
McKesson Corporation

Q3 Fiscal 2020 Financial Results

February 4, 2020



Cautionary Statements

Except for historical information referred to in our presentation, matters discussed may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that involve risks and uncertainties that could cause actual results to differ materially from those in those statements. It is not possible to identify all such risks and uncertainties. The reader should not place undue reliance on forward-looking statements, which speak only as of the date they are first made. Except to the extent required by law, the company undertakes no obligation to publicly update forward-looking statements. Forward-looking statements may be identified by their use of terminology such as “believes”, “expects”, “anticipates”, “may”, “will”, “should”, “seeks”, “approximately”, “intends”, “plans”, “estimates” or the negative of these words or other comparable terminology. The discussion of financial trends, strategy, plans, assumptions or intentions may also include forward-looking statements. We encourage investors to read the important risk factors described in the company’s Form 10-K, Form 10-Q and Form 8-K reports filed with the Securities and Exchange Commission. These risk factors include, but are not limited to: changes in the healthcare industry and regulatory environment; fluctuations in foreign currency exchange rates; the impact of the Change Healthcare joint venture on the company’s results of operations; the company’s ability to manage and complete divestitures and distributions; material adverse resolution of pending legal proceedings, including those related to the distribution of controlled substances; cyberattack, natural disaster, or malfunction of sophisticated internal computer systems to perform as designed; and the potential inadequacy of insurance to cover property loss or liability claims.

GAAP / Non-GAAP Reconciliation

In an effort to provide additional and useful information regarding the Company’s financial results and other financial information as determined by generally accepted accounting principles (GAAP), certain materials in this presentation include non-GAAP information. The Company believes the presentation of non-GAAP measures provides useful supplemental information to investors with regard to its operating performance as well as comparability of financial results period-over-period. A reconciliation of the non-GAAP information to GAAP, and other related information is available in the appendix to this presentation, tables accompanying each period’s earnings press release, materials furnished to the SEC, and posted to www.mckesson.com under the “Investors” tab.

Company Updates

Q3 Adjusted Earnings Exceeded Expectations; Reaffirmed Full-Year Guidance

Company Updates

- On February 4, 2020, a McKesson wholly-owned subsidiary filed a registration statement with the Securities and Exchange Commission relating to a potential exit of the company from its investment in the Change Healthcare joint venture
- McKesson was recently selected by the Department of Veterans Affairs as prime pharmaceutical vendor
- In December, announced creation of a joint venture in Germany with Walgreens Boots Alliance
- Nancy Flores appointed as EVP, Chief Information and Technology Officer, following Kathy McElligott's retirement

Business Summary

- Revenue growth of 5%¹
- Adjusted Earnings per diluted share of \$3.81, up 12% year-over-year
 - Excluding \$43 million of prior year items², Q3 results per diluted share increased 7%
- Reaffirmed Fiscal 2020 Adjusted Earnings outlook of \$14.60 to \$14.80 per diluted share
 - Previously raised from \$14.00 to \$14.60 on January 13, 2020
- For the first 9 months, returned \$2.2 billion of cash to shareholders

Condensed Consolidated Statement of Earnings

Q3 and YTD Fiscal 2020 Results

Adjusted Results (\$ in millions, except per share amounts)	Q3 FY 20	YoY Change	YTD Q3 FY 20	YoY Change
Revenues	\$ 59,172	5 %	\$ 172,516	7 %
Gross Profit	\$ 2,945	4 %	\$ 8,546	2 %
Total Operating Expenses	\$ (2,077)	3 %	\$ (6,054)	3 %
Income from Continuing Operations before Interest Expense and Income Taxes	\$ 958	4 %	\$ 2,814	2 %
Interest Expense	\$ (64)	(4) %	\$ (184)	(5) %
Income Tax Expense	\$ (153)	18 %	\$ (496)	16 %
Noncontrolling Interests	\$ (56)	(2) %	\$ (163)	(4) %
Income from Continuing Operations, Net of Tax, Attributable to McKesson	\$ 685	3 %	\$ 1,971	— %
Earnings per Share (diluted)	\$ 3.81	12 %	\$ 10.71	8 %
Diluted Shares (in millions)	180	(8) %	184	(8) %

U.S. Pharmaceutical and Specialty Solutions

Q3 and YTD Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q3 FY 20	YoY Change	YTD Q3 FY 20	YoY Change
<u>U.S. Pharmaceutical and Specialty Solutions</u>				
Revenues	\$ 46,923	6 %	\$ 137,067	8 %
Operating Profit	\$ 658	11 %	\$ 1,899	7 %
Operating Margin	1.40%	6 bp	1.39%	— bp

- Q3 revenue growth driven by branded pharmaceutical price increases and higher volumes from retail national account customers, partially offset by branded to generic conversions
- Prior year Q3 results included a \$60 million pre-tax charge related to a customer bankruptcy and a pre-tax benefit of approximately \$17 million related to the reversal of accrued New York State Opioid Stewardship Act charges

European Pharmaceutical Solutions

Q3 and YTD Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q3 FY 20	YoY Change	YTD Q3 FY 20	YoY Change
<u>European Pharmaceutical Solutions</u>				
Revenues	\$ 6,931	— %	\$ 20,239	(1) %
Operating Profit	\$ 80	16 %	\$ 156	(20) %
Operating Margin	1.15%	15 bp	0.77%	(19) bp

- Q3 revenue negatively impacted by \$168 million due to foreign currency effects. FX-adjusted revenue was \$7,099 million, up 3% year-over-year, driven primarily by growth in the pharmaceutical distribution business
- Q3 operating profit up 16%, driven in part by expense rationalization. FX-adjusted operating profit was \$82 million, up 19%, and FX-adjusted operating margin was 1.16%

Medical-Surgical Solutions

Q3 and YTD Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q3 FY 20	YoY Change	YTD Q3 FY 20	YoY Change
<u>Medical-Surgical Solutions</u>				
Revenues	\$ 2,141	6 %	\$ 6,100	8 %
Operating Profit	\$ 184	8 %	\$ 509	18 %
Operating Margin	8.59%	14 bp	8.34%	69 bp

- Q3 revenue increase primarily driven by growth in the Primary Care business, largely due to higher pharmaceutical volumes and an early start to influenza season
- Q3 operating profit increase driven by organic growth in the Primary Care business

Other & Corporate

Q3 and YTD Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q3 FY 20	YoY Change	YTD Q3 FY 20	YoY Change
<u>Other</u>¹				
Revenues	\$ 3,177	6 %	\$ 9,110	3 %
Operating Profit	\$ 214	(4) %	\$ 711	(4) %
Operating Margin	NM	NM	NM	NM
<u>Corporate</u>				
Operating Loss	\$ (178)	29 %	\$ (461)	23 %

- Q3 operating profit year-over-year decline driven by increased investment spend within the MRxTS business, partially offset by growth in the Canadian business
- Q3 corporate expense growth primarily driven by planned technology investments

¹Other primarily includes McKesson Canada, McKesson Prescription Technology Solutions (MRxTS) and investment in the Change Healthcare JV
 NM means not meaningful

Opioid-Related Costs

Results (\$ in millions)	Q3 FY 20		Q3 FY 19		YTD Q3 FY 20		Full Year FY 19	
<u>Opioid-Related Costs</u>								
Litigation Reserves Adjustment	\$	—	\$	—	\$	82	\$	37
Legal Fees and Other	\$	36	\$	20	\$	108	\$	114
Total Expense	\$	36	\$	20	\$	190	\$	151

Litigation Reserves Adjustment

- McKesson recorded a pre-tax, GAAP-only charge of \$82 million in Q2 FY20 in connection with an agreement reached in principle to settle all claims filed by Cuyahoga and Summit counties of Ohio

Legal Fees and Other

- Opioid-related costs, primarily litigation expenses, included in adjusted operating expense
- Q3 FY19 includes \$37 million primarily related to legal fees, partially offset by \$17 million reversal of accrued NY OSA charges
- For FY20, continue to anticipate opioid-related costs will be approximately \$150 million

Cash

(\$ in millions)

YTD Cash Balance Walk*

Balance at March 31, 2019	\$	2,981
Operating Cash Flow		(280)
Capital Expenditures		(338)
Free Cash Flow		(618)
Acquisitions		(97)
Other Investing Cash Flows		26
Share Repurchases**		(1,951)
Dividends Paid		(222)
Other Financing Cash Flows and FX		1,946
Net Decrease in Cash		(916)
Balance at December 31, 2019	\$	2,065

Cash Dynamics

- Free cash flow of \$(618) million
- Returned \$2.2 billion of cash to shareholders year-to-date
 - Repurchased \$1.9 billion of shares
 - Paid \$222 million in dividends
- Remaining share repurchase authorization of \$1.5 billion

*Cash comprises cash, cash equivalents and restricted cash


**Includes shares surrendered for tax withholding



Fiscal 2020 Outlook


On the following slides, McKesson presents an overview of its fiscal 2020 Outlook assumptions. These assumptions consist of certain non-GAAP measures. As outlined in the company's February 4, 2020 press release, McKesson does not provide forward-looking guidance on a GAAP basis as the company is unable to provide a quantitative reconciliation of this forward-looking non-GAAP measure to the most directly comparable forward-looking GAAP measure, without unreasonable effort, as items are inherently uncertain and depend on various factors, many of which are beyond the company's control.

Fiscal 2020 Adjusted Earnings Outlook

	Fiscal 2020 Outlook	Fiscal 2019 Actual
Revenues	Mid to high-single digit percent growth	\$214.3 billion
Income from continuing operations before interest expense and income taxes	Low-single digit percent increase <i>(Previously flat to low-single digit percent decline)</i>	\$3.8 billion
Earnings per diluted share	\$14.60 – \$14.80	\$13.57
Free cash flow	\$2.8 – \$3.0 billion	\$3.5 billion


Fiscal 2020 Adjusted Earnings Outlook

Year-over-Year Percent Change

	U.S. Pharmaceutical and Specialty Solutions	European Pharmaceutical Solutions	Medical-Surgical Solutions	Other
FY20 Revenue	7% - 9%	Flat to low-single digit decline	High-single digit growth	Low-single digit growth
FY20 Adjusted Operating Profit	High end of 3% - 5% <i>(Previously 3% - 5%)</i>	Low-single digit growth	Low-double digit growth <i>(Previously high-single to low-double digit growth)</i>	Low to mid-single digit decline

Fiscal 2020 Adjusted Earnings Assumptions

(\$ and shares in millions)

	FY20 Outlook
Corporate Expenses	\$660 - \$700 <i>(Previously \$695 - \$745)</i>
Adjusted Equity Earnings from Investment in Change Healthcare	\$250 – \$270
Interest Expense	\$245 – \$265
Effective Tax Rate	18 – 19%
Net Income Attributable to Noncontrolling Interest	Down mid-single digit percent
Diluted Weighted Average Shares Outstanding	Approximately 183 <i>(Previously approximately 184)</i>
Property Acquisitions and Capitalized Software	\$500 - \$600 <i>(Previously \$500 - \$700)</i>
FX Impact	Net unfavorable up to 5 cents



Appendix

Reconciliation of GAAP Amounts to Free Cash Flow

(\$ in millions)	Q3 FY20 YTD	Q3 FY19 YTD	YoY Change
Major GAAP cash flow categories:			
Operating cash flow	\$ (280)	\$ 141	\$ (421)
Investing cash flow	\$ (409)	\$ (1,151)	\$ 742
Financing cash flow	\$ (254)	\$ 317	\$ (571)
Free cash flow (non-GAAP measure):			
Operating cash flow	\$ (280)	\$ 141	\$ (421)
Capital expenditures for property, plant and equipment and capitalized software	\$ (338)	\$ (405)	\$ 67
Free cash flow	\$ (618)	\$ (264)	\$ (354)

Free cash flow is not defined under U.S. generally accepted accounting principles (GAAP). Therefore, it should not be considered a substitute for income or cash flow data prepared in accordance with GAAP and may not be comparable to similarly titled measures used by other companies. The Company defines free cash flow as net cash provided by (used in) operating activities less capital expenditures for property, plant and equipment and capitalized software. It should not be inferred that the entire free cash flow is available for discretionary expenditures. The Company believes free cash flow is important to management and useful to investors as a supplemental measure as it indicates the cash flow available for working capital needs, re-investment opportunities, strategic acquisitions, dividend payments or other strategic uses of cash.

GAAP to Non-GAAP Reconciliation

Q3 Fiscal 2020

McKESSON CORPORATION
RECONCILIATION OF GAAP OPERATING RESULTS TO ADJUSTED EARNINGS (NON-GAAP)
(unaudited)
(in millions, except per share amounts)

Schedule 2A

	Three Months Ended December 31, 2019								Change Vs. Prior Quarter	
	As Reported (GAAP)	Amortization of Acquisition- Related Intangibles	Transaction- Related Expenses and Adjustments	LIFO Inventory- Related Adjustments	Gains from Antitrust Legal Settlements	Restructuring, Impairment and Related Charges, Net	Other Adjustments, Net	Adjusted Earnings (Non-GAAP)	As Reported (GAAP)	Adjusted Earnings (Non- GAAP)
Gross Profit	\$ 3,033	\$ —	\$ —	\$ (66)	\$ (22)	\$ —	\$ —	2,945	2 %	4 %
Total Operating Expenses ^{(3) (5)}	\$ (2,673)	\$ 113	\$ 324	\$ —	\$ —	\$ 136	\$ 23	(2,077)	17 %	3 %
Other Income, Net	\$ 26	\$ 1	\$ 2	\$ —	\$ —	\$ —	\$ 10	39	(69) %	39 %
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture ⁽¹⁰⁾	\$ (28)	\$ 63	\$ 15	\$ —	\$ —	\$ —	\$ 1	51	(44) %	(2) %
Income from Continuing Operations Before Income Taxes	\$ 294	\$ 177	\$ 341	\$ (66)	\$ (22)	\$ 136	\$ 34	894	(55) %	5 %
Income Tax Expense ⁽¹¹⁾	\$ (47)	\$ (43)	\$ (34)	\$ 17	\$ 6	\$ (21)	\$ (31)	(153)	(62) %	18 %
Income from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(a)	\$ 191	\$ 134	\$ 307	\$ (49)	\$ (16)	\$ 115	\$ 3	685	(59) %	3 %
Earnings per Diluted Common Share from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(b)	\$ 1.06	\$ 0.75	\$ 1.71	\$ (0.27)	\$ (0.09)	\$ 0.64	\$ 0.01	3.81 ^(c)	(56) %	12 %
Diluted Weighted Average Common Shares	180	180	180	180	180	180	180	180	(8) %	(8) %

Note: Please see footnote information on the following slide.

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GAAP to Non-GAAP Reconciliation

Q3 Fiscal 2019

Schedule 2A
(Continued)

Three Months Ended December 31, 2018

	As Reported (GAAP)	Amortization of Acquisition- Related Intangibles	Transaction- Related Expenses and Adjustments	LIFO Inventory- Related Adjustments	Gains from Antitrust Legal Settlements	Restructuring, Impairment and Related Charges, Net	Other Adjustments, Net	Adjusted Earnings (Non-GAAP)
Gross Profit	\$ 2,970	\$ —	\$ —	\$ (21)	\$ (104)	\$ —	\$ —	\$ 2,845
Total Operating Expenses ⁽⁵⁾	\$ (2,287)	\$ 122	\$ 27	\$ —	\$ —	\$ 110	\$ 21	\$ (2,007)
Other Income, Net ⁽⁷⁾	\$ 84	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (56)	\$ 28
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture ⁽¹⁰⁾	\$ (50)	\$ 75	\$ 25	\$ —	\$ —	\$ —	\$ 2	\$ 52
Income from Continuing Operations Before Income Taxes	\$ 650	\$ 197	\$ 52	\$ (21)	\$ (104)	\$ 110	\$ (33)	\$ 851
Income Tax Expense ⁽¹¹⁾	\$ (123)	\$ (50)	\$ (13)	\$ 6	\$ 27	\$ (18)	\$ 41	\$ (130)
Income from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(a)	\$ 470	\$ 147	\$ 39	\$ (15)	\$ (77)	\$ 92	\$ 8	\$ 664
Earnings per Diluted Common Share from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(b)	\$ 2.41	\$ 0.76	\$ 0.20	\$ (0.08)	\$ (0.39)	\$ 0.47	\$ 0.03	\$ 3.40
Diluted Weighted Average Common Shares	195	195	195	195	195	195	195	195

(a) Calculated as "Net Income (Loss) Attributable to McKesson Corporation" less "Income (Loss) from Discontinued Operations, Net of Tax" as presented in the Condensed Consolidated Statements of Operations - GAAP.

(b) Certain computations may reflect rounding adjustments.

(c) Adjusted Earnings per diluted share on an FX-Adjusted basis for the third quarter of fiscal 2020 was \$3.82, which excludes the foreign currency exchange effect of \$0.01.

Refer to the section entitled "Financial Statement Notes" of this presentation.

For more information relating to the Adjusted Earnings (Non-GAAP) and FX-Adjusted (Non-GAAP) definitions, refer to the section entitled "Supplemental Non-GAAP Financial Information" of this presentation.

GAAP to Non-GAAP Reconciliation

YTD Fiscal 2020

McKESSON CORPORATION
RECONCILIATION OF GAAP OPERATING RESULTS TO ADJUSTED EARNINGS (NON-GAAP)
(unaudited)
(in millions, except per share amounts)

Schedule 2B

	Nine Months Ended December 31, 2019								Change Vs. Prior Period	
	As Reported (GAAP)	Amortization of Acquisition- Related Intangibles	Transaction- Related Expenses and Adjustments	LIFO Inventory- Related Adjustments	Gains from Antitrust Legal Settlements	Restructuring, Impairment and Related Charges, Net	Other Adjustments, Net	Adjusted Earnings (Non-GAAP)	As Reported (GAAP)	Adjusted Earnings (Non- GAAP)
Gross Profit	\$ 8,687	\$ —	\$ —	\$ (114)	\$ (22)	\$ (5)	\$ —	\$ 8,546	2 %	2 %
Total Operating Expenses ^{(2) (3) (5)}	\$ (7,067)	\$ 343	\$ 357	\$ —	\$ —	\$ 204	\$ 109	\$ (6,054)	— %	3 %
Other Income (Expense), Net ⁽⁶⁾	\$ (15)	\$ 1	\$ 5	\$ —	\$ —	\$ —	\$ 133	\$ 124	(110) %	39 %
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture ^{(8) (9) (10)}	\$ (1,478)	\$ 203	\$ 305	\$ —	\$ —	\$ —	\$ 1,168	\$ 198	812 %	15 %
Income (Loss) from Continuing Operations Before Income Taxes	\$ (57)	\$ 547	\$ 667	\$ (114)	\$ (22)	\$ 199	\$ 1,410	\$ 2,630	(105) %	3 %
Income Tax Benefit (Expense) ⁽¹¹⁾	\$ 111	\$ (130)	\$ (117)	\$ 29	\$ 6	\$ (36)	\$ (359)	\$ (496)	(145) %	16 %
Income (Loss) from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(a)	\$ (109)	\$ 417	\$ 550	\$ (85)	\$ (16)	\$ 163	\$ 1,051	\$ 1,971	(113) %	— %
Earnings (Loss) Per Diluted Common Share from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^{(b) (c)}	\$ (0.60)	\$ 2.27	\$ 2.99	\$ (0.46)	\$ (0.09)	\$ 0.89	\$ 5.72	\$ 10.71 ^(d)	(114) %	8 %
Diluted Weighted Average Common Shares	183	184	184	184	184	184	184	184	(8) %	(8) %

Note: Please see footnote information on the following slide.

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GAAP to Non-GAAP Reconciliation

YTD Fiscal 2019

Schedule 2B
(Continued)

Nine Months Ended December 31, 2018

	As Reported (GAAP)	Amortization of Acquisition- Related Intangibles	Transaction- Related Expenses and Adjustments	LIFO Inventory- Related Adjustments	Gains from Antitrust Legal Settlements	Restructuring, Impairment and Related Charges, Net	Other Adjustments, Net	Adjusted Earnings (Non-GAAP)
Gross Profit	\$ 8,553	\$ —	\$ 1	\$ (64)	\$ (139)	\$ —	\$ —	\$ 8,351
Total Operating Expenses ^{(1) (4) (5)}	\$ (7,098)	\$ 364	\$ 84	\$ —	\$ —	\$ 288	\$ 508	\$ (5,854)
Other Income, Net ⁽⁷⁾	\$ 144	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ (56)	\$ 89
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture ⁽¹⁰⁾	\$ (162)	\$ 229	\$ 99	\$ —	\$ —	\$ —	\$ 6	\$ 172
Income from Continuing Operations Before Income Taxes	\$ 1,243	\$ 594	\$ 184	\$ (64)	\$ (139)	\$ 288	\$ 458	\$ 2,564
Income Tax Expense ⁽¹¹⁾	\$ (245)	\$ (148)	\$ (46)	\$ 17	\$ 36	\$ (44)	\$ 2	\$ (428)
Income from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(a)	\$ 829	\$ 446	\$ 138	\$ (47)	\$ (103)	\$ 244	\$ 460	\$ 1,967
Earnings Per Diluted Common Share from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(b)	\$ 4.17	\$ 2.24	\$ 0.69	\$ (0.24)	\$ (0.52)	\$ 1.23	\$ 2.32	\$ 9.89
Diluted Weighted Average Common Shares	199	199	199	199	199	199	199	199

(a) Calculated as "Net Income (Loss) Attributable to McKesson Corporation" less "Income (Loss) from Discontinued Operations, Net of Tax" as presented in the Condensed Consolidated Statements of Operations - GAAP.

(b) Certain computations may reflect rounding adjustments.

(c) We calculate GAAP net loss per diluted share for the nine months ended December 31, 2019 using a weighted average of 183 million common shares, which excludes dilutive securities from the denominator due to their antidilutive effect when calculating a net loss per diluted share. We calculate Adjusted Earnings per diluted share (Non-GAAP) for the nine months ended December 31, 2019 on a fully diluted basis, using a weighted average of 184 million common shares. Because we show the GAAP to Non-GAAP per share reconciling items on a fully diluted basis, any cross-footing differences in those items are due to different weighted average share counts.

(d) Adjusted Earnings per diluted share on an FX-Adjusted basis for fiscal 2020 was \$10.74, which excludes the foreign currency exchange effect of \$0.03.

Refer to the section entitled "Financial Statement Notes" of this presentation.

For more information relating to the Adjusted Earnings (Non-GAAP) and FX-Adjusted (Non-GAAP) definitions, refer to the section entitled "Supplemental Non-GAAP Financial Information" of this presentation.

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GAAP to Non-GAAP Reconciliation

Q3 Fiscal 2020 and Q3 Fiscal 2019

McKESSON CORPORATION
RECONCILIATION OF GAAP SEGMENT FINANCIAL RESULTS TO ADJUSTED EARNINGS (NON-GAAP)
(unaudited)
(in millions, except per share amounts)

Schedule 3A

	Three Months Ended December 31, 2019			Three Months Ended December 31, 2018			GAAP		Non-GAAP		Change			
	As Reported (GAAP)	Adjustments	Adjusted Earnings (Non-GAAP)	As Reported (GAAP)	Adjustments	Adjusted Earnings (Non-GAAP)	Foreign Currency Effects	FX-Adjusted	Foreign Currency Effects	FX-Adjusted	As Reported (GAAP)	Adjusted Earnings (Non- GAAP)	FX-Adjusted (GAAP)	FX-Adjusted (Non- GAAP)
REVENUES														
U.S. Pharmaceutical and Specialty Solutions	\$ 46,923	\$ —	\$ 46,923	\$ 44,279	\$ —	\$ 44,279	\$ —	\$ 46,923	\$ —	\$ 46,923	6 %	6 %	6 %	6 %
European Pharmaceutical Solutions	6,931	—	6,931	6,911	—	6,911	168	7,099	168	7,099	—	—	3	3
Medical-Surgical Solutions	2,141	—	2,141	2,012	—	2,012	—	2,141	—	2,141	6	6	6	6
Other ^(a)	3,177	—	3,177	3,006	—	3,006	(7)	3,170	(7)	3,170	6	6	5	5
Revenues	\$ 59,172	\$ —	\$ 59,172	\$ 56,208	\$ —	\$ 56,208	\$ 161	\$ 59,333	\$ 161	\$ 59,333	5 %	5 %	6 %	6 %
OPERATING PROFIT ⁽⁵⁾														
U.S. Pharmaceutical and Specialty Solutions	\$ 687	\$ (29)	\$ 658	\$ 671	\$ (78)	\$ 593	\$ —	\$ 687	\$ —	\$ 658	2 %	11 %	2 %	11 %
European Pharmaceutical Solutions ⁽³⁾	(303)	383	80	26	43	69	(3)	(306)	2	82	NM	16	NM	19
Medical-Surgical Solutions	124	60	184	136	34	170	—	124	—	184	(9)	8	(9)	8
Other ^{(a) (7) (10)}	61	153	214	74	150	224	2	63	1	215	(18)	(4)	(15)	(4)
Operating Profit	569	567	1,136	907	149	1,056	(1)	568	3	1,139	(37)	8	(37)	8
Corporate	(211)	33	(178)	(190)	52	(138)	(1)	(212)	—	(178)	11	29	12	29
Income from Continuing Operations Before Interest Expense and Income Taxes	\$ 358	\$ 600	\$ 958	\$ 717	\$ 201	\$ 918	\$ (2)	\$ 356	\$ 3	\$ 961	(50) %	4 %	(50) %	5 %
OPERATING PROFIT AS A % OF REVENUES														
U.S. Pharmaceutical and Specialty Solutions	1.46 %		1.40 %	1.52 %		1.34 %		1.46 %		1.40 %	(6) bp	6 bp	(6) bp	6 bp
European Pharmaceutical Solutions	(4.37)		1.15	0.38		1.00		(4.31)		1.16	(475)	15	(469)	16
Medical-Surgical Solutions	5.79		8.59	6.76		8.45		5.79		8.59	(97)	14	(97)	14

(a) Other primarily includes the results of our McKesson Canada and McKesson Prescription Technology Solutions businesses. Operating profit for Other includes equity earnings and charges from investment in Change Healthcare Joint Venture.

Refer to the section entitled "Financial Statement Notes" of this presentation.

For more information relating to the Adjusted Earnings (Non-GAAP) and FX-Adjusted (Non-GAAP) definitions, refer to the section entitled "Supplemental Non-GAAP Financial Information" of this presentation.

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GAAP to Non-GAAP Reconciliation

YTD Fiscal 2020 and YTD Fiscal 2019

McKESSON CORPORATION
RECONCILIATION OF GAAP SEGMENT FINANCIAL RESULTS TO ADJUSTED EARNINGS (NON-GAAP)
(unaudited)
(in millions, except per share amounts)

Schedule 3B

	Nine Months Ended December 31, 2019			Nine Months Ended December 31, 2018			GAAP		Non-GAAP			Change			
	As Reported (GAAP)	Adjustments	Adjusted Earnings (Non-GAAP)	As Reported (GAAP)	Adjustments	Adjusted Earnings (Non-GAAP)	Foreign Currency Effects	FX-Adjusted	Foreign Currency Effects	FX-Adjusted		As Reported (GAAP)	Adjusted Earnings (Non- GAAP)	FX-Adjusted (GAAP)	FX-Adjusted (Non- GAAP)
REVENUES															
U.S. Pharmaceutical and Specialty Solutions	\$ 137,067	\$ —	\$ 137,067	\$ 126,866	\$ —	\$ 126,866	\$ —	\$ 137,067	\$ —	\$ 137,067		8 %	8 %	8 %	8 %
European Pharmaceutical Solutions	20,239	—	20,239	20,485	—	20,485	916	21,155	916	21,155		(1)	(1)	3	3
Medical-Surgical Solutions	6,100	—	6,100	5,663	—	5,663	—	6,100	—	6,100		8	8	8	8
Other ^(a)	9,110	—	9,110	8,876	—	8,876	121	9,231	121	9,231		3	3	4	4
Revenues	\$ 172,516	\$ —	\$ 172,516	\$ 161,890	\$ —	\$ 161,890	\$ 1,037	\$ 173,553	\$ 1,037	\$ 173,553		7 %	7 %	7 %	7 %
OPERATING PROFIT ⁽⁵⁾															
U.S. Pharmaceutical and Specialty Solutions	\$ 1,905	\$ (6)	\$ 1,899	\$ 1,824	\$ (56)	\$ 1,768	\$ —	\$ 1,905	\$ —	\$ 1,899		4 %	7 %	4 %	7 %
European Pharmaceutical Solutions ^{(3) (4)}	(297)	453	156	(524)	720	196	(3)	(300)	6	162		(43)	(20)	(43)	(17)
Medical-Surgical Solutions	378	131	509	334	99	433	—	378	—	509		13	18	13	18
Other ^{(a) (1) (7) (8) (9) (10)}	(1,109)	1,820	711	283	454	737	3	(1,106)	4	715		(492)	(4)	(491)	(3)
Operating Profit	877	2,398	3,275	1,917	1,217	3,134	—	877	10	3,285		(54)	4	(54)	5
Corporate ^{(2) (6)}	(750)	289	(461)	(480)	104	(376)	(1)	(751)	(1)	(462)		56	23	56	23
Income from Continuing Operations Before Interest Expense and Income Taxes	\$ 127	\$ 2,687	\$ 2,814	\$ 1,437	\$ 1,321	\$ 2,758	\$ (1)	\$ 126	\$ 9	\$ 2,823		(91) %	2 %	(91) %	2 %
OPERATING PROFIT AS A % OF REVENUES															
U.S. Pharmaceutical and Specialty Solutions	1.39 %		1.39 %	1.44 %		1.39 %		1.39 %		1.39 %		(5) bp	— bp	(5) bp	— bp
European Pharmaceutical Solutions	(1.47)		0.77	(2.56)		0.96		(1.42)		0.77		109	(19)	114	(19)
Medical-Surgical Solutions	6.20		8.34	5.90		7.65		6.20		8.34		30	69	30	69

(a) Other primarily includes the results of our McKesson Canada and McKesson Prescription Technology Solutions businesses. Operating profit (loss) for Other includes equity earnings and charges from investment in Change Healthcare Joint Venture.

NM Computation not meaningful

Refer to the section entitled "Financial Statement Notes" of this presentation.

For more information relating to the Adjusted Earnings (Non-GAAP) and FX-Adjusted (Non-GAAP) definitions, refer to the section entitled "Supplemental Non-GAAP Financial Information" of this presentation.

McKESSON

Financial Statement Notes

McKESSON CORPORATION FINANCIAL STATEMENT NOTES

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- (1) Operating expenses for the nine months ended December 31, 2018 include a gain from an escrow settlement of \$97 million (pre-tax and after-tax) representing certain indemnity and other claims related to our third quarter 2017 acquisition of Rexall Health, within Other. This gain is included under "Other Adjustments, Net" in the reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) provided in Schedule 2B of the accompanying financial statement tables.
- (2) Operating expenses for the nine months ended December 31, 2019 include a pre-tax charge of \$82 million (\$61 million after-tax) recorded in connection with an agreement executed in December 2019 to settle all opioids related claims filed by two Ohio counties, within Corporate. This charge is included under "Other Adjustments, Net" in the reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) provided in Schedule 2B of the accompanying financial statement tables.
- (3) Operating expenses for the three and nine months ended December 31, 2019 includes a charge of \$282 million (pre-tax and after-tax) to remeasure assets and liabilities held for sale to the lower of carrying value or fair value less costs to sell related to the expected contribution of the majority of our German wholesale business to create a joint venture in which McKesson will have a non-controlling interest within our European Pharmaceutical Solutions segment. This charge is included under "Transaction-Related Expenses and Adjustments" in the reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) provided in Schedule 2A and Schedule 2B of the accompanying financial statement tables.
- (4) Operating expenses for the nine months ended December 31, 2018 include non-cash goodwill impairment charges of \$570 million (pre-tax and after-tax) for our European Pharmaceutical Solutions segment. This charge is included under "Other Adjustments, Net" in the reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) provided in the Schedule 2B of the accompanying financial statement tables.
- (5) Operating expenses for the three and nine months ended December 31, 2019 include pre-tax restructuring, impairment and related charges of \$136 million (\$115 million after-tax) and \$204 million (\$167 million after-tax), primarily for our Europe and Canada businesses as well as Corporate. The three and nine months ended December 31, 2018 include pre-tax restructuring, impairment and related charges of \$110 million (\$92 million after-tax) and \$288 million (\$244 million after-tax), primarily for our Canada and Europe businesses as well as Corporate.
- (6) Other income (expense), net for the nine months ended December 31, 2019 includes a pre-tax charge of \$122 million (\$90 million after-tax) representing settlement charges related to our frozen U.S. defined benefit pension plan, within Corporate. These charges are included under "Other Adjustments, Net" in the reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) provided in Schedule 2B of the accompanying financial statement tables.
- (7) Other income (expense), net for the three and nine months ended December 31, 2018 include a pre-tax gain of \$56 million (\$41 million after-tax) recognized from the sale of an equity method investment. This gain is included under "Other Adjustments, Net" in the reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) provided in Schedule 2A and Schedule 2B of the accompanying financial statement tables.

Financial Statement Notes

FINANCIAL STATEMENT NOTES (continued)

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- (8) Equity earnings and charges from investment in Change Healthcare Joint Venture for the nine months ended December 31, 2019 includes a pre-tax charge of \$1,157 million (\$864 million after-tax) representing an other-than-temporary impairment of McKesson's investment in Change Healthcare Joint Venture. This charge is included under "Other Adjustments, Net" in the reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) provided in Schedule 2B of the accompanying financial statement tables within Other.
- (9) Equity earnings and charges from investment in Change Healthcare Joint Venture for the nine months ended December 31, 2019 includes a pre-tax charge of \$246 million (\$184 million after-tax) representing the difference between our proportionate share of the IPO proceeds and the dilution effect on our investment's carrying value. Upon the completion of the IPO by Change Healthcare Inc. in July 2019, McKesson's equity ownership interest in the joint venture diluted from approximately 70% to 58.5%. This charge is included under "Transaction-Related Expenses and Adjustments" in the reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) provided in Schedule 2B of the accompanying financial statement tables within Other.
- (10) Equity earnings and charges from investment in Change Healthcare Joint Venture includes our proportionate share of loss from investment in Change Healthcare Joint Venture within Other. Such amount includes the amortization of equity investment intangibles and other acquired intangibles of \$63 million and \$75 million for the three months ended December 31, 2019 and December 31, 2018 and \$203 million and \$229 million for the nine months ended December 31, 2019 and December 31, 2018.
- (11) Income tax benefit (expense) for the three and the nine months ended December 31, 2019 include net discrete tax benefits of \$21 million recognized in connection with an agreement executed in December 2019 to settle all opioids related claims filed by two Ohio counties. Income tax benefit (expense) for the three and the nine months ended December 31, 2018 include net discrete tax expenses of \$27 million and net discrete tax benefits of \$11 million recognized in connection with the 2017 Tax Act. These discrete tax expenses and benefits are included under "Other Adjustments, Net" in the reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) provided in Schedule 2A and Schedule 2B of the accompanying financial statement tables.

Supplemental Non-GAAP Financial Information

McKESSON CORPORATION SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION

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In an effort to provide investors with additional information regarding the Company's financial results as determined by generally accepted accounting principles ("GAAP"), McKesson Corporation (the "Company" or "we") also presents the following Non-GAAP measures in this presentation. The Company believes the presentation of Non-GAAP measures provides useful supplemental information to investors with regard to its operating performance, as well as assists with the comparison of its past financial performance to the Company's future financial results. Moreover, the Company believes that the presentation of Non-GAAP measures assists investors' ability to compare its financial results to those of other companies in the same industry. However, the Company's Non-GAAP measures used in the press tables may be defined and calculated differently by other companies in the same industry.

- Adjusted Earnings (Non-GAAP): We define Adjusted Earnings as GAAP income from continuing operations attributable to McKesson, excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, last-in, first-out ("LIFO") inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment and related charges, other adjustments as well as the related income tax effects for each of these items, as applicable. The Company evaluates its definition of Adjusted Earnings on a periodic basis and updates the definition from time to time. The evaluation considers both the quantitative and qualitative aspects of the Company's presentation of Adjusted Earnings. A reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) is provided in Schedules 2 and 3 of the financial statement tables included with this presentation.

Amortization of acquisition-related intangibles - Amortization expenses of intangible assets directly related to business combinations and the formation of joint ventures.

Transaction-related expenses and adjustments - Transaction, integration and other expenses that are directly related to business combinations, the formation of joint ventures, divestitures and other transaction-related costs including initial public offering costs. Examples include transaction closing costs, professional service fees, legal fees, severance charges, retention payments and employee relocation expenses, facility or other exit-related expenses, certain fair value adjustments including deferred revenues, contingent consideration and inventory, recoveries of acquisition-related expenses or post-closing expenses, bridge loan fees, and gains or losses on business combinations and divestitures of businesses that do not qualify as discontinued operations.

LIFO inventory-related adjustments - LIFO inventory-related non-cash expense or credit adjustments.

Gains from antitrust legal settlements - Net cash proceeds representing the Company's share of antitrust lawsuit settlements.

Restructuring, impairment and related charges - Restructuring charges that are incurred for programs in which we change our operations, the scope of a business undertaken by our business units, or the manner in which that business is conducted as well as long-lived asset impairments. Such charges may include employee severance, retention bonuses, facility closure or consolidation costs, lease or contract termination costs, asset impairments, accelerated depreciation and amortization, and other related expenses. The restructuring programs may be implemented due to the sale or discontinuation of a product line, reorganization or management structure changes, headcount rationalization, realignment of operations or products, integration of acquired businesses, and/or company-wide cost saving initiatives. The amount and/or frequency of these restructuring charges are not part of our underlying business, which include normal levels of reinvestment in the business. Any credit adjustments due to subsequent changes in estimates are also excluded from Adjusted Earnings.

Other adjustments - The Company evaluates the nature and significance of transactions qualitatively and quantitatively on an individual basis and may include them in the determination of our Adjusted Earnings from time to time. While not all-inclusive, other adjustments may include: adjustments to claim and litigation reserves for estimated probable losses and settlements; other asset impairments; certain discrete benefits and subsequent true-up adjustments related to the December 2017 enactment of the 2017 Tax Cuts and Jobs Act; gains or losses from debt extinguishment; and other similar substantive and/or infrequent items as deemed appropriate. Prior to fiscal 2020,

Supplemental Non-GAAP Financial Information

SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION (continued)

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Income taxes on Adjusted Earnings are calculated in accordance with Accounting Standards Codification ("ASC") 740, "Income Taxes," which is the same accounting principle used by the Company when presenting its GAAP financial results.

Additionally, the Company's investment in Change Healthcare Joint Venture's financial results are adjusted for the above noted items, except for the effect of potentially dilutive securities issued by the joint venture on our adjusted earnings per diluted share.

- **FX-Adjusted (Non-GAAP):** McKesson also presents its financial results on an FX-Adjusted basis. To present our financial results on an FX-Adjusted basis, we convert current year period results of our operations in foreign countries, which are recorded in local currencies, into U.S. dollars by applying the average foreign currency exchange rates of the comparable prior year period. To present Adjusted Earnings per diluted share on an FX-Adjusted basis, we estimate the impact of foreign currency rate fluctuations on the Company's noncontrolling interests and adjusted income tax expense, which may vary from quarter to quarter. The supplemental FX-Adjusted information of the Company's GAAP financial results and Adjusted Earnings (Non-GAAP) is provided in Schedule 3 of the financial statement tables included with this presentation.
- **Free Cash Flow (Non-GAAP):** We define free cash flow as net cash provided by (used in) operating activities less payments for property, plant and equipment and capitalized software expenditures, as disclosed in our condensed consolidated statements of cash flows. For the nine months ended December 31, 2019, free cash flow was \$(618) million, calculated as \$(280) million net cash used in operating activities less \$(242) million in payments for property, plant and equipment and \$(96) million in payments for capitalized software expenditures. For the nine months ended December 31, 2018, free cash flow was \$(264) million, calculated as \$141 million net cash provided by operating activities less \$(309) million in payments for property, plant and equipment and \$(96) million in payments for capitalized software expenditures. We believe free cash flow is important to management and useful to investors as a supplemental measure as it indicates the cash flow available for working capital needs, re-investment opportunities, strategic acquisitions, dividend payments or other strategic uses of cash.

The Company internally uses both GAAP and Non-GAAP financial measures in connection with its own financial planning and reporting processes. Specifically, Adjusted Earnings serves as one of the measures management utilizes when allocating resources, deploying capital and assessing business performance and employee incentive compensation. The Company conducts its businesses internationally in local currencies, including Euro, British pound sterling and Canadian dollars. As a result, the comparability of our results reported in U.S. dollars can be affected by changes in foreign currency exchange rates. We present FX-Adjusted information to provide a framework for assessing how our business performed excluding the estimated effect of foreign currency exchange rate fluctuations. Nonetheless, Non-GAAP financial results and related measures disclosed by the Company should not be considered a substitute for, nor superior to, financial results and measures as determined or calculated in accordance with GAAP.