MCKESSON CORP
Form 10-Q
October 27, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
o 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)

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 x No o

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 x No o

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.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of September 30, 2016
Common stock, $0.01 par value	226,086,960 shares

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PART I—FINANCIAL INFORMATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)
(Unaudited)

	Quarter Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
Revenues	$49,957	$48,761	$99,690	$96,307
Cost of Sales	(47,201)	(45,917)	(94,027)	(90,615)
Gross Profit	2,756	2,844	5,663	5,692
Operating Expenses	(1,886)	(1,890)	(3,821)	(3,807)
Goodwill impairment charge	(290)	—	(290)	—
Operating Income	580	954	1,552	1,885
Other Income, Net	23	17	42	30
Interest Expense	(78)	(91)	(157)	(180)
Income from Continuing Operations Before Income Taxes	525	880	1,437	1,735
Income Tax Expense	(200)	(244)	(439)	(500)
Income from Continuing Operations	325	636	998	1,235
Loss from Discontinued Operations, Net of Tax	(1)	(6)	(114)	(16)
Net Income	324	630	884	1,219
Net Income Attributable to Noncontrolling Interests	(17)	(13)	(35)	(26)
Net Income Attributable to McKesson Corporation	$307	$617	$849	$1,193
Earnings (Loss) Per Common Share Attributable to McKesson Corporation				
Diluted				
Continuing operations	$1.35	$2.65	$4.22	$5.15
Discontinued operations	(0.01)	(0.02)	(0.50)	(0.07)
Total	$1.34	$2.63	$3.72	$5.08
Basic				
Continuing operations	$1.36	$2.68	$4.27	$5.21
Discontinued operations	—	(0.02)	(0.51)	(0.06)
Total	$1.36	$2.66	$3.76	$5.15
Dividends Declared Per Common Share	$0.28	$0.28	$0.56	$0.52
Weighted Average Common Shares				
Diluted	228	235	228	235
Basic	226	232	226	232

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McKESSON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Quarter Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
Net Income	$324	$630	$884	$1,219
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustments arising during period	(109)	(243)	(364)	104
Unrealized gains (losses) on cash flow hedges arising during period	(6)	2	(6)	6
Retirement-related benefit plans	1	11	12	(17)
Other Comprehensive Income (Loss), Net of Tax	(114)	(230)	(358)	93
Comprehensive Income	210	400	526	1,312
Comprehensive (Income) Loss Attributable to Noncontrolling Interests	(18)	7	30	(50)
Comprehensive Income Attributable to McKesson Corporation	$192	$407	$556	$1,262

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CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)
(Unaudited)

	September 30, 2016	March 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 5,464	$ 4,048
Receivables, net	18,308	17,980
Inventories, net	15,273	15,335
Prepaid expenses and other	526	437
Current assets held for sale	1,767	635
Total Current Assets	41,338	38,435
Property, Plant and Equipment, Net	2,300	2,278
Goodwill	9,693	9,786
Intangible Assets, Net	3,061	3,021
Other Noncurrent Assets	1,923	3,003
Total Assets	$ 58,315	$ 56,523
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Current Liabilities		
Drafts and accounts payable	$ 31,037	$ 28,585
Deferred revenue	271	919
Current portion of long-term debt	2,166	1,610
Other accrued liabilities	2,973	3,295
Current liabilities held for sale	604	660
Total Current Liabilities	37,051	35,069
Long-Term Debt	5,941	6,497
Long-Term Deferred Tax Liabilities	2,632	2,734
Other Noncurrent Liabilities	1,727	1,809
Redeemable Noncontrolling Interests	1,341	1,406
McKesson Corporation Stockholders' Equity		
Preferred stock, $0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.01 par value, 800 shares authorized at September 30, 2016 and March 31, 2016, 272 and 271 shares issued at September 30, 2016 and March 31, 2016	3	3
Additional Paid-in Capital	5,994	5,845
Retained Earnings	9,088	8,360
Accumulated Other Comprehensive Loss	(1,854)	(1,561)
Other	(3)	(2)
Treasury Shares, at Cost, 46 at September 30, 2016 and March 31, 2016	(3,779)	(3,721)
Total McKesson Corporation Stockholders' Equity	9,449	8,924
Noncontrolling Interests	174	84
Total Equity	9,623	9,008
Total Liabilities, Redeemable Noncontrolling Interests and Equity	$ 58,315	$ 56,523

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McKESSON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended September 30,	
	2016	2015
Operating Activities		
Net income	$884	$1,219
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	459	451
Goodwill impairment charge	290	—
Deferred taxes	(90)	23
Share-based compensation expense	79	78
Charges associated with last-in-first-out inventory method	4	182
Loss (gain) from sale of businesses	113	(102)
Other non-cash items	5	7
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(657)	(1,037)
Inventories	162	(1,469)
Drafts and accounts payable	2,172	1,960
Deferred revenue	(254)	(258)
Taxes	151	203
Other	(390)	(6)
Net cash provided by operating activities	2,928	1,251
Investing Activities		
Payments for property, plant and equipment	(151)	(178)
Capitalized software expenditures	(89)	(96)
Acquisitions, net of cash and cash equivalents acquired	(2,041)	(11)
Proceeds from/(payment for) sale of businesses, net	(98)	204
Restricted cash for acquisitions	935	—
Other	98	12
Net cash used in investing activities	(1,346)	(69)
Financing Activities		
Proceeds from short-term borrowings	10	1,501
Repayments of short-term borrowings	(17)	(1,501)
Repayments of long-term debt	(6)	(498)
Common stock transactions:		
Issuances	75	72
Share repurchases, including shares surrendered for tax withholding	(58)	(605)
Dividends paid	(129)	(114)
Other	11	(45)
Net cash used in financing activities	(114)	(1,190)
Effect of exchange rate changes on cash and cash equivalents	(52)	26
Net increase in cash and cash equivalents	1,416	18
Cash and cash equivalents at beginning of period	4,048	5,341

Cash and cash equivalents at end of period	$5,464	$5,359

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McKESSON CORPORATION
FINANCIAL NOTES
(UNAUDITED)

1. Significant Accounting Policies

Basis of Presentation: The condensed consolidated financial statements of McKesson Corporation ("McKesson," the "Company," or "we" and other similar pronouns) include the financial statements of all wholly-owned subsidiaries and majority owned or controlled companies. For those consolidated subsidiaries where our ownership is less than 100%, the portion of the net income or loss allocable to the noncontrolling interests is reported as "Net Income Attributable to Noncontrolling Interests" on the condensed consolidated statements of operations.

We consider ourselves to control an entity if we are the majority owner of and have voting control over such entity. We also assess control through means other than voting rights ("variable interest entities" or "VIEs") and determine which business entity is the primary beneficiary of the VIE. We consolidate VIEs when it is determined that we are the primary beneficiary of the VIE. Investments in business entities in which we do not have control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method and our proportionate share of income or loss is recorded in Other Income, Net. All significant intercompany balances and transactions have been eliminated in consolidation including the intercompany portion of transactions with equity method investees.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") and, therefore, do not include all information and disclosures normally included in the annual consolidated financial statements.

To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of these financial statements and income and expenses during the reporting period. Actual amounts may differ from these estimated amounts. In our opinion, the accompanying unaudited condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods presented.

The results of operations for the quarter and six months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the entire year. These interim financial statements should be read in conjunction with the annual audited financial statements, accounting policies and financial notes included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016 previously filed with the SEC on May 5, 2016 ("2016 Annual Report").

Certain prior period amounts have been reclassified to conform to the current period presentation.

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.

Recently Adopted Accounting Pronouncements

Share-Based Payments: In March 2016, amended guidance was issued for employee share-based payment awards. Under the amended guidance, all excess tax benefits ("windfalls") and deficiencies ("shortfalls") related to employee share-based compensation arrangements are recognized within income tax expense. Under the previous guidance, windfalls were recognized in additional paid-in capital ("APIC") and shortfalls were only recognized to the extent they exceeded the pool of windfall tax benefits. The amended guidance also requires excess tax benefits to be classified as an operating activity in the statement of cash flows, rather than a financing activity. The amended guidance is effective for us commencing in the first quarter of 2018. Early adoption is permitted. We elected to early adopt this amended guidance in the first quarter of 2017. The primary impact of the adoption was the recognition of excess tax benefits in the income statement on a prospective basis, rather than APIC. As a result, discrete tax benefits of $9 million and $46 million were recognized in income tax expense in the second quarter and first six months of 2017. We also elected to adopt the cash flow presentation of the excess tax benefits prospectively commencing in the first quarter of 2017. None of the other provisions in this amended guidance had a material impact on our condensed consolidated financial statements.

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Business Combinations: In the first quarter of 2017, we adopted amended guidance for an acquirer's accounting for measurement-period adjustments. The amended guidance eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively and instead requires that measurement-period adjustments be recognized during the period in which it determines the adjustment. In addition, the amended guidance requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The adoption of this amended guidance did not have a material effect on our condensed consolidated financial statements.

Fair Value Measurement: In the first quarter of 2017, we adopted amended guidance that limits disclosures and removes the requirement to categorize investments within the fair value hierarchy if the fair value of the investment is measured using the net asset value per share practical expedient. The amended guidance will primarily affect our fiscal 2017 annual disclosures related to our pension benefits. The adoption of this amended guidance did not have a material effect on our condensed consolidated financial statements.

Fees Paid in a Cloud Computing Arrangement: In the first quarter of 2017, we adopted amended guidance for a customer's accounting for fees paid in a cloud computing arrangement. The amended guidance requires customers to determine whether or not an arrangement contains a software license element. If the arrangement contains a software element, the related fees paid should be accounted for as an acquisition of a software license. If the arrangement does not contain a software license, it is accounted for as a service contract. The adoption of this amended guidance did not have a material effect on our condensed consolidated financial statements.

Debt Issuance Costs: In the first quarter of 2017, we adopted amended guidance for the balance sheet presentation of debt issuance costs on a retrospective basis. The amended guidance requires debt issuance costs related to a recognized debt liability to be reported on the balance sheet as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected by the amended guidance. In August 2015, a clarification was added to this amended guidance that debt issuance costs related to line-of-credit arrangements can continue to be deferred and presented as an asset on the balance sheet. Upon adoption, unamortized debt issuance costs of $40 million were reclassified primarily from other noncurrent assets to long-term debt at March 31, 2016.

Consolidation: In the first quarter of 2017, we adopted amended guidance for consolidating legal entities in which a reporting entity holds a variable interest. The amended guidance modifies the evaluation of whether limited partnerships and similar legal entities are VIEs and changes the consolidation analysis of reporting entities that are involved with VIEs that have fee arrangements and related party relationships. The adoption of this amended guidance did not have a material effect on our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

Consolidation: In October 2016, amended guidance was issued that requires a single decision maker of a VIE to consider indirect economic interests in the entity held through related parties that are under common control on a proportionate basis when determining whether it is the primary beneficiary of that VIE. This amendment does not change the existing characteristics of a primary beneficiary. The amended guidance becomes effective for us commencing in the first quarter of 2018 on a retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory: In October 2016, amended guidance was issued to require entities to recognize income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amended guidance is effective for us commencing in the first quarter of 2019 on a modified retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments: In August 2016, amended guidance was issued to provide clarification on cash flow classification related to eight specific issues including contingent consideration payments made after a business combination and distributions received from equity method investees. The amended guidance is effective for us commencing in the first quarter of 2019 on a retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

Financial Instruments - Credit Losses: In June 2016, amended guidance was issued, which will change the impairment model for most financial assets and require additional disclosures. The amended guidance requires financial assets that are measured at amortized cost, be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets. The amended guidance also requires us to consider historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount in estimating credit losses. The amended guidance becomes effective for us commencing in 2021 and will be applied through a cumulative-effect adjustment to the beginning retained earnings in the year of adoption. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

Investments: In March 2016, amended guidance was issued to simplify the transition to the equity method of accounting. This standard eliminates the requirement that when an existing cost method investment qualifies for use of the equity method, an investor must restate its historical financial statements, as if the equity method had been used during all previous periods. Additionally, at the point an investment qualifies for the equity method, any unrealized gain or loss in accumulated other comprehensive income (loss) will be recognized through earnings. The amended guidance is effective for us prospectively commencing in the first quarter of 2018. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

Derivatives and Hedging: In March 2016, amended guidance was issued for derivative instrument novations. The amendments clarify that a novation, a change in the counterparty, to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationships provided all other hedge accounting criteria continue to be met. The amended guidance is effective for us commencing in the first quarter of 2018. The amended guidance allows for either prospective or modified retrospective adoption. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

Leases: In February 2016, amended guidance was issued for lease arrangements. The amended standard will require recognition on the balance sheet for all leases with terms longer than 12 months: a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The amended guidance is effective for us commencing in the first quarter of 2020, on a modified retrospective basis. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

Financial Instruments: In January 2016, amended guidance was issued that requires equity investments to be measured at fair value with changes in fair value recognized in net income and enhanced disclosures about those investments. This guidance also simplifies the impairment assessments of equity investments without readily determinable fair value. The investments that are accounted for under the equity method of accounting or result in consolidation of the investee are excluded from the scope of this amended guidance. The amended guidance will become effective for us commencing in the first quarter of 2019 and will be adopted through a cumulative-effect adjustment. Early adoption is not permitted except for certain provisions. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

Inventory: In July 2015, amended guidance was issued for the subsequent measurement of inventory. The amended guidance requires entities to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The requirement would replace the current lower of cost or market evaluation. Accounting guidance is unchanged for inventory measured using last-in, first-out (“LIFO”) or the retail method. The amended guidance will become effective for us commencing in the first quarter of 2018. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

Revenue Recognition: In May 2014, amended guidance was issued for recognizing revenue from contracts with customers. The amended guidance eliminates industry specific guidance and applies to all companies. Revenues will be recognized when an entity satisfies a performance obligation by transferring control of a promised good or service to a customer in an amount that reflects the consideration to which the entity expects to be entitled for that good or service. Revenue from a contract that contains multiple performance obligations is allocated to each performance obligation generally on a relative standalone selling price basis. The amended guidance also requires additional quantitative and qualitative disclosures. In March 2016, amended guidance was issued to clarify implementation guidance on principal versus agent considerations. In April 2016, additional amended guidance was issued to permit an entity, as an accounting policy election, to account for shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good. The April 2016 amendment also provided clarifications on determining whether a promised license provides a customer with a right to use or a right to access an entity's intellectual property. In May 2016, another amendment was issued to provide certain scope improvements and practical expedients. The May 2016 amendment clarifies how an entity should evaluate the collectibility threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard's contract criteria. These amended standards are all effective for us commencing in the first quarter of 2019 and allow for either full retrospective adoption or modified retrospective adoption. Early adoption is permitted but not prior to our first quarter of 2018. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

2. Proposed Healthcare Technology Net Asset Exchange

On June 28, 2016, McKesson entered into a contribution agreement as well as various other agreements ("Agreements") with Change Healthcare Holdings, Inc. ("Change Healthcare"), a Delaware corporation, and others to form a joint venture ("JV"). Under the terms of the Agreements, McKesson will contribute the majority of its McKesson Technology Solutions businesses ("Core MTS Business") to the JV. McKesson will retain its RelayHealth Pharmacy and Enterprise Information Solutions ("EIS") businesses. Change Healthcare will contribute substantially all of its businesses to the JV excluding its pharmacy switch and prescription routing businesses. The purpose of the JV is to create a new healthcare information technology company, which will bring together the complementary strengths of the Core MTS Business and Change Healthcare to deliver a broad portfolio of solutions that will help lower healthcare costs, improve patient access and outcomes, and make it simpler for payers, providers and consumers to manage the transition to value-based care.

The completion of the transaction is subject to certain closing conditions, including antitrust clearance. The transaction is expected to close in the first half of calendar year 2017. Upon formation of the JV, McKesson and Change Healthcare shareholders are expected to own approximately 70% and 30% of the JV. The JV will be jointly governed by McKesson and Change Healthcare shareholders. The Company refers to the foregoing transaction as "Healthcare Technology Net Assets Exchange". McKesson and Change Healthcare have agreed that they will take steps to launch an initial public offering of an entity holding equity in the JV in the months following the close of the transaction, subject to market conditions. Thereafter, McKesson expects to exit its investment in the JV in a transaction that is intended to qualify as tax-free for U.S. federal income tax purposes under Section 355 of the Internal Revenue Code.

During the second quarter and first half of 2017, we recorded $21 million and $25 million of expenses associated with this proposed transaction, which are primarily recorded in Operating Expenses within our Technology Solutions segment in the accompanying condensed consolidated statements of operations.

In connection with the transaction, the JV has received commitments from certain banks for $6.1 billion of long-term debt financing. The proceeds are expected to be utilized for the repayment of the existing debt of Change Healthcare, cash distributions to Change Healthcare shareholders and McKesson and reimbursements of the transaction-related expenses incurred by McKesson and Change Healthcare.

Assets and Liabilities Held for Sale

During the second quarter of 2017, the assets and liabilities of the Core MTS Business to be contributed to the JV met the criteria to be classified as held for sale. The net asset exchange transaction does not meet the criteria to be reported as a discontinued operation as it does not constitute a significant strategic business shift. Accordingly, at September 30, 2016, $1.8 billion of assets and $0.6 billion of liabilities related to the Core MTS Business are included in “Current assets held for sale” and “Current liabilities held for sale” in the accompanying condensed consolidated balance sheet.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

The following table summarizes the carrying amounts of major classes of assets and liabilities held for sale:

(In millions)	September 30, 2016
Receivables, net	$ 319
Other current assets	115
Goodwill	1,075
Intangible assets, net	95
Other noncurrent assets	163
Current assets held for sale	$ 1,767
Deferred revenue	$ 409
Other current liabilities	146
Other noncurrent liabilities	49
Current liabilities held for sale	$ 604

3. Goodwill Impairment

In conjunction with the proposed Healthcare Technology Net Asset Exchange, we are evaluating strategic options for our EIS business, which is a reporting unit within our McKesson Technology Solutions segment. During the second quarter of 2017, we recorded a non-cash pre-tax charge of $290 million ($282 million after-tax) to impair the carrying value of this business' goodwill. Most of the goodwill impairment is not deductible for income tax purposes. The impairment primarily resulted from a decline in estimated cash flows.

The goodwill impairment test requires us to compare the fair value of the reporting unit to the fair value of the reporting unit's net assets, excluding goodwill but including any unrecognized intangible assets, to determine the implied fair value of goodwill. The impairment charge was then determined by comparing the carrying value of the reporting unit's goodwill with its implied fair value. As of September 30, 2016, the valuation of all assets and liabilities of the reporting unit used to calculate the implied fair value of goodwill was not complete. As a result, the recorded impairment charge is provisional and subject to further adjustments as we finalize our fair value assessments in the third quarter of 2017. At September 30, 2016, the remaining goodwill balance for this reporting unit was $124 million. Refer to Financial Note 15, "Fair Value Measurements," for more information on this nonrecurring fair value measurement.

4. Business Combinations

During the first half of 2017, we completed our acquisitions of Vantage Oncology Holdings LLC ("Vantage"), Biologics, Inc. ("Biologics"), UDG Healthcare Plc ("UDG") and J Sainsbury Plc ("Sainsbury"), as further discussed below.

In the first quarter of 2017, we adopted the amended accounting guidance for an acquirer's accounting for measurement period adjustments. Accordingly, as required, we now recognize all measurement period adjustments in the reporting period in which the adjustments are determined.

Vantage & Biologics

On April 1, 2016, we acquired Vantage, which is headquartered in Manhattan Beach, California. Vantage provides comprehensive oncology management services, including radiation oncology, medical oncology, and other integrated cancer care services, through over 51 cancer treatment facilities in 13 states. The net purchase consideration of $515 million was funded from cash on hand. On April 1, 2016, we also acquired Biologics for net purchase consideration of $692 million, which was funded from cash on hand. Biologics is one of the largest independent oncology-focused specialty pharmacy in the U.S., and is headquartered in Cary, North Carolina. Financial results for these acquisitions since the acquisition date are included in our results of operations within our North America pharmaceutical distribution and services business, which is part of our Distribution Solutions segment. These acquisitions collectively enhance our specialty pharmaceutical distribution scale and oncology-focused pharmacy offerings, provide solutions for manufacturers and payers, and expand the scope of our community-based oncology and practice management services.

McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

The following table summarizes the preliminary recording of the fair values of the assets acquired and liabilities assumed for these two acquisitions as of the acquisition date:

(In millions)	Amounts Previously Recognized as of Acquisition Date (Provisional) (1)	Measurement Period Adjustments	Amounts Recognized as of Acquisition Date (Provisional as Adjusted)
Receivables	$ 106	$ —	$ 106
Other current assets, net of cash and cash equivalents acquired	19	—	19
Goodwill	1,219	(141)	1,078
Intangible assets	136	72	208
Other long-term assets	76	37	113
Current liabilities	(117)	(3)	(120)
Other long-term liabilities	(80)	(28)	(108)
Fair value of net assets, less cash and cash equivalents	1,359	(63)	1,296
Less: Noncontrolling Interests	(152)	63	(89)
	$ 1,207	$ —	$ 1,207

Net
assets
acquired,
net
of
cash
and
cash
equivalents

(1) As reported on Form 10-Q for the quarter ended June 30, 2016.

During the second quarter of 2017, we recorded certain measurement period adjustments to the provisional fair value of assets acquired and liabilities assumed as of the acquisition date, including the fair value of acquired intangible assets. The amounts as of the acquisition date are provisional and subject to change within the measurement period as our fair value assessments are finalized.

At September 30, 2016, approximately $512 million and $566 million of the adjusted preliminary purchase price allocations for Vantage and Biologics have been assigned to goodwill, which primarily reflects the expected future benefits of synergies upon integrating the businesses. Goodwill represents the excess of the purchase price and the fair value of noncontrolling interests over the fair value of the acquired net assets. Most of the goodwill is not expected to be deductible for tax purposes.

Included in the adjusted preliminary purchase price allocation are acquired identifiable intangibles of $15 million and $193 million for Vantage and Biologics. Acquired intangibles for Vantage primarily consist of $7 million of non-competition agreements with a weighted average life of 4 years, and for Biologics primarily consist of $170 million of trade names with a weighted average life of 9 years. The adjusted preliminary fair value of Vantage's noncontrolling interests as of the acquisition date was approximately $89 million, which represents the portion of net assets of Vantage's consolidated entities that is not allocable to McKesson.

UDG

On April 1, 2016, we completed our acquisition of the pharmaceutical distribution businesses of UDG based in Ireland and the United Kingdom ("U.K.") with a net purchase consideration of €380 million (or, approximately $431 million), which was funded with cash on hand. The acquired UDG businesses primarily provide pharmaceutical and other healthcare products to retail and hospital pharmacies. The acquisition of UDG expands our offerings and strengthens our market position in Ireland and the U.K. Financial results for UDG since the acquisition date are included in our results of operations within our International pharmaceutical distribution and services business, which is part of our Distribution Solutions segment.