
McKesson Corporation

Fiscal 2020 Financial Results

Fiscal 2021 Annual Outlook

May 20, 2020



Cautionary Statements

Except for historical information contained in this press release, 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, such as financial performance forecasts, 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: we experience costly and disruptive legal disputes, including legal disputes, government actions and adverse publicity regarding our role in distributing controlled substances such as opioids; we might experience losses not covered by insurance; we are subject to extensive, complex and challenging healthcare, controlled substance, privacy, anti-corruption and other laws; we might record significant charges from impairment to goodwill, intangibles and other assets or investments; we experience cybersecurity incidents and might experience significant computer system compromises or data breaches or other significant problems with information systems or networks, including as an effect of our employees working from remote locations due to the COVID-19 pandemic; we may be unsuccessful in retail pharmacy profitability; we might be harmed by large customer purchase reductions, payment defaults or contract non-renewal; our contracts with government entities involve future funding and compliance risks; we might be harmed by changes in our relationships or contracts with suppliers; we might be unable to successfully recruit and retain qualified employees; we might be adversely impacted by healthcare reform such as changes in pricing and reimbursement models; we might be adversely impacted by competition and industry consolidation; we might be adversely impacted by changes or disruptions in product supply and we may have difficulties in sourcing or selling products due to a variety of causes, such as the effects of the COVID-19 pandemic on supply chains; we might be adversely impacted as a result of our distribution of generic pharmaceuticals; we might be adversely impacted, including as an effect of the COVID-19 pandemic) by an economic slowdown or recession and by disruption in capital and credit markets might impede our access credit, increase our borrowing costs and impair the financial soundness of our customers and suppliers; we might be adversely impacted by tax legislation or challenges to our tax positions, and we might not realize the expected tax treatment from our split-off of Change Healthcare; we might be adversely impacted by fluctuations in foreign currency exchange rates, including volatility due to the COVID-19 pandemic; we might be adversely impacted by events outside of our control, such as widespread public health issues (including the COVID-19 pandemic), natural disasters, political events and other catastrophic events.

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

Strong Finish to FY20; Long-Term Fundamentals Remain Solid

Company Updates

- On March 10, 2020, McKesson completed the separation of its investment in Change Healthcare
- McKesson awarded approximately \$30 million in special one-time bonus payments in the fourth quarter to recognize frontline workers and other non-bonus eligible employees for their contributions
- McKesson invested approximately \$20 million into the McKesson Foundation in the fourth quarter, designating \$5 million for deployment to McKesson's "Taking Care of Our Own Fund" to provide support for employees impacted by the COVID-19 pandemic

Business Summary

- Q4 revenue growth of 12%¹ and full-year revenue growth of 8%¹
- Adjusted Earnings per diluted share of \$4.27 for Q4 and \$14.95 for full-year Fiscal 2020
- Full-year Fiscal 2020 free cash flow of \$3.9 billion
- Returned \$2.2 billion of cash to shareholders during Fiscal 2020
- Fiscal 2021 Adjusted Earnings outlook of \$13.95 to \$14.75 per diluted share

Condensed Consolidated Statement of Earnings

Q4 and Full Year Fiscal 2020 Results

Adjusted Results (\$ in millions, except per share amounts)	Q4 FY 20	YoY Change	Full Year FY 20	YoY Change
Revenues	\$ 58,535	12 %	\$ 231,051	8 %
Gross Profit	\$ 3,200	7 %	\$ 11,746	4 %
Total Operating Expenses	\$ (2,241)	8 %	\$ (8,295)	5 %
Income from Continuing Operations before Interest Expense and Income Taxes	\$ 1,035	1 %	\$ 3,849	2 %
Interest Expense	\$ (65)	(7) %	\$ (249)	(6) %
Income Tax Expense	\$ (168)	(15) %	\$ (664)	6 %
Noncontrolling Interests	\$ (57)	10 %	\$ (220)	- %
Income from Continuing Operations, Net of Tax, Attributable to McKesson	\$ 745	5 %	\$ 2,716	2 %
Earnings per Share (diluted)	\$ 4.27	16 %	\$ 14.95	10 %
Diluted Shares (in millions)	174	(9) %	182	(8) %

U.S. Pharmaceutical and Specialty Solutions

Q4 and Full Year Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q4 FY 20	YoY Change	Full Year FY 20	YoY Change
<u>U.S. Pharmaceutical and Specialty Solutions</u>				
Revenues	\$ 46,274	13 %	\$ 183,341	9 %
Operating Profit	\$ 772	3 %	\$ 2,671	6 %
Operating Margin	1.67%	(17) bp	1.46%	(4) bp

- Q4 revenue growth driven by branded pharmaceutical price increases and higher volumes from retail national account customers, partially offset by branded to generic conversions
- Q4 operating profit growth driven by continued growth in the specialty businesses

European Pharmaceutical Solutions

Q4 and Full Year Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q4 FY 20	YoY Change	Full Year FY 20	YoY Change
<u>European Pharmaceutical Solutions</u>				
Revenues	\$ 7,151	6 %	\$ 27,390	1 %
Operating Profit	\$ 75	226 %	\$ 231	5 %
Operating Margin	1.05%	71 bp	0.84%	4 bp

- Q4 FX-Adjusted revenue of \$7.4 billion, up 9% YoY, driven by growth in the pharmaceutical distribution business
- Q4 FX-Adjusted operating profit of \$78 million, up 239% YoY, driven by expense rationalization and the lapping of a prior year inventory charge of approximately \$20 million

Medical-Surgical Solutions

Q4 and Full Year Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q4 FY 20	YoY Change	Full Year FY 20	YoY Change
<u>Medical-Surgical Solutions</u>				
Revenues	\$ 2,205	13 %	\$ 8,305	9 %
Operating Profit	\$ 170	(1) %	\$ 679	12 %
Operating Margin	7.71%	(109) bp	8.18%	24 bp

- Q4 revenue increase driven by growth in the Primary Care business, largely due to higher pharmaceutical volumes and a stronger influenza season
- Q4 operating profit decline driven primarily by higher operating expenses, including an incremental \$20 million reserve for bad debt, partially offset by growth in the Primary Care business

Other & Corporate

Q4 and Full Year Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q4 FY 20	YoY Change	Full Year FY 20	YoY Change
<u>Other</u>¹				
Revenues	\$ 2,905	3 %	\$ 12,015	3 %
Operating Profit	\$ 242	(6) %	\$ 953	(4) %
Operating Margin	NM	NM	NM	NM
<u>Corporate</u>				
Operating Loss	\$ (224)	25 %	\$ (685)	23 %

- Q4 operating profit year-over-year decline driven by a lower contribution from the company's investment in Change Healthcare, partially offset by growth in the MRxTS business
- Q4 corporate expense growth driven primarily by one-time expenses and higher opioid-related legal fees

¹ Other primarily includes McKesson Canada, McKesson Prescription Technology Solutions (MRxTS) and investment in the Change Healthcare JV

Opioid-Related Costs

Results (\$ in millions)	Q4 FY 20		Q4 FY 19		Full Year FY 20		Full Year FY 19	
<u>Opioid-Related Costs</u>								
Litigation Reserves Adjustment	\$	—	\$	22	\$	82	\$	37
Legal Fees and Other	\$	42	\$	33	\$	150	\$	114
Total Expense	\$	42	\$	55	\$	232	\$	151

Litigation Reserves Adjustment:

- McKesson recorded in Q2 FY20 a pre-tax charge of \$82 million in connection with an agreement reached in principle to settle all claims filed by Cuyahoga and Summit counties of Ohio that was finalized in Q3 FY20

Legal Fees and Other

- Opioid-related costs, primarily litigation expenses, included in adjusted operating expense

Cash

(\$ in millions)

Full Year Cash Balance Walk*

Balance at March 31, 2019	\$	2,981
Operating Cash Flow		4,374
Capital Expenditures		(506)
Free Cash Flow		3,868
Acquisitions		(133)
Other Investing Cash Flows		60
Share Repurchases**		(1,954)
Dividends Paid		(294)
Other Financing Cash Flows and FX		(505)
Net Increase in Cash		1,042
Balance at March 31, 2020	\$	4,023

Cash Dynamics

- Free cash flow of \$3.9 billion
- Returned \$2.2 billion of cash to shareholders
 - Repurchased \$1.9 billion of shares
 - Paid \$294 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 2021 Outlook


On the following slides, McKesson presents an overview of its fiscal 2021 Outlook assumptions. These assumptions consist of certain non-GAAP measures. As outlined in the company's May 20, 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 2021 Outlook

Key Enterprise Assumptions

- We are not assuming that a second wave of COVID-19 returns, leading to shelter at home scenarios precluding patient consumption of healthcare services, supplies and pharmaceutical products
- We are not assuming any systemic customer insolvency events
- We assume unemployment peaks in Q1 FY21, and gradually begins to improve across the remaining quarters of our fiscal year
- We assume physician, specialty provider and oncology visits, and pharmacy interactions will gradually begin to resume in Q2 FY21, and continue to improve in the back-half of the fiscal year
- We expect a positive progression of earnings over the course of FY21
- We assume adjusted income from operations and adjusted earnings per diluted share growth in the second-half of the fiscal year

Fiscal 2021 Outlook

	Fiscal 2021 Outlook	Fiscal 2020 Actual
Revenues	2% to 4% growth	\$231.1 billion
Adjusted Income from Operations ¹	10% to 15% decline (Excluding Change Healthcare Equity Earnings from Prior Year: 5% to 8% decline)	\$3.8 billion (Excluding Change Healthcare Equity Earnings from Prior Year: \$3.6 billion)
Adjusted Effective Tax Rate	18% to 20%	18.4%
Adjusted Earnings per Diluted Share ²	\$13.95 to \$14.75	\$14.95
Diluted Weighted Average Shares Outstanding	161 to 163 million	182 million
Free Cash Flow	\$2.3 to \$2.7 billion	\$3.9 billion
Property Acquisitions and Capitalized Software	\$400 to \$550 million	\$506 million


¹ Reflects continuing operations before Interest Expenses and Income Taxes.

² Reflects continuing operations attributable to McKesson, net of tax.

Note: Percentages represent year-over-year change from reported fiscal 2020 results.

Fiscal 2021 Outlook

Year-over-Year Change

	U.S. Pharmaceutical and Specialty Solutions	European Pharmaceutical Solutions	Medical-Surgical Solutions	Other
Full Year FY21 Revenue	3% to 6% growth	0% to 5% decline	3% to 8% decline	7% to 12% decline
Full Year FY21 Adjusted Operating Profit	0% to 4% decline	20% to 25% decline	10% to 20% decline	27% to 32% decline (Excluding Change Healthcare Equity Earnings from Prior Year: 0% to 5% decline)
Second Half FY21 Adjusted Operating Profit	0% to 3% growth	0% to 2% growth	5% to 15% growth	5% to 10% decline (Excluding Change Healthcare Equity Earnings from Prior Year: >10% growth)



Appendix

Reconciliation of GAAP Amounts to Free Cash Flow

(\$ in millions)	Full Year FY20	Full Year FY19	YoY Change
Major GAAP cash flow categories:			
Operating cash flow	\$ 4,374	\$ 4,036	\$ 338
Investing cash flow	\$ (579)	\$ (1,381)	\$ 802
Financing cash flow	\$ (2,734)	\$ (2,227)	\$ (507)
Free cash flow (non-GAAP measure):			
Operating cash flow	\$ 4,374	\$ 4,036	\$ 338
Capital expenditures for property, plant and equipment and capitalized software	\$ (506)	\$ (557)	\$ 51
Free cash flow	\$ 3,868	\$ 3,479	\$ 389

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

Q4 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 March 31, 2020								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	\$ 3,336	\$ —	\$ 1	\$ (138)	\$ —	\$ 1	\$ —	\$ 3,200	4 %	7 %
Total Operating Expenses ⁽⁵⁾	\$ (2,467)	\$ 119	\$ 15	\$ —	\$ —	\$ 64	\$ 28	\$ (2,241)	(35) %	8 %
Other Income, Net	\$ 27	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (6)	\$ 21	(29) %	(45) %
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture ^{(10) (11)}	\$ 370	\$ 64	\$ (380)	\$ —	\$ —	\$ —	\$ 1	\$ 55	NM	(21) %
Income from Continuing Operations Before Income Taxes	\$ 1,201	\$ 183	\$ (364)	\$ (138)	\$ —	\$ 65	\$ 23	\$ 970	290 %	1 %
Income Tax Expense	\$ (129)	\$ (45)	\$ (8)	\$ 37	\$ —	\$ (16)	\$ (7)	\$ (168)	16 %	(15) %
Income from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(a)	\$ 1,015	\$ 138	\$ (372)	\$ (101)	\$ —	\$ 49	\$ 16	\$ 745	228 %	5 %
Earnings per Diluted Common Share from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(b)	\$ 5.82	\$ 0.79	\$ (2.14)	\$ (0.58)	\$ —	\$ 0.28	\$ 0.10	\$ 4.27 ^(c)	240 %	16 %
Diluted Weighted Average Common Shares	174	174	174	174	174	174	174	174	(9) %	(9) %

Note: Please see footnote information on the following slide.

McKESSON

GAAP to Non-GAAP Reconciliation

Q4 Fiscal 2019

Three Months Ended March 31, 2019

Schedule 2A (Continued)

	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	\$ 3,201	\$ —	\$ —	\$ (146)	\$ (63)	\$ 4	\$ —	\$ 2,996
Total Operating Expenses ^{(4) (5)}	\$ (3,770)	\$ 121	\$ 34	\$ —	\$ —	\$ 309	\$ 1,228	\$ (2,078)
Other Income, Net	\$ 38	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 38
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture ⁽¹⁰⁾	\$ (32)	\$ 75	\$ 27	\$ —	\$ —	\$ —	\$ —	\$ 70
Income (Loss) from Continuing Operations Before Income Taxes	\$ (633)	\$ 196	\$ 61	\$ (146)	\$ (63)	\$ 313	\$ 1,228	\$ 956
Income Tax Expense ⁽¹²⁾	\$ (111)	\$ (47)	\$ (15)	\$ 37	\$ 16	\$ (58)	\$ (19)	\$ (197)
Income (Loss) from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(a)	\$ (796)	\$ 149	\$ 46	\$ (109)	\$ (47)	\$ 255	\$ 1,209	\$ 707
Earnings (Loss) per Diluted Common Share from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^{(b) (d)}	\$ (4.17)	\$ 0.78	\$ 0.24	\$ (0.56)	\$ (0.24)	\$ 1.33	\$ 6.30	\$ 3.69
Diluted Weighted Average Common Shares	191	192	192	192	192	192	192	192

(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 three months ended March 31, 2020 was \$4.29, which excludes the foreign currency exchange effect of \$0.02.

(d) We calculate GAAP net loss per diluted share for the three months ended March 31, 2019 using a weighted average of 191 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 three months ended March 31, 2019 on a fully diluted basis, using a weighted average of 192 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.

GAAP to Non-GAAP Reconciliation

Full Year Fiscal 2020

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

Schedule 2B

	Year Ended March 31, 2020								Change Vs. Prior Year	
	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	\$ 12,023	\$ —	\$ 1	\$ (252)	\$ (22)	\$ (4)	\$ —	\$ 11,746	2 %	4 %
Total Operating Expenses ^{(2) (3) (5)}	\$ (9,534)	\$ 462	\$ 372	\$ —	\$ —	\$ 268	\$ 137	\$ (8,295)	(12) %	5 %
Other Income, Net ⁽⁶⁾	\$ 12	\$ 1	\$ 5	\$ —	\$ —	\$ —	\$ 127	\$ 145	(93) %	14 %
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture ^{(8) (9) (10) (11)}	\$ (1,108)	\$ 267	\$ (75)	\$ —	\$ —	\$ —	\$ 1,169	\$ 253	471 %	5 %
Income from Continuing Operations Before Income Taxes	\$ 1,144	\$ 730	\$ 303	\$ (252)	\$ (22)	\$ 264	\$ 1,433	\$ 3,600	88 %	2 %
Income Tax Expense ⁽¹²⁾	\$ (18)	\$ (175)	\$ (125)	\$ 66	\$ 6	\$ (52)	\$ (366)	\$ (664)	(95) %	6 %
Income from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(a)	\$ 906	\$ 555	\$ 178	\$ (186)	\$ (16)	\$ 212	\$ 1,067	\$ 2,716	NM	2 %
Earnings Per Diluted Common Share from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(b)	\$ 4.99	\$ 3.06	\$ 0.98	\$ (1.03)	\$ (0.09)	\$ 1.16	\$ 5.88	\$ 14.95 ^(c)	NM	10 %
Diluted Weighted Average Common Shares	182	182	182	182	182	182	182	182	(8) %	(8) %

Note: Please see footnote information on the following slide.

GAAP to Non-GAAP Reconciliation

Full Year Fiscal 2019

Schedule 2B
(Continued)

Year Ended March 31, 2019

	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	\$ 11,754	\$ —	\$ 1	\$ (210)	\$ (202)	\$ 4	\$ —	\$ 11,347
Total Operating Expenses ^{(1) (4) (5)}	\$ (10,868)	\$ 485	\$ 118	\$ —	\$ —	\$ 597	\$ 1,736	\$ (7,932)
Other Income, Net ⁽⁷⁾	\$ 182	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ (56)	\$ 127
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture ⁽¹⁰⁾	\$ (194)	\$ 304	\$ 126	\$ —	\$ —	\$ —	\$ 6	\$ 242
Income from Continuing Operations Before Income Taxes	\$ 610	\$ 790	\$ 245	\$ (210)	\$ (202)	\$ 601	\$ 1,686	\$ 3,520
Income Tax Expense ⁽¹²⁾	\$ (356)	\$ (195)	\$ (61)	\$ 54	\$ 52	\$ (102)	\$ (17)	\$ (625)
Income from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(a)	\$ 33	\$ 595	\$ 184	\$ (156)	\$ (150)	\$ 499	\$ 1,669	\$ 2,674
Earnings Per Diluted Common Share from Continuing Operations, Net of Tax, Attributable to McKesson Corporation ^(b)	\$ 0.17	\$ 3.02	\$ 0.93	\$ (0.79)	\$ (0.76)	\$ 2.53	\$ 8.47	\$ 13.57
Diluted Weighted Average Common Shares	197	197	197	197	197	197	197	197

(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 year ended March 31, 2020 was \$15.00, which excludes the foreign currency exchange effect of \$0.05.

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.

GAAP to Non-GAAP Reconciliation

Q4 Fiscal 2020 and Q4 Fiscal 2019

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

Schedule 3A

	Three Months Ended March 31,													
	2020			2019			GAAP		Non-GAAP		Change			
	As Reported (GAAP)	Adjustments	As Adjusted (Non-GAAP)	As Reported (GAAP)	Adjustments	As Adjusted (Non-GAAP)	Foreign Currency Effects	FX-Adjusted	Foreign Currency Effects	FX-Adjusted	As Reported (GAAP)	As Adjusted (Non- GAAP)	FX-Adjusted (GAAP)	FX-Adjusted (Non- GAAP)
REVENUES														
U.S. Pharmaceutical and Specialty Solutions	\$ 46,274	\$ —	\$ 46,274	\$ 40,897	\$ —	\$ 40,897	\$ —	\$ 46,274	\$ —	\$ 46,274	13 %	13 %	13 %	13 %
European Pharmaceutical Solutions	7,151	—	7,151	6,757	—	6,757	217	7,368	217	7,368	6	6	9	9
Medical-Surgical Solutions	2,205	—	2,205	1,955	—	1,955	—	2,205	—	2,205	13	13	13	13
Other ^(a)	2,905	—	2,905	2,820	—	2,820	29	2,934	29	2,934	3	3	4	4
Revenues	\$ 58,535	\$ —	\$ 58,535	\$ 52,429	\$ —	\$ 52,429	\$ 246	\$ 58,781	\$ 246	\$ 58,781	12 %	12 %	12 %	12 %
OPERATING PROFIT (LOSS) ⁽⁵⁾														
U.S. Pharmaceutical and Specialty Solutions	\$ 862	\$ (90)	\$ 772	\$ 873	\$ (121)	\$ 752	\$ —	\$ 862	\$ —	\$ 772	(1) %	3 %	(1) %	3 %
European Pharmaceutical Solutions ⁽⁴⁾	36	39	75	(1,454)	1,477	23	—	36	3	78	102	226	102	239
Medical-Surgical Solutions	121	49	170	121	51	172	—	121	—	170	-	(1)	-	(1)
Other ^{(a) (10) (11)}	514	(272)	242	111	147	258	—	514	—	242	363	(6)	363	(6)
Subtotal	1,533	(274)	1,259	(349)	1,554	1,205	—	1,533	3	1,262	539	4	539	5
Corporate Expenses, Net	(267)	43	(224)	(214)	35	(179)	—	(267)	—	(224)	25	25	25	25
Income (Loss) from Continuing Operations Before Interest Expense and Income Taxes	\$ 1,266	\$ (231)	\$ 1,035	\$ (563)	\$ 1,589	\$ 1,026	\$ —	\$ 1,266	\$ 3	\$ 1,038	325 %	1 %	325 %	1 %
OPERATING PROFIT (LOSS) AS A % OF REVENUES														
U.S. Pharmaceutical and Specialty Solutions	1.86 %		1.67 %	2.13 %		1.84 %		1.86 %		1.67 %	(27) bp	(17) bp	(27) bp	(17) bp
European Pharmaceutical Solutions	0.50		1.05	(21.52)		0.34		0.49		1.06	2,202	71	2,201	72
Medical-Surgical Solutions	5.49		7.71	6.19		8.80		5.49		7.71	(70)	(109)	(70)	(109)

(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.

McKESSON

GAAP to Non-GAAP Reconciliation

YTD Fiscal 2020 and YTD Fiscal 2019

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

Schedule 3B

	Year Ended March 31,													
	2020			2019										
	As Reported (GAAP)	Adjustments	As Adjusted (Non-GAAP)	As Reported (GAAP)	Adjustments	As Adjusted (Non-GAAP)	Foreign Currency Effects	FX-Adjusted	Foreign Currency Effects	FX-Adjusted	As Reported (GAAP)	As Adjusted (Non- GAAP)	FX-Adjusted (GAAP)	FX-Adjusted (Non- GAAP)
REVENUES														
U.S. Pharmaceutical and Specialty Solutions	\$ 183,341	\$ —	\$ 183,341	\$ 167,763	\$ —	\$ 167,763	\$ —	\$ 183,341	\$ —	\$ 183,341	9 %	9 %	9 %	9 %
European Pharmaceutical Solutions	27,390	—	27,390	27,242	—	27,242	1,133	28,523	1,133	28,523	1	1	5	5
Medical-Surgical Solutions	8,305	—	8,305	7,618	—	7,618	—	8,305	—	8,305	9	9	9	9
Other ^(a)	12,015	—	12,015	11,696	—	11,696	150	12,165	150	12,165	3	3	4	4
Revenues	\$ 231,051	\$ —	\$ 231,051	\$ 214,319	\$ —	\$ 214,319	\$ 1,283	\$ 232,334	\$ 1,283	\$ 232,334	8 %	8 %	8 %	8 %
OPERATING PROFIT (LOSS) ⁽⁵⁾														
U.S. Pharmaceutical and Specialty Solutions	\$ 2,767	\$ (96)	\$ 2,671	\$ 2,697	\$ (177)	\$ 2,520	\$ —	\$ 2,767	\$ —	\$ 2,671	3 %	6 %	3 %	6 %
European Pharmaceutical Solutions ^{(3) (4)}	(261)	492	231	(1,978)	2,197	219	(3)	(264)	9	240	(87)	5	(87)	10
Medical-Surgical Solutions	499	180	679	455	150	605	—	499	—	679	10	12	10	12
Other ^{(a) (1) (7) (8) (9) (10) (11)}	(595)	1,548	953	394	601	995	3	(592)	4	957	(251)	(4)	(250)	(4)
Subtotal	2,410	2,124	4,534	1,568	2,771	4,339	—	2,410	13	4,547	54	4	54	5
Corporate Expenses, Net ^{(2) (6)}	(1,017)	332	(685)	(694)	139	(555)	(1)	(1,018)	(1)	(686)	47	23	47	24
Income from Continuing Operations Before Interest Expense and Income Taxes	\$ 1,393	\$ 2,456	\$ 3,849	\$ 874	\$ 2,910	\$ 3,784	\$ (1)	\$ 1,392	\$ 12	\$ 3,861	59 %	2 %	59 %	2 %
OPERATING PROFIT (LOSS) AS A % OF REVENUES														
U.S. Pharmaceutical and Specialty Solutions	1.51 %		1.46 %	1.61 %		1.50 %		1.51 %		1.46 %	(10) bp	(4) bp	(10) bp	(4) bp
European Pharmaceutical Solutions	(0.95)		0.84	(7.26)		0.80		(0.93)		0.84	631	4	633	4
Medical-Surgical Solutions	6.01		8.18	5.97		7.94		6.01		8.18	4	24	4	24

(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.

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

1 of 2

- (1) Total operating expenses for the year ended March 31, 2019 includes 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) Total operating expenses for the year ended March 31, 2020 primarily includes 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 Expenses, Net. 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) Total operating expenses for the year ended March 31, 2020 primarily includes charges of \$275 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. These charges are 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.
- (4) Total operating expenses for the three months and year ended March 31, 2019 primarily includes pre-tax non-cash goodwill impairment charges of \$1.21 billion (\$1.19 billion after-tax) and \$1.78 billion (\$1.76 billion after-tax) for our European Pharmaceutical Solutions segment. 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 2A and Schedule 2B of the accompanying financial statement tables.
- (5) Total operating expenses for the three months and year ended March 31, 2020 includes pre-tax restructuring, impairment and related charges of \$64 million (\$48 million after-tax) and \$268 million (\$215 million after-tax), primarily for our Canada and Europe businesses as well as Corporate Expenses, Net. The three months and year ended March 31, 2019 includes pre-tax restructuring, impairment and related charges of \$309 million (\$251 million after-tax) and \$597 million (\$495 million after-tax), primarily for our Canada and Europe businesses as well as Corporate Expenses, Net. These charges are included 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.
- (6) Other income, net for the year ended March 31, 2020 primarily includes pre-tax charges of \$122 million (\$90 million after-tax) representing settlement charges related to our frozen U.S. defined benefit pension plan, within Corporate Expenses, Net. 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, net for the year ended March 31, 2019 includes a pre-tax gain of \$56 million (\$41 million after-tax) recognized from the sale of an equity method investment 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.

Financial Statement Notes

FINANCIAL STATEMENT NOTES (continued)

2 of 2

- (8) Equity earnings and charges from investment in Change Healthcare Joint Venture for the year ended March 31, 2020 primarily includes a pre-tax charge of \$1.16 billion (\$864 million after-tax) representing an other-than-temporary impairment of McKesson's investment in Change Healthcare Joint Venture within Other. 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.
- (9) Equity earnings and charges from investment in Change Healthcare Joint Venture for the year ended March 31, 2020 primarily includes a pre-tax charge of \$246 million (\$184 million after-tax) within Other representing the difference between our proportionate share of the IPO proceeds and the dilution effect on our investment's carrying value. 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.
- (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 \$64 million and \$75 million for the three months ended March 31, 2020 and March 31, 2019 and \$267 million and \$304 million for the year ended March 31, 2020 and March 31, 2019. These charges are included under "Amortization of Acquisition-Related Intangibles" 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.
- (11) Equity earnings and charges from investment in Change Healthcare Joint Venture for the three months and year ended March 31, 2020 includes an estimated gain of \$414 million (pre-tax and after-tax) within Other recognized upon the separation of our investment in Change Healthcare LLC ("Change Healthcare"). The separation was completed on March 10, 2020 and involved a series of transactions, including an exchange offer to split-off our wholly-owned subsidiary PF2 SpinCo, Inc. ("SpinCo") which held all of McKesson's interest in Change Healthcare and a merger of SpinCo with and into Change Healthcare, Inc. ("Change"). McKesson no longer holds an interest in any securities of Change Healthcare or Change following the transactions. After the separation, Change Healthcare is required under an agreement to pay McKesson 85% of the net cash tax savings realized, or so deemed, from the depreciation or amortization allocated to Change by McKesson. The receipt of any payments from this agreement is dependent upon Change benefiting from this depreciation or amortization in future tax return filings, which creates uncertainty such that McKesson accounts for the agreement as a gain contingency. This estimated gain 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.
- (12) Income tax expense for the year ended March 31, 2020 includes 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 expense for the three months and year ended March 31, 2019 includes net discrete tax expenses of \$54 million and net discrete tax benefits of \$424 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

1 of 2

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 press release.

- 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 release.

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, this category also included certain gains or losses from divestitures of businesses that did not qualify as discontinued operations.

Supplemental Non-GAAP Financial Information

SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION (continued)

2 of 2

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 release.
- **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. A reconciliation of McKesson's GAAP financial results to Free Cash Flow (Non-GAAP) is provided in Schedule 6 of the financial statement tables included with this release.

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.

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. 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. 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.