# McKesson Corporation
# Q1 Fiscal 2021 Financial Results

August 3, 2020

## Cautionary Statements

Except for historical information contained in this 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, 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 regarding our role in distributing controlled substances such as opioids; we might experience losses not covered by insurance; we might record significant charges from impairment to goodwill, intangibles and other assets or investments; 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 adversely impacted by healthcare reform such as changes in pricing and reimbursement models; we might be adversely impacted by changes or disruptions in product supply and we have experienced and may experience difficulties in sourcing products due to 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 by an economic slowdown (including the effects we have experienced from the COVID-19 pandemic) or recession and by disruption in capital and credit markets that 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 fluctuations in foreign currency exchange rates; we might be adversely impacted by events outside of our control, such as widespread public health issues (including the effects we have experienced from 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

## Q1 Exceeded Expectations; Raising Full-Year Guidance

### Company Updates

- On July 1, 2020, McKesson announced the realignment of its reportable segments commencing in the second quarter of fiscal 2021
- McKesson appointed Tom Rodgers as Executive Vice President and Chief Strategy and Business Development Officer effective June 5, 2020
- For the fifth year in a row, McKesson was named a 'Best Place to Work' for Disability Inclusion. McKesson earned a top-ranking score of 100 on the 2020 Disability Equality Index® (DEI), a joint initiative of the American Association of People with Disabilities (AAPD) and Disability:IN

### Business Summary

- Q1 revenue of $55.7 billion, flat year-over-year
- Adjusted Earnings per diluted share of $2.77
- Raised Fiscal 2021 Adjusted Earnings per diluted share outlook to $14.70 to $15.50 from $13.95 to $14.75
- Returned $74 million in cash to shareholders in dividend payments
- Board of Directors increased the quarterly dividend to $0.42 per share

# Consolidated Financial Information

## Q1 Fiscal 2021 Results

| **Results**<br>**($ and shares in millions, except per share amounts)** | **Q1 FY 21** | **YoY Change** |
|---|---|---|
| Revenues | $ 55,679 | — % |
| Adjusted Gross Profit | $ 2,649 | (4) % |
| Adjusted Operating Expenses | $ (1,969) | (2) % |
| Adjusted Operating Profit | $ 707 | (24) % |
| Interest expense | $ (60) | 7 % |
| Adjusted Income Tax Expense | $ (144) | (27) % |
| Net income attributable to noncontrolling interests | $ (50) | (7) % |
| Adjusted Earnings | $ 453 | (28) % |
| | | |
| Adjusted Earnings per Diluted Share | $ 2.77 | (16) % |
| Diluted weighted average common shares | 163 | (14) % |



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# U.S. Pharmaceutical and Specialty Solutions
## Q1 Fiscal 2021 Results

| **Results** ($ in millions) | | **Q1 FY 21** | | **YoY Change** | |
|---|---|---|---|---|---|
| **U.S. Pharmaceutical and Specialty Solutions** | | | | | |
| Revenues | $ | 45,062 | | 2 | % |
| Adjusted Segment Operating Profit | $ | 589 | | (2) | % |
| Adjusted Segment Operating Profit Margin | | 1.31 | % | (5) | bp |

- Q1 revenue growth driven by market growth and higher volumes from retail national account customers, partially offset by branded to generic conversions and lower prescription volumes in the quarter
- Q1 Adjusted Segment Operating Profit decline driven by lower prescription volumes, partially offset by growth in the specialty provider business

# European Pharmaceutical Solutions
## Q1 Fiscal 2021 Results

| **Results** ($ in millions) | | **Q1 FY 21** | | **YoY Change** | |
|---|---|---|---|---|---|
| **European Pharmaceutical Solutions** | | | | | |
| Revenues | $ | 6,246 | | (7) | % |
| Adjusted Segment Operating Profit | $ | 35 | | - | % |
| Adjusted Segment Operating Profit Margin | | 0.56 | % | 4 | bp |

- Q1 FX-Adjusted revenue of $6.4 billion, down 4% year-over-year, driven primarily by lower volumes in the pharmaceutical distribution business
- Q1 FX-Adjusted Segment Operating Profit of $36 million, up 3% year-over-year, driven by lower operating expenses, partially offset by lower volumes in the pharmaceutical distribution and retail pharmacy business



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# Medical-Surgical Solutions
## Q1 Fiscal 2021 Results

| Results ($ in millions) | Q1 FY 21 | YoY Change |
|---|---|---|
| **Medical-Surgical Solutions** | | |
| Revenues | $ 1,801 | (5) % |
| Adjusted Segment Operating Profit | $ 124 | (22) % |
| Adjusted Segment Operating Profit Margin | 6.89 % | (147) bp |

- Q1 revenue decline driven by lower primary care patient visits, partially offset by higher volumes of personal protective equipment
- Q1 Adjusted Segment Operating Profit decline driven primarily by lower primary care patient visits



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# Other & Corporate
## Q1 Fiscal 2021 Results

| Results ($ in millions) | Q1 FY 21 | YoY Change |
|---|---|---|
| **Other[1]** | | |
| Revenues | $ 2,570 | (13) % |
| Adjusted Segment Operating Profit | $ 137 | (50) % |
| Adjusted Segment Operating Profit Margin | NM | NM |
| | | |
| **Corporate** | | |
| Adjusted Corporate Expenses | $ (178) | 30 % |

- Q1 Adjusted Segment Operating Profit year-over-year decline driven by the lapping of the prior year contribution of $108 million from the company's now separated investment in Change Healthcare and the negative impact of lower prescription volume trends within the Canadian and MRxTS businesses
- Q1 Adjusted Corporate Expenses year-over-year increase driven primarily by the lapping of a prior year one-time benefit and an increase in opioid-related legal fees



[1] FY21 Other primarily includes McKesson Canada and McKesson Prescription Technology Solutions (MRxTS). FY20 Other primarily includes McKesson Canada, MRxTS and investment in the Change Healthcare JV. We completed the separation from our investment in the Change Healthcare JV during the fourth quarter of FY20.
NM means not meaningful

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# Opioid-Related Costs

| Results<br>($ in millions) | Q1<br>FY 21 | | Q1<br>FY 20 | |
|---|---|---|---|---|
| **Opioid-related costs** | | | | |
| Litigation reserves adjustment | $ | — | $ | — |
| Legal fees and other | $ | 43 | $ | 36 |
| **Total expense** | **$** | **43** | **$** | **36** |

Legal Fees and Other:

- Opioid-related costs, primarily litigation expenses, included in Adjusted Operating Expenses



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# Cash
*($ in millions)*

## YTD Cash Balance Walk*

| | | |
|---|---|---|
| **Balance at March 31, 2020** | **$** | **4,023** |
| Operating cash flow | | (1,062) |
| Capital expenditures | | (117) |
| Free Cash Flow | | (1,179) |
| Acquisitions | | (4) |
| Other investing cash flows | | (9) |
| Dividends paid | | (74) |
| Other financing cash flows and FX | | 107 |
| Net increase in cash | | (1,159) |
| **Balance at June 30, 2020** | **$** | **2,864** |

## Cash Dynamics

- Free Cash Flow of ($1.2) billion
- Paid $74 million in dividends
- Remaining share repurchase authorization of $1.5 billion
- Raised the quarterly dividend to $0.42 per share, payable October 1, 2020

*Cash comprises cash, cash equivalents and restricted cash



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# 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 August 3, 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 a full recovery may take longer than originally contemplated, and may not be linear
- We assume unemployment peaked 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 improve over the remainder of the fiscal year
- We expect a positive progression of Adjusted Operating Profit over the course of FY21
- We assume Adjusted Operating Profit 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** | **High end of 2% to 4% growth**<br>*Previously 2% to 4% growth* | $231.1 billion |
| **Adjusted Operating Profit** | **7% to 10% decline**<br>*Previously 10% to 15% decline* | $3.8 billion |
| **Adjusted Operating Profit (Excluding Change Healthcare)[1]** | **1% to 4% decline**<br>*Previously 5% to 8% decline* | $3.6 billion |
| **Adjusted Effective Tax Rate** | 18% to 20% | 18.4% |
| **Adjusted Earnings per Diluted Share** | **$14.70 to $15.50**<br>*Previously $13.95 to $14.75* | $14.95 |
| **Diluted weighted average common shares** | 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. Represents Adjusted Operating Profit excluding Change Healthcare Equity Earnings from Prior Year.
Note: Percentages represent year-over-year change from reported fiscal 2020 results.



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# 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 | **3% decline to 1% growth**<br>*Previously 0% to 5% decline* | **8% to 12% growth**<br>*Previously 3% to 8% decline* | **5% to 10% decline**<br>*Previously 7% to 12% decline* |
| **Full Year FY21 Adjusted Segment Operating Profit** | **2% decline to 2% growth**<br>*Previously 0% to 4% decline* | **4% to 9% decline**<br>*Previously 20% to 25% decline* | **3% decline to 3% growth**<br>*Previously 10% to 20% decline* | 27% to 32% decline<br>(Excluding Change Healthcare Equity Earnings from Prior Year: 0% to 5% decline) |
| **Second Half FY21 Adjusted Segment Operating Profit** | 0% to 3% growth | **4% to 6% decline**<br>*Previously 0% to 2% growth* | **10% to 15% growth**<br>*Previously 5% to 15% growth* | **10% to 15% decline**<br>*Previously 5% to 10% decline*<br>(Excluding Change Healthcare Equity Earnings from Prior Year: >10% growth) |



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# Appendix

# GAAP to Non-GAAP Reconciliation

## Q1 Fiscal 2021

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

***Schedule 2***

| | Three Months Ended June 30, 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 | As adjusted (Non-GAAP) | | As reported (GAAP) | As adjusted (Non-GAAP) |
| Gross profit | $ 2,700 | $ — | $ — | $ (52) | $ — | $ 1 | $ — | $ 2,649 | | (3) % | (4) % |
| Total operating expenses [1] [2] | $ (2,022) | $ 106 | $ 16 | $ — | $ — | $ 56 | $ (125) | $ (1,969) | | (6) % | (2) % |
| Other income, net | $ 27 | $ — | $ — | $ — | $ — | $ — | $ — | $ 27 | | (27) % | (51) % |
| Equity earnings and charges from investment in Change Healthcare Joint Venture | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | | (100) % | (100) % |
| Income from continuing operations before income taxes | $ 645 | $ 106 | $ 16 | $ (52) | $ — | $ 57 | $ (125) | $ 647 | | 4 % | (26) % |
| Income tax expense | $ (150) | $ (23) | $ (4) | $ 14 | $ — | $ (12) | $ 31 | $ (144) | | 10 % | (27) % |
| Income from continuing operations, net of tax, attributable to McKesson Corporation [a] | $ 445 | $ 83 | $ 12 | $ (38) | $ — | $ 45 | $ (94) | $ 453 | | 4 % | (28) % |
| Earnings per diluted common share from continuing operations, net of tax, attributable to McKesson Corporation [b] | $ 2.72 | $ 0.51 | $ 0.08 | $ (0.24) | $ — | $ 0.27 | $ (0.57) | $ 2.77 | (c) | 20 % | (16) % |
| Diluted weighted average common shares | 163 | 163 | 163 | 163 | 163 | 163 | 163 | 163 | | (14) % | (14) % |

Note: Please see footnote information on the following slide.



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# GAAP to Non-GAAP Reconciliation

## Q1 Fiscal 2020

***Schedule 2***
**(Continued)**

| | Three Months Ended June 30, 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 | As adjusted (Non-GAAP) |
| Gross profit | $ 2,787 | $ — | $ — | $ (15) | $ — | $ (3) | $ — | $ 2,769 |
| Total operating expenses | $ (2,153) | $ 112 | $ 17 | $ — | $ — | $ 23 | $ 2 | $ (1,999) |
| Other income, net [3] | $ 37 | $ — | $ — | $ — | $ — | $ — | $ 18 | $ 55 |
| Equity earnings and charges from investment in Change Healthcare Joint Venture [4] | $ 4 | $ 77 | $ 27 | $ — | $ — | $ — | $ — | $ 108 |
| Income from continuing operations before income taxes | $ 619 | $ 189 | $ 44 | $ (15) | $ — | $ 20 | $ 20 | $ 877 |
| Income tax expense | $ (136) | $ (45) | $ (11) | $ 4 | $ — | $ (5) | $ (5) | $ (198) |
| Income from continuing operations, net of tax, attributable to McKesson Corporation [a] | $ 429 | $ 144 | $ 33 | $ (11) | $ — | $ 15 | $ 15 | $ 625 |
| Earnings per diluted common share from continuing operations, net of tax, attributable to McKesson Corporation [b] | $ 2.27 | $ 0.76 | $ 0.18 | $ (0.06) | $ — | $ 0.08 | $ 0.08 | $ 3.31 |
| Diluted weighted average common shares | 189 | 189 | 189 | 189 | 189 | 189 | 189 | 189 |

(a) Calculated as "Net income attributable to McKesson Corporation" less "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 June 30, 2020 was $2.78, 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 Gross Profit (Non-GAAP), Adjusted Operating Expenses (Non-GAAP), Adjusted Other Income (Non-GAAP), Adjusted Equity Income from Change Healthcare (Non-GAAP), Adjusted Income from Continuing Operations Before Income Taxes (Non-GAAP), Adjusted Income Tax Expense (Non-GAAP), Adjusted Earnings (Non-GAAP), Adjusted Earnings per Diluted Share (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

## Q1 Fiscal 2021 and Q1 Fiscal 2020

*Schedule 3*

**McKESSON CORPORATION**
**RECONCILIATION OF GAAP SEGMENT FINANCIAL RESULTS TO ADJUSTED RESULTS (NON-GAAP)**
**(unaudited)**
**(in millions)**

| | Three Months Ended June 30, 2020 | | | 2019 | | | As reported | | As adjusted | | Change | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As reported (GAAP) | Adjustments | As adjusted (Non-GAAP) | As reported (GAAP) | Adjustments | As adjusted (Non-GAAP) | Foreign currency effects | FX-Adjusted (Non-GAAP) | Foreign currency effects | FX-Adjusted (Non-GAAP) | As reported (GAAP) | As adjusted (Non-GAAP) | As reported FX-Adjusted (Non-GAAP) | As adjusted FX-Adjusted (Non-GAAP) |
| **REVENUES** | | | | | | | | | | | | | | |
| U.S. Pharmaceutical and Specialty Solutions | $ 45,062 | $ — | $ 45,062 | $ 44,165 | $ — | $ 44,165 | $ — | $ 45,062 | $ — | $ 45,062 | 2 % | 2 % | 2 % | 2 % |
| European Pharmaceutical Solutions | 6,246 | — | 6,246 | 6,710 | — | 6,710 | 184 | 6,430 | 184 | 6,430 | (7) | (7) | (4) | (4) |
| Medical-Surgical Solutions | 1,801 | — | 1,801 | 1,903 | — | 1,903 | — | 1,801 | — | 1,801 | (5) | (5) | (5) | (5) |
| Other [(a)] | 2,570 | — | 2,570 | 2,950 | — | 2,950 | 80 | 2,650 | 80 | 2,650 | (13) | (13) | (10) | (10) |
| Revenues | $ 55,679 | $ — | $ 55,679 | $ 55,728 | $ — | $ 55,728 | $ 264 | $ 55,943 | $ 264 | $ 55,943 | — % | — % | — % | — % |
| **OPERATING PROFIT (LOSS) [(2)]** | | | | | | | | | | | | | | |
| U.S. Pharmaceutical and Specialty Solutions | $ 608 | $ (19) | $ 589 | $ 579 | $ 21 | $ 600 | $ — | $ 608 | $ — | $ 589 | 5 % | (2) % | 5 % | (2) % |
| European Pharmaceutical Solutions | (10) | 45 | 35 | 5 | 30 | 35 | (1) | (11) | 1 | 36 | (300) | - | (320) | 3 |
| Medical-Surgical Solutions | 89 | 35 | 124 | 125 | 34 | 159 | — | 89 | — | 124 | (29) | (22) | (29) | (22) |
| Other [(a) (4)] | 98 | 39 | 137 | 141 | 135 | 276 | 2 | 100 | — | 137 | (30) | (50) | (29) | (50) |
| Subtotal | 785 | 100 | 885 | 850 | 220 | 1,070 | 1 | 786 | 1 | 886 | (8) | (17) | (8) | (17) |
| Corporate expenses, net [(1) (3)] | (80) | (98) | (178) | (175) | 38 | (137) | (1) | (81) | — | (178) | (54) | 30 | (54) | 30 |
| Income from continuing operations before interest expense and income taxes | $ 705 | $ 2 | $ 707 | $ 675 | $ 258 | $ 933 | $ — | $ 705 | $ 1 | $ 708 | 4 % | (24) % | 4 % | (24) % |
| **OPERATING PROFIT (LOSS) AS A % OF REVENUES** | | | | | | | | | | | | | | |
| U.S. Pharmaceutical and Specialty Solutions | 1.35 % | | 1.31 % | 1.31 % | | 1.36 % | | 1.35 % | | 1.31 % | 4 bp | (5) bp | 4 bp | (5) bp |
| European Pharmaceutical Solutions | (0.16) | | 0.56 | 0.07 | | 0.52 | | (0.17) | | 0.56 | (23) | 4 | (24) | 4 |
| Medical-Surgical Solutions | 4.94 | | 6.89 | 6.57 | | 8.36 | | 4.94 | | 6.89 | (163) | (147) | (163) | (147) |

(a) Other primarily includes the results of our McKesson Canada and McKesson Prescription Technology Solutions businesses. Operating profit (loss) for Other for the three months ended June 30, 2019 also includes equity earnings and charges from investment in Change Healthcare Joint Venture. We completed the separation from our investment in Change Healthcare Joint Venture during the fourth quarter of fiscal 2020.

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

For more information relating to the Adjusted Segment Operating Profit (Non-GAAP), Adjusted Operating Profit (Non-GAAP), Adjusted Corporate Expenses (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
## Q1 Fiscal 2021 and Q1 Fiscal 2020

***Schedule 6***

**McKESSON CORPORATION**
**RECONCILIATION OF GAAP CASH FLOWS TO FREE CASH FLOW (NON-GAAP)**
**(unaudited)**
**(in millions)**

| | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 | Change |
|---|---|---|---|
| **GAAP CASH FLOW CATEGORIES** | | | |
| Net cash used in operating activities | $ (1,062) | $ (51) | *NM* |
| Net cash used in investing activities | (130) | (129) | *1 %* |
| Net cash provided by (used in) financing activities | 61 | (872) | *107* |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (28) | 18 | *(256)* |
| Net decrease in cash, cash equivalents and restricted cash | $ (1,159) | $ (1,034) | *12 %* |
| | | | |
| **FREE CASH FLOW (NON-GAAP)** | | | |
| Net cash used in operating activities | $ (1,062) | $ (51) | *NM* |
| Payments for property, plant and equipment | (72) | (87) | *(17)%* |
| Capitalized software expenditures | (45) | (24) | *88* |
| Free Cash Flow (Non-GAAP) | $ (1,179) | $ (162) | *628 %* |

NM Computation not meaningful

For more information relating to the Free Cash Flow (Non-GAAP) definition, refer to the section entitled "Supplemental Non-GAAP Financial Information" of this presentation.



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# Financial Statement Notes



**McKESSON CORPORATION**
**FINANCIAL STATEMENT NOTES**

(1) Total operating expenses for the three months ended June 30, 2020 includes a pre-tax net gain of $131 million ($97 million after-tax) related to insurance proceeds received, net of attorneys' fees and expenses awarded to plaintiffs' counsel, in connection with the $175 million settlement of the shareholder derivative action related to our controlled substances monitoring program, within Corporate Expenses, Net. This gain is included under "Other Adjustments, Net" in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

(2) Total operating expenses for the three months ended June 30, 2020 includes pre-tax restructuring, impairment and related charges of $56 million ($44 million after-tax), primarily for Corporate Expenses, Net as well as our Europe and Canada businesses. The three months ended March 31, 2019 includes pre-tax restructuring, impairment and related charges of $23 million ($17 million after-tax), primarily for our Canada and the United Kingdom retail businesses as well as Corporate Expenses, Net. These charges are included in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

(3) Other income, net for the three months ended June 30, 2019 primarily includes pre-tax charges of $17 million ($12 million after-tax) representing settlement charges related to our frozen U.S. defined benefit pension plan, within Corporate Expenses, Net. This charge is included under "Other Adjustments, Net" in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

(4) 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 $77 million for the three months ended June 30, 2019. This charge is included under "Amortization of Acquisition-Related Intangibles" in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.



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# Supplemental Non-GAAP Financial Information



**McKESSON CORPORATION**
**SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION**

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.

- **Adjusted Gross Profit (Non-GAAP):** We define Adjusted Gross Profit as GAAP gross profit, excluding transaction-related expenses and adjustments, last-in, first-out (“LIFO”) inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment and related charges, and other adjustments.

- **Adjusted Operating Expenses (Non-GAAP):** We define Adjusted Operating Expenses as GAAP total operating expenses, excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, restructuring, impairment and related charges, and other adjustments.

- **Adjusted Other Income (Non-GAAP):** We define Adjusted Other Income as GAAP other income, net, excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, and other adjustments.

- **Adjusted Equity Income from Change Healthcare (Non-GAAP):** We define Adjusted Equity Income from Change Healthcare as GAAP equity earnings and charges from investment in Change Healthcare Joint Venture, excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, and other adjustments. We completed the separation from our investment in Change Healthcare Joint Venture during the fourth quarter of fiscal 2020.

- **Adjusted Income from Continuing Operations Before Income Taxes (Non-GAAP):** We define Adjusted Income from Continuing Operations Before Income Taxes as GAAP income from continuing operations before income taxes, excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, LIFO inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment and related charges, and other adjustments.

- **Adjusted Income Tax Expense (Non-GAAP):** We define Adjusted Income Tax Expense as GAAP income tax expense, excluding the income tax effects of amortization of acquisition-related intangibles, transaction-related expenses and adjustments, LIFO inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment and related charges, and other adjustments. Income tax effects 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.

- **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, 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.

- **Adjusted Earnings per Diluted Share (Non-GAAP):** We define Adjusted Earnings per Diluted Share as GAAP earnings per diluted common share from continuing operations attributable to McKesson, excluding per share impacts of amortization of acquisition-related intangibles, transaction-related expenses and adjustments, 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, divided by diluted weighted-average shares outstanding. Adjusted Earnings per Diluted Share was not previously adjusted for the effect of potentially dilutive securities issued by the Change Healthcare Joint Venture.

# Supplemental Non-GAAP Financial Information

**SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION (continued)**



- **Adjusted Segment Operating Profit (Non-GAAP):** We define Adjusted Segment Operating Profit as GAAP segment operating profit, excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, LIFO inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment and related charges, and other adjustments.

- **Adjusted Corporate Expenses (Non-GAAP):** We define Adjusted Corporate Expenses as GAAP corporate expenses, net, excluding transaction-related expenses and adjustments, restructuring, impairment and related charges, and other adjustments.

- **Adjusted Operating Profit (Non-GAAP):** We define Adjusted Operating Profit as GAAP income from continuing operations before interest expense and income taxes, excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, LIFO inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment and related charges, and other adjustments.

The following provides further details regarding the adjustments made to our GAAP financial results to arrive at our Non-GAAP measures as defined above:

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

<u>Transaction-related expenses and adjustments</u> - 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.

<u>LIFO inventory-related adjustments</u> - LIFO inventory-related non-cash expense or credit adjustments.

<u>Gains from antitrust legal settlements</u> - Net cash proceeds representing the Company’s share of antitrust lawsuit settlements.

<u>Restructuring, impairment and related charges</u> - 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 results.

<u>Other adjustments</u> - 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 results 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; gains or losses from debt extinguishment; and other similar substantive and/or infrequent items as deemed appropriate.



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# Supplemental Non-GAAP Financial Information

**SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION (continued)**



The Company evaluates the aforementioned Non-GAAP measures on a periodic basis and updates the definitions from time to time. The evaluation considers both the quantitative and qualitative aspects of the Company's presentation of Non-GAAP adjusted results. A reconciliation of McKesson's GAAP financial results to Non-GAAP financial results is provided in Schedules 2 and 3 of the financial statement tables included with this presentation.

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 results per diluted share.

- **FX-Adjusted (Non-GAAP):** McKesson also presents its GAAP financial results and adjusted results (Non-GAAP) 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 results (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. 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 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.

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 adjusted results and related Non-GAAP 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.