

McKesson Corporation

Q1 Fiscal 2019 Financial Performance

Financial Results and Company Highlights

July 26, 2018

Forward-Looking Statements

Some of the information in this presentation is not historical in nature and may constitute forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking 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 or intentions may also include forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied by such statements. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, those described in the Company’s annual, quarterly and current reports (i.e., Form 10-K, Form 10-Q and Form 8-K) as filed or furnished with the Securities and Exchange Commission (SEC). You are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date such statements were first made. To the degree financial information is included in this presentation, it is in summary form only and must be considered in the context of the full details provided in the Company’s most recent annual, quarterly or current report as filed or furnished with the SEC. The Company’s SEC reports are available at www.mckesson.com under the “Investors” tab. Except to the extent required by law, the Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated 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 core 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 tables accompanying each period’s earnings press release, materials furnished to the SEC, and posted to www.mckesson.com under the “Investors” tab.

Opening Remarks

John Hammergren
Chairman and Chief Executive Officer

Q1 Fiscal 2019 Highlights

Quarter In Line With Expectations; Reaffirming Full-Year Guidance

Company Updates

- New segment reporting effective Q1 FY19, improving transparency
- Launched multi-year strategic growth initiative
 - Executing on Growth initiatives
 - Manufacturer Value Proposition
 - Specialty Pharmaceuticals
 - Role of Retail Pharmacy
 - Data and Analytics
 - Delivering on Operating structure and cost out initiatives
 - Finance
 - Information Technology
 - Human Resources
- Acquisition of Medical Specialties Distributors

Business Summary

- Revenue growth of 2% in constant currency
- Adjusted EPS of \$2.90, reflecting a lower tax rate and share count, and growth in USPSS
 - Reaffirming Fiscal 2019 Adjusted Earnings outlook of \$13.00 – \$13.80 per diluted share
- Europe remains under pressure driven primarily by U.K. government reimbursement actions announced June 29, 2018
 - Goodwill impairment charge of \$570M
- Free Cash Flows of (\$1.2B), in line with expectations
- Balanced capital deployment of \$1.2B in Q1
- Raised the quarterly dividend 15% to \$0.39

Financial Overview

Britt Vitalone

Executive Vice President and Chief Financial Officer

Q1 Fiscal 2019

GAAP to Adjusted Earnings Per Diluted Share Reconciliation*

GAAP Loss Per Diluted Share **(\$0.69)**

Adjustments

Amortization of acquisition-related intangibles	0.74
Acquisition-related expenses and adjustments	0.22
LIFO inventory-related adjustments	(0.07)
Gains from antitrust legal settlements	(0.13)
Restructuring and asset impairment charges, net	0.42
Other adjustments, net	<u>2.41</u>

Adjusted Earnings Per Diluted Share **\$2.90**

*GAAP loss per diluted share is calculated using a weighted average of 202 million common shares and excludes dilutive securities from the denominator due to their antidilutive effects. Potentially dilutive securities were excluded from the Q1 fiscal 2019 GAAP per share computations due to our reported net loss for the Q1 fiscal 2019. Adjusted earnings per diluted share and GAAP to Non-GAAP adjustments, are calculated using a weighted average of 203 million common shares and includes dilutive securities.

Q1 Fiscal 2019 Impairment Charge

- The company recognized a non-cash after-tax goodwill impairment charge of \$570 million in McKesson's European Pharmaceutical Solutions segment
- Charges primarily triggered by recently announced U.K. government reimbursement reductions, as well as new segment reporting implemented during the quarter

Condensed Consolidated Statement of Earnings

Q1 Fiscal 2019

Adjusted Results* (\$ in millions, except per share amounts)	Q1 FY 2019	YoY Change	Constant Currency	YoY Change
Revenues	\$52,607	3%	\$52,009	2%
Gross Profit	\$2,724	5%	\$2,657	3%
Operating Expense	(\$1,972)	9%	(\$1,917)	6%
Income from Operations before Interest Expense and Taxes	\$857	-	\$844	(2)%
Interest Expense	(\$61)	(10)%		
Income Tax Expense	(\$149)	(29)%		
Noncontrolling Interest	(\$58)	4%		
Net Income Attributable to McKesson	\$589	13%		
Earnings per Share (diluted)	\$2.90	18%		
Diluted Shares (in millions)	203	(5)%		

*See Tables in the Appendix for GAAP to Non-GAAP reconciliations

Segment Results: U.S. Pharmaceutical and Specialty Solutions

Q1 Fiscal 2019

Adjusted Results* (\$ in millions)	Q1 FY 2019	YoY Change	Constant Currency	YoY Change
U.S. Pharmaceutical and Specialty Solutions				
Revenues	\$40,977	2%	NM	NM
Operating Profit	\$540	2%	NM	NM
Operating Margin	1.32%	1bp	NM	NM

*See Tables in the Appendix for GAAP to Non-GAAP reconciliations

Segment Results: European Pharmaceutical Solutions

Q1 Fiscal 2019

Adjusted Results* (\$ in millions)	Q1 FY 2019	YoY Change	Constant Currency	YoY Change
European Pharmaceutical Solutions				
Revenues	\$6,935	9%	\$6,448	1%
Operating Profit	\$74	(12)%	\$69	(18)%
Operating Margin	1.07%	(25)bps	1.07%	(25)bps

*See Tables in the Appendix for GAAP to Non-GAAP reconciliations

Segment Results: Medical-Surgical Solutions

Q1 Fiscal 2019

Adjusted Results* (\$ in millions)	Q1 FY 2019	YoY Change	Constant Currency	YoY Change
Medical-Surgical Solutions				
Revenues	\$1,703	11%	NM	NM
Operating Profit	\$125	-	NM	NM
Operating Margin	7.34%	(81)bps	NM	NM

*See Tables in the Appendix for GAAP to Non-GAAP reconciliations

Segment Results: Other & Corporate

Q1 Fiscal 2019

Adjusted Results* (\$ in millions)	Q1 FY 2019	YoY Change	Constant Currency	YoY Change
Other				
Revenues	\$2,992	5%	\$2,881	1%
Operating Profit	\$213	(8)%	\$204	(12)%
Corporate				
Operating Loss	(\$95)	(15)%	(\$94)	(16)%

*See Tables in the Appendix for GAAP to Non-GAAP reconciliations

Cash

Cash Balance Walk*

(\$ in millions)

Balance at March 31, 2018	\$	2,672
Other Operating Cash Flows		435
Working Capital, Net**		(1,496)
Cash Used In Operations		(1,061)
Capital Expenditures		(145)
Free Cash Flow		(1,206)
Acquisitions		(826)
Other Investing Cash Flows		96
Share Repurchases, Net		(307)
Net Short-Term Borrowings		2,031
Other Financing Cash Flows and FX		(261)
Net Decrease in Cash		(473)
Balance at June 30, 2018	\$	2,199

Cash Dynamics

- Working capital:
 - Days sales outstanding was flat at 26 days
 - Days sales in inventory increased 1 day YoY to 30 days
 - Days payables outstanding decreased 1 day YoY to 58 days
- Acquisitions: Medical Specialties Distributors closed 6/1/18
- Share repurchase program: remaining repurchase authorization of \$4.8 billion
- Liability management: utilization of commercial paper of \$2.0 billion

*Cash comprises cash, cash equivalents and restricted cash

**Working Capital, Net is defined as changes in operating assets and liabilities for Receivables, Inventories and Drafts and Accounts Payable, net of acquisitions

FY19 Outlook

On the following slides, McKesson presents an overview of its Fiscal 2019 Outlook assumptions. These assumptions consist of certain non-GAAP measures. 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 2019 Adjusted Earnings Outlook

	Fiscal 2019 Outlook	Fiscal 2018 Actual
Revenues	Up mid-single digit percent growth	\$208.4 billion
Income from Continuing Operations before Interest Expense and Income Taxes	Down slightly to up mid-single digit percent growth	\$3.9 billion
Diluted Earnings per Share	\$13.00 to \$13.80	\$12.62
Free Cash Flow	~\$3 billion	\$3.8 billion

Fiscal 2019 Segment Adjusted Earnings Outlook

Year-over-Year Percent Growth

	Revenues	Operating Profit
U.S. Pharmaceutical and Specialty Solutions	Up low- to mid-single digit	Flat to down mid-single digit
European Pharmaceutical Solutions	Flat to up mid-single digit	Lower end of range of flat to up mid-single digit
Medical-Surgical Solutions	Up low-double digit	Up mid- to high-single digit
Other	Up low-single digit	Flat

Fiscal 2019 Adjusted Earnings Assumptions

(\$ and shares in millions)

FY19 Outlook	
Corporate Expenses	Down low-double digit percent growth year over year
Income From Equity Method Investment in Change Healthcare	Up low- to mid-single digit percent growth year over year
Interest Expense	Decline year over year
Effective Tax Rate	21% - 23%
Net Income Attributable to Noncontrolling Interest	Decline year over year
Diluted Weighted Average Shares Outstanding	Approximately 200
Property Acquisitions and Capitalized Software	\$600 - \$800
FX Impact	Net favorable impact of up to 10 cents per diluted share year over year

Appendix

GAAP to Non-GAAP Reconciliation

Q1 Fiscal 2019

Schedule 2

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

	Quarter Ended June 30, 2018							Change Vs. Prior Period		
	As Reported (GAAP)	Amortization of Acquisition- Related Intangibles	Acquisition-Related Expenses and Adjustments	LIFO Inventory- Related Adjustments	Gains from Antitrust Legal Settlements	Restructuring and Asset Impairment Charges, Net	Other Adjustments, Net	Adjusted Earnings (Non-GAAP)	As Reported (GAAP)	Adjusted Earnings (Non-GAAP)
Gross profit ⁽¹⁾	\$ 2,779	\$ -	\$ 1	\$ (21)	\$ (35)	\$ -	\$ -	\$ 2,724	9%	5%
Operating expenses ^{(2) (3) (4) (5)}	\$ (2,696)	\$ 121	\$ 20	\$ -	\$ -	\$ 96	\$ 487	\$ (1,972)	40%	9%
Other income, net	\$ 40	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41	208%	215%
Income (Loss) from equity method investment in Change Healthcare ⁽⁶⁾	\$ (56)	\$ 77	\$ 40	\$ -	\$ -	\$ -	\$ 3	\$ 64	(53)%	(9)%
Income from continuing operations before income taxes	\$ 6	\$ 199	\$ 61	\$ (21)	\$ (35)	\$ 96	\$ 490	\$ 796	(99)%	1%
Income tax expense	\$ (87)	\$ (50)	\$ (16)	\$ 6	\$ 9	\$ (11)	\$ -	\$ (149)	(8)%	(29)%
Income (loss) from continuing operations, net of tax, attributable to McKesson Corporation	\$ (139)	\$ 149	\$ 45	\$ (15)	\$ (26)	\$ 85	\$ 490	\$ 589	(145)%	13%
Diluted earnings (loss) per common share from continuing operations, net of tax, attributable to McKesson Corporation ^{(a) (b)}	\$ (0.69)	\$ 0.74	\$ 0.22	\$ (0.07)	\$ (0.13)	\$ 0.42	\$ 2.41	\$ 2.90 ^(c)	(148)%	18%
Diluted weighted average common shares ^(b)	202	203	203	203	203	203	203	203	(5)%	(5)%

Note: Please see footnote information on the following slide.

GAAP to Non-GAAP Reconciliation

Q1 Fiscal 2018

Quarter Ended June 30, 2017

	As Reported (GAAP)	Amortization of Acquisition-Related Intangibles	Acquisition-Related Expenses and Adjustments	LIFO Inventory-Related Adjustments	Gains from Antitrust Legal Settlements	Restructuring and Asset Impairment Charges, Net	Other Adjustments, Net	Adjusted Earnings (Non-GAAP)
Gross profit ⁽¹⁾	\$ 2,560	\$ -	\$ 4	\$ 26	\$ -	\$ -	\$ -	\$ 2,590
Operating expenses ⁽²⁾	\$ (1,927)	\$ 121	\$ (11)	\$ -	\$ -	\$ 3	\$ (2)	\$ (1,816)
Other income, net	\$ 13	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13
Income (Loss) from equity method investment in Change Healthcare ⁽⁶⁾	\$ (120)	\$ 71	\$ 119	\$ -	\$ -	\$ -	\$ -	\$ 70
Income from continuing operations before income taxes	\$ 458	\$ 192	\$ 112	\$ 26	\$ -	\$ 3	\$ (2)	\$ 789
Income tax expense	\$ (95)	\$ (66)	\$ (39)	\$ (10)	\$ -	\$ (1)	\$ 1	\$ (210)
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 307	\$ 126	\$ 73	\$ 16	\$ -	\$ 2	\$ (1)	\$ 523
Diluted earnings per common share from continuing operations, net of tax, attributable to McKesson Corporation ^(a)	\$ 1.44	\$ 0.60	\$ 0.34	\$ 0.08	\$ -	\$ 0.01	\$ (0.01)	\$ 2.46
Diluted weighted average common shares	213	213	213	213	-	213	213	213

^(a) Certain computations may reflect rounding adjustments.

^(b) Fiscal year 2019 diluted loss per share, as reported under GAAP, is calculated using a weighted average of 202 million common shares and excludes dilutive securities from the denominator due to their anti-dilutive effects. Potentially dilutive securities were excluded from the fiscal year 2019 GAAP per share computations due to our reported net loss for fiscal year 2019. Diluted earnings per share (Non-GAAP), and GAAP to Non-GAAP per share reconciling items, are calculated using a weighted average of 203 million common shares and includes dilutive securities.

^(c) Adjusted Earnings per share on a Constant Currency basis for fiscal year 2019 was \$2.85 per diluted share, which excludes the foreign currency exchange effect of \$0.05 per diluted share.

^{(1) (2) (3) (4) (5) (6)} Refer to the section entitled "Financial Statement Footnotes" of this release.

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

GAAP to Non-GAAP Reconciliation

Q1 Fiscal 2019 and Q1 Fiscal 2018

Schedule 3

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

	Quarter Ended June 30, 2018			Quarter Ended June 30, 2017			GAAP		Non-GAAP		Change			
	As Reported (GAAP)	Adjustments	Adjusted Earnings (Non-GAAP)	As Reported (GAAP)	Adjustments	Adjusted Earnings (Non-GAAP)	Foreign Currency Effects	Constant Currency	Foreign Currency Effects	Constant Currency	As Reported (GAAP)	Adjusted Earnings (Non-GAAP)	Constant Currency (GAAP)	Constant Currency (Non-GAAP)
REVENUES														
U.S. Pharmaceutical and Specialty Solutions	\$ 40,977	\$ -	\$ 40,977	\$ 40,282	\$ -	\$ 40,282	\$ -	\$ 40,977	\$ -	\$ 40,977	2 %	2 %	2 %	2 %
European Pharmaceutical Solutions	6,935	-	6,935	6,382	-	6,382	(487)	6,448	(487)	6,448	9	9	1	1
Medical-Surgical Solutions	1,703	-	1,703	1,533	-	1,533	-	1,703	-	1,703	11	11	11	11
Other ^(a)	2,992	-	2,992	2,854	-	2,854	(111)	2,881	(111)	2,881	5	5	1	1
Revenues	<u>\$ 52,607</u>	<u>\$ -</u>	<u>\$ 52,607</u>	<u>\$ 51,051</u>	<u>\$ -</u>	<u>\$ 51,051</u>	<u>\$ (598)</u>	<u>\$ 52,009</u>	<u>\$ (598)</u>	<u>\$ 52,009</u>	<u>3 %</u>	<u>3 %</u>	<u>2 %</u>	<u>2 %</u>
OPERATING PROFIT ⁽⁴⁾														
U.S. Pharmaceutical and Specialty Solutions ⁽¹⁾	\$ 543	\$ (3)	\$ 540	\$ 475	\$ 54	\$ 529	\$ -	\$ 543	\$ -	\$ 540	14 %	2 %	14 %	2 %
European Pharmaceutical Solutions ⁽³⁾	(560)	634	74	35	49	84	21	(539)	(5)	69	(1,700)	(12)	(1,640)	(18)
Medical-Surgical Solutions	93	32	125	108	17	125	-	93	-	125	(14)	-	(14)	-
Other ^{(a) (2) (5) (6)}	114	99	213	17	214	231	(13)	101	(9)	204	571	(8)	494	(12)
Operating profit	190	762	952	635	334	969	8	198	(14)	938	(70)	(2)	(69)	(3)
Corporate	(123)	28	(95)	(109)	(3)	(112)	-	(123)	1	(94)	13	(15)	13 %	(16)
Income from continuing operations before interest expense and income taxes	<u>\$ 67</u>	<u>\$ 790</u>	<u>\$ 857</u>	<u>\$ 526</u>	<u>\$ 331</u>	<u>\$ 857</u>	<u>\$ 8</u>	<u>\$ 75</u>	<u>\$ (13)</u>	<u>\$ 844</u>	<u>(87) %</u>	<u>- %</u>	<u>(86) %</u>	<u>(2) %</u>
OPERATING PROFIT AS A % OF REVENUES														
U.S. Pharmaceutical and Specialty Solutions	1.33 %		1.32 %	1.18 %		1.31 %		1.33 %		1.32 %	15 bp	1 bp	15 bp	1 bp
European Pharmaceutical Solutions	(8.07)		1.07	0.55		1.32		(8.36)		1.07	(862)	(25)	(891)	(25)
Medical-Surgical Solutions	5.46		7.34	7.05		8.15		5.46		7.34	(159)	(81)	(159)	(81)

(a) Other primarily includes the results of our McKesson Canada and McKesson Prescription Technology Solutions businesses. Other for fiscal year 2018 includes the Enterprise Information Solutions ("EIS") business, which was sold in the third quarter of fiscal year 2018. Operating profit for Other also includes our proportionate share of income (loss) from our equity method investment in Change Healthcare.

(1) (2) (3) (4) (5) (6) Refer to the section entitled "Financial Statement Footnotes" of this release.

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

Financial Statement Footnotes

McKESSON CORPORATION FINANCIAL STATEMENT FOOTNOTES

- (1) Fiscal years 2019 and 2018, as reported under GAAP, include pre-tax credits of \$21 million and pre-tax charges of \$26 million related to our last-in-first-out (“LIFO”) method of accounting for inventories. Fiscal year 2019, as reported under GAAP, includes \$35 million of net cash proceeds representing our share of antitrust legal settlements. These credits and charges are included within our U.S. Pharmaceutical and Specialty Solutions segment.
- (2) Operating expenses for fiscal year 2018, as reported under GAAP, include a pre-tax gain of \$37 million (\$22 million after-tax) related to the final net working capital settlement and other adjustments from the contribution of the Core MTS business to Change Healthcare in the fourth quarter of 2017. This credit is included under "Acquisition-Related Expenses and Adjustments" in the Schedule 2 of the accompanying financial statement tables.
- (3) Fiscal year 2019, as reported under GAAP, includes non-cash goodwill impairment charges of \$570 million (pre-tax and after-tax) for our two reporting units within our European Pharmaceutical Solutions segment. These charges are included under "Other Adjustments, Net" in the Schedule 2 of the accompanying financial statement tables.
- (4) Operating expenses for fiscal year 2019, as reported under GAAP, include pre-tax restructuring and asset impairment charges of \$96 million (\$85 million after-tax).
- (5) Operating expenses for fiscal year 2019, as reported under GAAP, include a gain from an escrow settlement of \$97 million representing certain indemnity and other claims related to our third quarter 2017 acquisition of Rexall Health. This gain is included under "Other Adjustments, Net" in the Schedule 2 of the accompanying financial statement tables.
- (6) Loss from our equity method investment in Change Healthcare, as reported under GAAP, includes the amortization of equity investment intangibles and other acquired intangibles of \$77 million and \$71 million for fiscal years 2019 and 2018. The amortization expenses are included in our proportionate share of the loss from our equity method investment in Change Healthcare.

Supplemental Non-GAAP Financial Information

1 of 2

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, acquisition-related expenses and adjustments, Last-In-First-Out ("LIFO") inventory-related adjustments, gains from antitrust legal settlements, restructuring and asset impairment 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/or the formation of joint ventures and equity method investments.

Acquisition-related expenses and adjustments - Transaction, integration and other expenses that are directly related to business combinations, the formation of joint ventures and the Healthcare Technology Net Asset Exchange. Examples include transaction closing costs, professional service fees, legal fees, restructuring or 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, gains or losses related to foreign currency contracts entered into directly due to acquisitions, gains or losses on business combinations, and gain on the Healthcare Technology Net Asset Exchange.

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 and asset impairment charges - Non-acquisition related 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, and/or Company-wide cost saving initiatives. The amount and/or frequency of these restructuring charges are not part of our underlying business, which includes normal levels of reinvestment in the business. Any credit adjustments due to subsequent changes in estimates are also excluded from the Adjusted Earnings.

Supplemental Non-GAAP Financial Information

2 of 2

SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION (continued)

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: gains or losses from divestitures of businesses that do not qualify as discontinued operations and from dispositions of assets; other asset impairments; adjustments to claim and litigation reserves for estimated probable losses and settlements; certain discrete benefits 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.

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, our equity method investments' financial results are adjusted for the above noted items.

- **Constant Currency (Non-GAAP):** To present our financial results on a constant currency 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 a constant currency 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 constant currency 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 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 business 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 constant currency 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.

Reconciliation of GAAP Amounts to Free Cash Flow

(\$M)	Q1 FY 19	Q1 FY 18	QoQ Change
Major GAAP cash flow categories:			
Operating cash flow	\$ (1,061)	\$ 741	(1,802)
Investing cash flow	\$ (875)	\$ (1,598)	723
Financing cash flow	\$ 1,541	\$ (1,131)	2,672
Free cash flow (non-GAAP measure):			
Operating cash flow	\$ (1,061)	\$ 741	(1,802)
Property acquisitions and capitalized software	\$ (145)	\$ (118)	(27)
Free cash flow	\$ (1,206)	\$ 623	(1,829)

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 operating activities less property acquisitions 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.