0>

Citron believes that Judge Polster is not here to play nice to the defendants in the case but rather administer justice and receive the money immediately to repair his region.

The Damages – How Much Could the McKesson Liability Be?

What we do know is the consensus estimate of the three distributors splitting \$20 billion over 15 years is far from the new reality of repairing these communities NOW. The damages seem to be a black hole.

In a new court filing this Wednesday, we learned that just two counties in Ohio are asking Teva to pay “billions of dollars to Plaintiffs”.

<https://www.dropbox.com/s/m3y92i51ajoc5re/National%20Prescription%20Opiate%20Litigation%20%289.25.19%29%20TEVA.pdf?dl=0>

Citron believes that when all states are settled the total liability to McKesson will be closer to \$20 billion. Note these are not punitive, but rather remediation to all municipalities who have been affected. This is payment NOW.

Does the legal system really care if McKesson shareholders lose \$60 in equity? The point here is not to save shareholders, it is to make good on a problem while still preserving a company that plays an important role in the drug supply chain.

We have no doubt in his deliberation on damages Judge Polster will consider that:

- McKesson CEO John Hammergren made \$800 million while helping create “the worst man-made epidemic in modern medical history”
- The company bought back \$8 billion of their own stock in just the last five years
- McKesson can afford to pay without disrupting their business

Here are some of the remediation programs for just one year of public nuisance in Oklahoma for J&J that set a precedent for what Citron believes McKesson will have to fund nationwide:

- Establishing treatment programs and services to provide services to any Oklahoman in need of them
- Providing housing and employment services, along with guidance services for juveniles, to minimize contact with the criminal justice system
- Offering public medication and disposal services
- Creating a Screening, Brief Intervention and Referral to Treatment (SBIRT) practice dissemination program in which all primary care and emergency practices statewide would participate
- Developing pain prevention and non-opioid pain management therapies to implement statewide
- Expanding and targeting distribution of the anti-overdose medication naloxone
- Implementing multiple smaller programs including creating a medical case management program, developing continuing education programs, improving hospital management and infrastructure, and funding neonatal screening and treatment programs

Why have the analysts not acknowledged the new risks?

Wall St. is partly to blame for the opioid epidemic. While people in Main St. are dying by the hundreds every day, Wall St. maintained all price targets on INSYQ, MNK, and ENDP all the way down encouraging the opioid management’s behavior. Look at the consensus targets for all of these companies that are now all but gone.

If you see your name or your firm on this list – you were part of the problem.

INSYQ

	Firm	Analyst	Recommendation	Tgt Px	Date
1	Piper Jaffray	David Amsellem	overweight	38.00	05/07/15
2	RBC Capital Markets	Randall S Stanicky	outperform	35.50	05/20/15
3	JMP Securities	Jason N Butler	market outperform	32.50	05/08/15
4	Jefferies	David M Steinberg	buy	31.50	05/21/15
5	Wells Fargo Securities	Michael Faerm	outperform		05/21/15
6	Oppenheimer & Co	Rohit Vanjani	market perform		05/08/15

ENDP

	Firm	Analyst	Recommendation	Tgt Px	Date
1	Piper Jaffray	David Amsellem	overweight	117	05/18/15
2	J.P. Morgan	Christopher T Schott	overweight	110	05/21/15
3	Canaccord Genuity	Corey Davis	buy	104	05/19/15
4	Morgan Stanley	David R Risinger	Overwt/In-Line	101	05/11/15
5	Goldman Sachs	Gary Nachman	buy/attractive	101	02/19/15
6	Guggenheim Securities	Swati Kumar	buy	100	05/18/15
7	SVB Leerink	Jason M Gerberry	outperform	100	05/18/15
8	RBC Capital Markets	Randall S Stanicky	outperform	98	05/12/15
9	Stifel	Annabel Samimy	buy	95	05/18/15
10	Susquehanna Financial	Andrew Finkelstein	neutral	95	05/12/15
11	Cowen	Ken Cacciatore	market perform	85	05/19/15
12	William Blair & Co	Tim Lugo	market perform	84	05/18/15

MNK

	Firm	Analyst	Recommendation	Tgt Px	Date
1	Barclays	Douglas D Tsao	overweight	150	05/08/15
2	Piper Jaffray	David Amsellem	overweight	150	05/05/15
3	Jefferies	Anthony Petrone	buy	145	05/06/15
4	Deutsche Bank	Gregory B Gilbert	buy	140	05/06/15
5	J.P. Morgan	Christopher T Schott	overweight	140	05/05/15
6	Guggenheim Securities	Swati Kumar	buy	140	05/14/15
7	Oppenheimer & Co	Akiva Felt	outperform	140	05/05/15
8	SVB Leerink	Jason M Gerberry	market perform	133	05/05/15
9	Goldman Sachs	Gary Nachman	neutral/attractive	131	04/27/15
10	Morgan Stanley	David R Risinger	Equalwt/In-Line	127	05/07/15
11	BMO Capital Markets	David Maris	market perform	120	05/19/15

Guggenheim analyst Glen Santangelo wrote in a note this week “we fully acknowledge that a settlement could potentially be much higher than we expect, but we continue to believe that most scenarios would be manageable and that the government will not want to harm these businesses to the point of risking the integrity of the pharmaceutical supply chain.”

What world does he live in? If McKesson’s stock was at \$50... does that affect the supply chain? Thank goodness he was not a banking analyst in 2008.

The share price of McKesson's stock is irrelevant to the decision of the many judges who are about to rule on this matter. McKesson's equity could get wiped out completely and still not be at risk for disrupting the supply chain.

We expect McKesson to generate between \$1.2 billion and \$1.5 billion in discretionary cash flow annually in FY2020 and FY2021, assuming about \$1 billion in share repurchases. They can easily raise debt and issue equity for the large upfront payment ahead of them.

It Could Get Worse

While Citron believes that the outcomes and damages that will be incurred by McKesson will be enough to erase close to 50% of the equity, Citron suspects that a criminal indictment will soon be issued on many top-level McKesson executives.

Rhetorical Question:

What happens when *60 Minutes* runs a special on a company that is "too big to prosecute"? They eventually get prosecuted.

The Indictment of McKesson's Chief Compliance Officer – Citron believes the problems at McKesson will soon go Criminal.

A light has been shined on this criminal like behavior in the recent indictment of former McKesson Chief Compliance Officer David Gustin. Citron believes the Gustin indictment was nothing more than a way for the government to bring a case against McKesson executives or the company as whole.

- The Gustin Indictment is incredibly brief at only one paragraph. Quite unusual for ANY indictment
- Gustin is charged with conspiracy yet the charge has no co-conspirators
- If a criminal case and civil case are simultaneously occurring and the criminal case ends early, they can use all the evidence from the criminal case in the civil case against McKesson
- Emails published by *The Washington Post* show that Gustin was actually an employee who warned upper management of their non compliance going as far as to say McKesson was "going to end up paying the price... big time".

<https://www.dropbox.com/s/9xlcts8r4l1i0dv/National%20Prescription%20Opiate%20Litigation%20%287.19.19%29.pdf?dl=0>

Investors should read the following excerpt from the Plaintiff filing regarding David Gustin's efforts to notify management of the company's opioid issue:

*"The extremely high thresholds set by McKesson for controlled substances did not go unnoticed within the company. On August 31, 2011, Director of Regulatory Affairs, David Gustin, stated, "I have thought of an area that needs to be tightened up in CSMP and it is the number of accounts we have that have **large gaps between the amount of Oxy or Hydro they are allowed to buy (their threshold) and the amount they really need. (Their current purchases)** This increases the 'opportunity' for diversion by exposing more product for introduction into the pipeline than may be being used for legitimate purchases.'" Ex. 256 (MCKMDL00507799). Despite Mr. Gustin's concerns, no serious efforts were undertaken to systematically reduce thresholds until 2015, a full four years later. (See Ex. 257, MCKMDL00410744; Ex. 258, MCKMDL00402184).*

*Second, **McKesson routinely increased thresholds without obtaining adequate justification for the increase.** In order to have a threshold increased under the CSMP, a customer was supposed to provide documentation supporting a legitimate change in business that warranted the threshold increase. Ex. 250 (MCKMDL00267635 at MCKMDL00267649). However, these requirements were routinely ignored.*

*For example, in April 2011, David Gustin expressed that McKesson needed to tighten up the process regarding threshold increases because **threshold increases were "almost automatic" and being granted for insufficient reasons**, like "business increase". Ex. 260 (MCKMDL00507221 at 00507223). Regulatory Affairs Director Tom McDonald reiterated these concerns in July 2012. Mr. McDonald noted that the company was too liberally granting threshold increases without proper documentation and often based only on a claim of business growth by the customer. Ex. 261 (MCKMDL00633455). **Mr. Gustin became so concerned about the lack of due diligence being conducted by McKesson that he even noted to other colleagues in regulatory affairs that "[w]e as DRAs need to get out visiting more customers and away from our laptops or the company is going to end up paying the price . . . big time."** Ex. 262 (MCKMDL00634329 at 00634331). Another Regulatory Affairs Director, Michael Oriente, responded, "I am overwhelmed. I feel that I am going down a river without a paddle and fighting the rapids. Sooner or later, hopefully later I feel we will be burned by a customer that did not get enough due diligence. I feel it is more of when than if we have a problem rise up." Ex. 262 (MCKMDL00634329 at 00634330-31)."*

Drug Pricing Deflation – Obvious

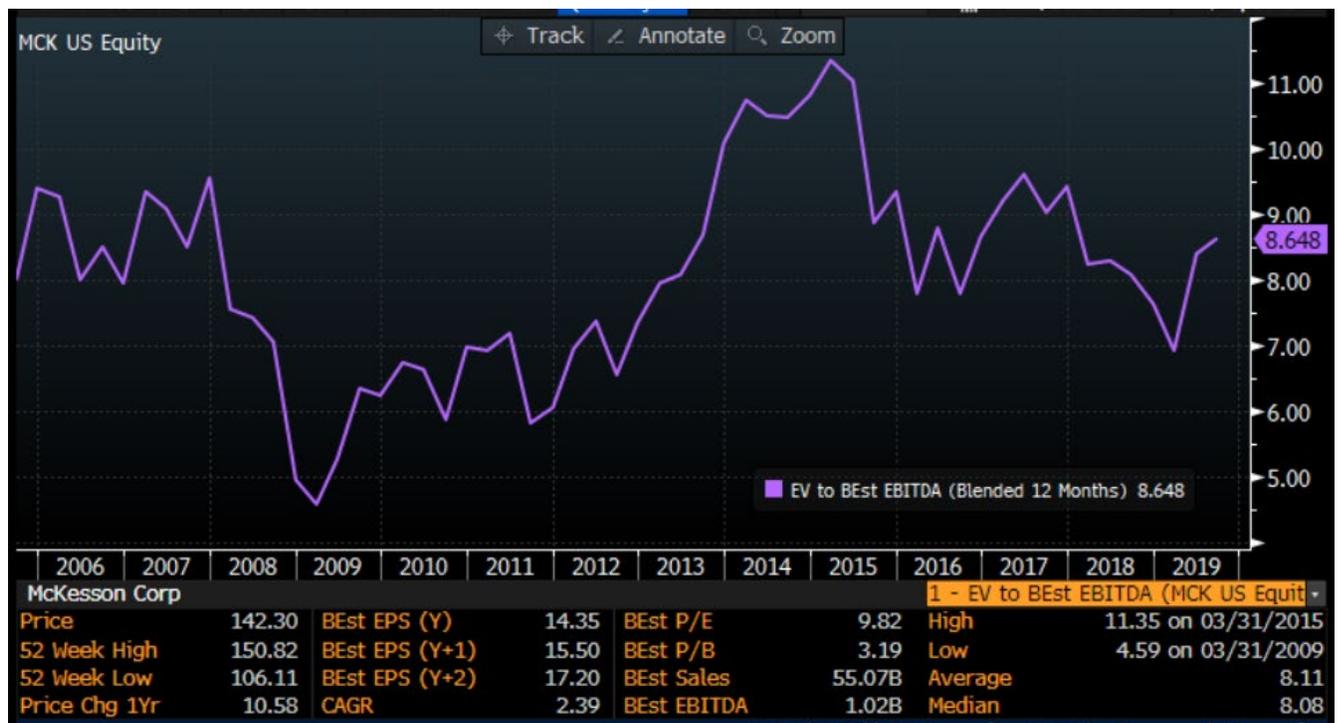
The same analysts defending McKesson believe the Trump drug pricing plan is just short-term noise. As this report is being written, healthcare stocks are in the decline on the fear of a Medicare For All system. Regardless of who wins the 2020 election, McKesson's valuation multiple will be under pressure.

This Monday, the Ways and Means Committee released a report highlighting “that U.S. drug prices are nearly four times higher than the combined average of 11 other similar countries, and that Americans pay as much as 67 times more than consumers in other nations for prescription drugs, even when accounting for rebates.”

https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/U.S.%20vs.%20International%20Prescription%20Drug%20Prices_0.pdf

This is a not a partisan issue. The one thing Trump and Warren agree on is that drug pricing in the United States must go lower. The trend has already started and McKesson has been depending on stock buybacks to maintain EPS growth. With the potential of massive fines on the horizon McKesson will soon have to limit the levers they are pulling.

Amazingly, despite stock crippling fines on the horizon and the core business under scrutiny from a structural change in healthcare, McKesson is trading at an NTM EV/EBITDA multiple of 8.7x and above its long-term average of 8.1x.



Conclusion

The results of the McKesson trial will be the top news story of the day. There is no way the headline reads: “Drug Distributors Get off Easy as Judge issues Low Fines”. McKesson will pay for others, as they are the deep pockets in this case.

McKesson will still play an integral role in administering drugs to those in need. This company will not get put into bankruptcy by this issue. However, it is time for someone to pay for the crisis and we believe this will be McKesson.

Cautious Investing to All

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