

McKesson Corporation

Q2 Fiscal 2020 Financial Results

October 30, 2019

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, 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 Update

Q2 In Line with Expectations; Reaffirmed Full-Year Guidance

Company Updates

- On October 21, 2019, the company announced an agreement in principle to settle all claims against the company in the first track of the multi-district opioid litigation, related to two Ohio counties
- McKesson published its FY19 Corporate Responsibility Report
- McKesson opened a new distribution center in the Seattle area, an eco-friendly facility featuring the latest in supply chain technology and state-of-the-art automation
- Maria Martinez joined McKesson's Board of Directors as a new independent director effective October 18, 2019

Business Summary

- Revenue growth of 9%¹
- Adjusted Earnings per diluted share of \$3.60, flat year-over-year
 - Excluding prior year benefit of \$0.33 per diluted share, Q2 results per diluted share increased 10%
- Reaffirmed Fiscal 2020 Adjusted Earnings outlook of \$14.00 to \$14.60 per diluted share
- Returned \$1.6 billion of cash to shareholders
 - \$1.4 billion of common stock repurchases
 - \$148 million of dividend payments

Condensed Consolidated Statement of Earnings

Q2 and YTD Fiscal 2020 Results

Adjusted Results (\$ in millions, except per share amounts)	Q2 FY 2020	YoY Change	YTD Q2 FY 2020	YoY Change
Revenues	\$57,616	9%	\$113,344	7%
Gross Profit	\$2,832	2%	\$5,601	2%
Operating Expenses	(\$1,978)	5%	(\$3,977)	3%
Income from Continuing Operations before Interest Expense and Income Taxes	\$923	(6)%	\$1,856	1%
Interest Expense	(\$64)	(3)%	(\$120)	(6)%
Income Tax Expense	(\$145)	(3)%	(\$343)	15%
Noncontrolling Interests	(\$53)	(2)%	(\$107)	(4)%
Net Income Attributable to McKesson	\$661	(7)%	\$1,286	(1)%
Earnings per Share (diluted)	\$3.60	-%	\$6.91	6%
Diluted Shares (in millions)	184	(8)%	186	(7)%

Opioid-Related Costs

Results (\$ in millions)	Q2 FY 2020	Q2 FY 2019	YTD Q2 FY 2020	Full Year FY 2019
Opioid-Related Costs				
Litigation Reserves Adjustment	\$82	-	\$82	\$37
Legal Fees and Other	\$36	\$34	\$72	\$114
Total Expense	\$118	\$34	\$154	\$151

Litigation Reserves Adjustment

- McKesson recorded a pre-tax 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
- GAAP-only operating expense

Legal Fees and Other

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

U.S. Pharmaceutical and Specialty Solutions

Q2 and YTD Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q2 FY 2020	YoY Change	YTD Q2 FY 2020	YoY Change
U.S. Pharmaceutical and Specialty Solutions				
Revenues	\$45,979	10%	\$90,144	9%
Operating Profit	\$641	1%	\$1,241	6%
Operating Margin	1.39%	(14)bps	1.38%	(4)bps

- Q2 revenue growth driven by branded pharmaceutical price increases and increased Caremark volumes, which were largely specialty products, partially offset by branded to generic conversions
- Q2 operating profit growth primarily due to continued growth in the specialty businesses, led by the provider solutions business, partially offset by customer and product mix, which includes the new customer volumes flowing through Caremark

European Pharmaceutical Solutions

Q2 and YTD Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q2 FY 2020	YoY Change	YTD Q2 FY 2020	YoY Change
European Pharmaceutical Solutions				
Revenues	\$6,598	(1)%	\$13,308	(2)%
Operating Profit	\$41	(23)%	\$76	(40)%
Operating Margin	0.62%	(18)bps	0.57%	(37)bps

- Q2 revenue negatively impacted by \$336 million due to foreign currency effects. FX-adjusted revenues of \$6,934 million, up 4% year-over-year, driven by market growth in the pharmaceutical distribution business
- Q2 operating profit down mainly due to continued weakness in the U.K. retail pharmacy environment. FX-adjusted operating profit was \$43 million, down 19%

Medical-Surgical Solutions

Q2 and YTD Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q2 FY 2020	YoY Change	YTD Q2 FY 2020	YoY Change
<u>Medical-Surgical Solutions</u>				
Revenues	\$2,056	6%	\$3,959	8%
Operating Profit	\$166	20%	\$325	24%
Operating Margin	8.07%	99bps	8.21%	101bps

- Q2 revenue increase primarily driven by growth in pharmaceutical volumes within the Primary Care business
- Q2 operating profit growth driven by organic growth and lapping of \$8 million of bad debt expense in the prior year

Other & Corporate

Q2 and YTD Fiscal 2020 Results

Adjusted Results (\$ in millions)	Q2 FY 2020	YoY Change	YTD Q2 FY 2020	YoY Change
Other¹				
Revenues	\$2,983	4%	\$5,933	1%
Operating Profit	\$221	(26)%	\$497	(3)%
Operating Margin	NM	NM	NM	NM
Corporate				
Operating Loss	(\$146)	2%	(\$283)	19%

- Q2 operating profit year-over-year decline driven by the prior year \$90 million contractual liability reversal and lower contribution from the company's investment in Change Healthcare, partially offset by higher transaction volumes in the MRxTS business. Excluding the prior year reversal, Q2 operating profit grew 5% year-over-year
- Year-to-date corporate expense growth primarily driven by planned technology investments and increased opioid-related costs

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

Cash

(\$ in millions)

YTD Cash Balance Walk*

Balance at March 31, 2019	\$	2,981
Operating Cash Flow		(159)
Capital Expenditures		(184)
Free Cash Flow		(343)
Acquisitions		(95)
Other Investing Cash Flows		(6)
Share Repurchases**		(1,452)
Dividends Paid		(148)
Other Financing Cash Flows and FX		419
Net Decrease in Cash		(1,625)
Balance at September 30, 2019	\$	1,356

Cash Dynamics

- Free cash flow of \$(343M)
- Returned \$1.6 billion of cash to shareholders year-to-date
 - Repurchased of \$1.4 billion of shares
 - Paid \$148 million of dividends
- Remaining share repurchase authorization of \$2.0 billion

*Cash comprises cash, cash equivalents and restricted cash

**Includes shares surrendered for tax withholding

FY20 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 October 30, 2019 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 <i>(Previously low to mid-single digit percent growth)</i>	\$214.3 billion
Income from Continuing Operations before Interest Expense and Income Taxes	Flat to low-single digit percent decline	\$3.8 billion
Earnings per Diluted Share	\$14.00 to \$14.60	\$13.57
Free Cash Flow	\$2.8 to \$3.0 billion	\$3.5 billion

Fiscal 2020 Segment Adjusted Earnings Outlook

Year-over-Year Percent Change

	Revenues	Operating Profit
U.S. Pharmaceutical and Specialty Solutions	High-single digit growth <i>(Previously low to mid-single digit growth)</i>	Low to mid-single digit growth
European Pharmaceutical Solutions	Flat to low-single digit decline <i>(Previously low to mid-single digit growth)</i>	Low single-digit growth <i>(Previously low end of low to mid-single digit growth)</i>
Medical-Surgical Solutions	High-single digit growth	High-single to low-double digit growth
Other	Low-single digit growth <i>(Previously flat to low-single digit decline)</i>	Low to mid-single digit decline

Fiscal 2020 Adjusted Earnings Assumptions

(\$ and shares in millions)

	FY20 Outlook
Corporate Expenses	\$695 - \$745 <i>(Previously low end of \$725 - \$775)</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 184 <i>(Previously approximately 185)</i>
Property Acquisitions and Capitalized Software	\$500 - \$700
FX Impact	Net unfavorable up to 5 cents <i>(Previously net neutral impact)</i>

Appendix

Reconciliation of GAAP Amounts to Free Cash Flow

(\$ in millions)	Q2 FY 20	Q2 FY 19	YoY Change
Major GAAP cash flow categories:			
Operating cash flow	\$ (159)	\$ 318	\$ (477)
Investing cash flow	\$ (285)	\$ (983)	\$ 698
Financing cash flow	\$ (1,203)	\$ 198	\$ (1,401)
Free cash flow (non-GAAP measure):			
Operating cash flow	\$ (159)	\$ 318	\$ (477)
Capital expenditures for property, plant and equipment and capitalized software	\$ (184)	\$ (248)	\$ 64
Free cash flow	\$ (343)	\$ 70	\$ (413)

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 U.S. 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 meaningful to investors and the Company uses this measure as an indication of the strength of the Company and its ability to generate cash.

GAAP to Non-GAAP Reconciliation

Q2 Fiscal 2020

Schedule 2A

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

	Quarter Ended September 30, 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	\$ 2,867	\$ -	\$ -	\$ (33)	\$ -	\$ (2)	\$ -	\$ 2,832		2%	2%
Operating expenses ^{(2) (4)}	\$ (2,241)	\$ 118	\$ 16	\$ -	\$ -	\$ 45	\$ 84	\$ (1,978)		6%	5%
Other income (expense), net ⁽⁵⁾	\$ (78)	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ 105	\$ 30		(490)%	50%
Equity earnings and charges from investment in Change Healthcare Joint Venture ^{(6) (7) (8)}	\$ (1,454)	\$ 63	\$ 263	\$ -	\$ -	\$ -	\$ 1,167	\$ 39		NM	(30)%
Income (loss) from continuing operations before income taxes	\$ (970)	\$ 181	\$ 282	\$ (33)	\$ -	\$ 43	\$ 1,356	\$ 859		(265)%	(6)%
Income tax benefit (expense)	\$ 294	\$ (42)	\$ (72)	\$ 8	\$ -	\$ (10)	\$ (323)	\$ (145)		(940)%	(3)%
Income (loss) from continuing operations, net of tax, attributable to McKesson Corporation	\$ (729)	\$ 139	\$ 210	\$ (25)	\$ -	\$ 33	\$ 1,033	\$ 661		(246)%	(7)%
Earnings (loss) per diluted common share from continuing operations, net of tax, attributable to McKesson Corporation ^{(a) (b)}	\$ (3.99)	\$ 0.76	\$ 1.14	\$ (0.14)	\$ -	\$ 0.18	\$ 5.62	\$ 3.60 ^(c)		(259)%	-%
Diluted weighted average common shares	183	184	184	184	184	184	184	184		(8)%	(8)%

Note: Please see footnote information on the following slide.

GAAP to Non-GAAP Reconciliation

Q2 Fiscal 2019

Schedule 2A
(Continued)

	Quarter Ended September 30, 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	\$ 2,804	\$ -	\$ -	\$ (22)	\$ -	\$ -	\$ -	\$ 2,782
Operating expenses ⁽⁴⁾	\$ (2,115)	\$ 121	\$ 37	\$ -	\$ -	\$ 82	\$ -	\$ (1,875)
Other income, net	\$ 20	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20
Equity earnings and charges from investment in Change Healthcare Joint Venture ⁽⁸⁾	\$ (56)	\$ 77	\$ 34	\$ -	\$ -	\$ -	\$ 1	\$ 56
Income from continuing operations before income taxes	\$ 587	\$ 198	\$ 71	\$ (22)	\$ -	\$ 82	\$ 1	\$ 917
Income tax expense	\$ (35)	\$ (48)	\$ (17)	\$ 5	\$ -	\$ (15)	\$ (39)	\$ (149)
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 498	\$ 150	\$ 54	\$ (17)	\$ -	\$ 67	\$ (38)	\$ 714
Earnings per diluted common share from continuing operations, net of tax, attributable to McKesson Corporation ^(a)	\$ 2.51	\$ 0.75	\$ 0.27	\$ (0.08)	\$ -	\$ 0.34	\$ (0.19)	\$ 3.60
Diluted weighted average common shares	199	199	199	199	199	199	199	199

^(a) Certain computations may reflect rounding adjustments.

^(b) We calculate GAAP net loss per diluted share for the second quarter of fiscal 2020 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 second quarter of fiscal 2020 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.

^(c) Adjusted Earnings per diluted share on an FX-Adjusted basis for the second quarter of fiscal 2020 was \$3.60.

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

YTD Fiscal 2020

Schedule 2B

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

	Six Months Ended September 30, 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	\$ 5,654	\$ -	\$ -	\$ (48)	\$ -	\$ (5)	\$ -	\$ 5,601		1%	2%
Operating expenses ^{(2) (4)}	\$ (4,394)	\$ 230	\$ 33	\$ -	\$ -	\$ 68	\$ 86	\$ (3,977)		(9)%	3%
Other income (expense), net ⁽⁵⁾	\$ (41)	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ 123	\$ 85		(168)%	39%
Equity earnings and charges from investment in Change Healthcare Joint Venture ^{(6) (7) (8)}	\$ (1,450)	\$ 140	\$ 290	\$ -	\$ -	\$ -	\$ 1,167	\$ 147		NM	23%
Income (loss) from continuing operations before income taxes	\$ (351)	\$ 370	\$ 326	\$ (48)	\$ -	\$ 63	\$ 1,376	\$ 1,736		(159)%	1%
Income tax benefit (expense)	\$ 158	\$ (87)	\$ (83)	\$ 12	\$ -	\$ (15)	\$ (328)	\$ (343)		(230)%	15%
Income (loss) from continuing operations, net of tax, attributable to McKesson Corporation	\$ (300)	\$ 283	\$ 243	\$ (36)	\$ -	\$ 48	\$ 1,048	\$ 1,286		(184)%	(1)%
Earnings (loss) per diluted common share from continuing operations, net of tax, attributable to McKesson Corporation ^{(a) (b)}	\$ (1.62)	\$ 1.52	\$ 1.31	\$ (0.19)	\$ -	\$ 0.26	\$ 5.63	\$ 6.91 ^(c)		(191)%	6%
Diluted weighted average common shares	185	186	186	186	186	186	186	186		(8)%	(7)%

Note: Please see footnote information on the following slide.

GAAP to Non-GAAP Reconciliation

YTD Fiscal 2019

Schedule 2B
(Continued)

Six Months Ended September 30, 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	\$ 5,583	\$ -	\$ 1	\$ (43)	\$ (35)	\$ -	\$ -	\$ 5,506	
Operating expenses ^{(1) (3) (4)}	\$ (4,811)	\$ 242	\$ 57	\$ -	\$ -	\$ 178	\$ 487	\$ (3,847)	
Other income, net	\$ 60	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61	
Equity earnings and charges from investment in Change Healthcare Joint Venture ⁽⁸⁾	\$ (112)	\$ 154	\$ 74	\$ -	\$ -	\$ -	\$ 4	\$ 120	
Income from continuing operations before income taxes	\$ 593	\$ 397	\$ 132	\$ (43)	\$ (35)	\$ 178	\$ 491	\$ 1,713	
Income tax expense	\$ (122)	\$ (98)	\$ (33)	\$ 11	\$ 9	\$ (26)	\$ (39)	\$ (298)	
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 359	\$ 299	\$ 99	\$ (32)	\$ (26)	\$ 152	\$ 452	\$ 1,303	
Earnings per diluted common share from continuing operations, net of tax, attributable to McKesson Corporation ^(a)	\$ 1.79	\$ 1.49	\$ 0.49	\$ (0.16)	\$ (0.13)	\$ 0.76	\$ 2.26	\$ 6.50	
Diluted weighted average common shares	201	201	201	201	201	201	201	201	

^(a) Certain computations may reflect rounding adjustments.

^(b) We calculate GAAP net loss per diluted share for fiscal 2020 using a weighted average of 185 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 fiscal 2020 on a fully diluted basis, using a weighted average of 186 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.

^(c) Adjusted Earnings per diluted share on an FX-Adjusted basis for fiscal 2020 was \$6.92, which excludes the foreign currency exchange effect of \$0.01.

NM Computation not meaningful

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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

Q2 Fiscal 2020 and Q2 Fiscal 2019

Schedule 3A

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

	Quarter Ended September 30, 2019			Quarter Ended September 30, 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	\$ 45,979	\$ -	\$ 45,979	\$ 41,610	\$ -	\$ 41,610	\$ -	\$ 45,979	\$ -	\$ 45,979	10 %	10 %	10 %	10 %
European Pharmaceutical Solutions	6,598	-	6,598	6,639	-	6,639	336	6,934	336	6,934	(1)	(1)	4	4
Medical-Surgical Solutions	2,056	-	2,056	1,948	-	1,948	-	2,056	-	2,056	6	6	6	6
Other ^(a)	2,983	-	2,983	2,878	-	2,878	30	3,013	30	3,013	4	4	5	5
Revenues	\$ 57,616	\$ -	\$ 57,616	\$ 53,075	\$ -	\$ 53,075	\$ 366	\$ 57,982	\$ 366	\$ 57,982	9 %	9 %	9 %	9 %
OPERATING PROFIT (LOSS) ⁽⁴⁾														
U.S. Pharmaceutical and Specialty Solutions	\$ 639	\$ 2	\$ 641	\$ 610	\$ 25	\$ 635	\$ -	\$ 639	\$ -	\$ 641	5 %	1 %	5 %	1 %
European Pharmaceutical Solutions	1	40	41	10	43	53	(1)	-	2	43	(90)	(23)	(100)	(19)
Medical-Surgical Solutions	129	37	166	105	33	138	-	129	-	166	23	20	23	20
Other ^{(a) (6) (7) (8)}	(1,311)	1,532	221	95	205	300	1	(1,310)	-	221	NM	(26)	NM	(26)
Operating profit (loss)	(542)	1,611	1,069	820	306	1,126	-	(542)	2	1,071	(166)	(5)	(166)	(5)
Corporate ^{(2) (5)}	(364)	218	(146)	(167)	24	(143)	-	(364)	-	(146)	118	2	118	2
Income (loss) from continuing operations before interest expense and income taxes	\$ (906)	\$ 1,829	\$ 923	\$ 653	\$ 330	\$ 983	\$ -	\$ (906)	\$ 2	\$ 925	(239) %	(6) %	(239) %	(6) %
OPERATING PROFIT AS A % OF REVENUES														
U.S. Pharmaceutical and Specialty Solutions	1.39 %		1.39 %	1.47 %		1.53 %		1.39 %		1.39 %	(8) bp	(14) bp	(8) bp	(14) bp
European Pharmaceutical Solutions	0.02		0.62	0.15		0.80		-		0.62	(13)	(18)	(15)	(18)
Medical-Surgical Solutions	6.27		8.07	5.39		7.08		6.27		8.07	88	99	88	99

^(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.

GAAP to Non-GAAP Reconciliation

YTD Fiscal 2020 and YTD Fiscal 2019

Schedule 3B

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

	Six Months Ended September 30, 2019			Six Months Ended September 30, 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	\$ 90,144	\$ -	\$ 90,144	\$ 82,587	\$ -	\$ 82,587	\$ -	\$ 90,144	\$ -	\$ 90,144	9 %	9 %	9 %	9 %
European Pharmaceutical Solutions	13,308	-	13,308	13,574	-	13,574	748	14,056	748	14,056	(2)	(2)	4	4
Medical-Surgical Solutions	3,959	-	3,959	3,651	-	3,651	-	3,959	-	3,959	8	8	8	8
Other ^(a)	5,933	-	5,933	5,870	-	5,870	128	6,061	128	6,061	1	1	3	3
Revenues	\$ 113,344	\$ -	\$ 113,344	\$ 105,682	\$ -	\$ 105,682	\$ 876	\$ 114,220	\$ 876	\$ 114,220	7 %	7 %	8 %	8 %
OPERATING PROFIT ⁽⁴⁾														
U.S. Pharmaceutical and Specialty Solutions	\$ 1,218	\$ 23	\$ 1,241	\$ 1,153	\$ 22	\$ 1,175	\$ -	\$ 1,218	\$ -	\$ 1,241	6 %	6 %	6 %	6 %
European Pharmaceutical Solutions ⁽³⁾	6	70	76	(550)	677	127	-	6	4	80	101	(40)	101	(37)
Medical-Surgical Solutions	254	71	325	198	65	263	-	254	-	325	28	24	28	24
Other ^{(a) (1) (6) (7) (8)}	(1,170)	1,667	497	209	304	513	1	(1,169)	3	500	(660)	(3)	(659)	(3)
Operating profit	308	1,831	2,139	1,010	1,068	2,078	1	309	7	2,146	(70)	3	(69)	3
Corporate ^{(2) (5)}	(539)	256	(283)	(290)	52	(238)	-	(539)	(1)	(284)	86	19	86	19
Income (loss) from continuing operations before interest expense and income taxes	\$ (231)	\$ 2,087	\$ 1,856	\$ 720	\$ 1,120	\$ 1,840	\$ 1	\$ (230)	\$ 6	\$ 1,862	(132) %	1 %	(132) %	1 %
OPERATING PROFIT (LOSS) AS A % OF REVENUES														
U.S. Pharmaceutical and Specialty Solutions	1.35 %		1.38 %	1.40 %		1.42 %		1.35 %		1.38 %	(5) bp	(4) bp	(5) bp	(4) bp
European Pharmaceutical Solutions	0.05		0.57	(4.05)		0.94		0.04		0.57	410	(37)	409	(37)
Medical-Surgical Solutions	6.42		8.21	5.42		7.20		6.42		8.21	100	101	100	101

^(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.

Financial Statement Notes

McKESSON CORPORATION FINANCIAL STATEMENT NOTES

- (1) Operating expenses for the first half of fiscal 2019 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 the Schedule 2 of the accompanying financial statement tables.
- (2) Operating expenses for the second quarter and first half of fiscal 2020 include a charge of \$82 million (pre-tax and after-tax) recorded in connection with an agreement reached in principle to settle all opioids related claims filed by two Ohio counties, 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 the Schedule 2 of the accompanying financial statement tables.
- (3) Operating expenses for the first half of fiscal 2019 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 2 of the accompanying financial statement tables.
- (4) Operating expenses for the second quarter and first half of fiscal 2020 include pre-tax restructuring, impairment and related charges of \$45 million (\$35 million after-tax) and \$68 million (\$52 million after-tax), primarily for our Europe business and Corporate. The second quarter and first half of fiscal 2019 include pre-tax restructuring, impairment and related charges of \$82 million (\$67 million after-tax) and \$178 million (\$152 million after-tax), primarily for our Canada and Europe businesses and Corporate.
- (5) Other income (expense) for the second quarter and first half of fiscal 2020 includes a pre-tax charge of \$105 million (\$78 million after-tax) and \$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 the Schedule 2 of the accompanying financial statement tables.
- (6) Equity earnings and charges from investment in Change Healthcare Joint Venture for the second quarter and first half of fiscal 2020 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 the Schedule 2 of the accompanying financial statement tables within Other.
- (7) Equity earnings and charges from investment in Change Healthcare Joint Venture for the second quarter and first half of fiscal 2020 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 the Schedule 2 of the accompanying financial statement tables within Other.
- (8) 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 \$77 million for the second quarters of fiscal 2020 and 2019 and \$140 million and \$154 million for the first half of fiscals 2020 and 2019.

Supplemental Non-GAAP Financial Information

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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 press 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.

- 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.

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.

Supplemental Non-GAAP Financial Information

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SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION (continued)

- **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.

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.