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McKesson Corporation

Q1 Fiscal 2020 Financial Results

July 31, 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. 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. It is not possible to predict or identify all such risks and uncertainties. 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 U.S. healthcare industry and regulatory environment; managing foreign expansion, including the related operating, economic, political and regulatory risks; changes in the Canadian healthcare industry and regulatory environment; exposure to European economic conditions, including recent austerity measures taken by certain European governments; changes in the European regulatory environment with respect to privacy and data protection regulations; fluctuations in foreign currency exchange rates; the company’s ability to successfully identify, consummate, finance and integrate acquisitions; the company’s results of operations impacted by the Change Healthcare joint venture; the company’s ability to manage and complete divestitures and distributions; material adverse resolution of pending legal proceedings; competition and industry consolidation; substantial defaults in payment or a material reduction in purchases by, or the loss of, a large customer or group purchasing organization; the loss of government contracts as a result of compliance or funding challenges; public health issues in the U.S. or abroad; cyberattack, natural disaster, or malfunction of sophisticated internal computer systems to perform as designed; the adequacy of insurance to cover property loss or liability claims; the company’s proprietary products and services may not be adequately protected, and its products and solutions may be found to infringe on the rights of others; system errors or failure of our technology products or services to conform to specifications; disaster or other event causing interruption of customer access to data residing in our service centers; changes in circumstances that could impair our goodwill, intangible and other long-lived assets or investments; new or revised tax legislation or challenges to our tax positions; general economic conditions, including changes in the financial markets that may affect the availability and cost of credit to the company, its customers or suppliers; changes in accounting principles generally accepted in the United States of America; withdrawal from participation in multiemployer pension plans or if such plans are reported to have underfunded liabilities; inability to realize the expected benefits from the company’s restructuring and business process initiatives; difficulties with outsourcing and similar third party relationships; risks associated with the company’s retail expansion; and the company’s inability to keep existing retail store locations or open new retail locations in desirable places.

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

Strong Start to Fiscal 2020; Raised Full-Year Guidance

Company Updates

- Change Healthcare, Inc. began trading on the Nasdaq Global Select Market as "CHNG" on June 27, 2019
  - Following completion of the IPO, McKesson owns approximately 58.5% of the Change Healthcare Joint Venture (JV), effective in McKesson's second quarter
  - McKesson reaffirmed the guidance range for adjusted equity earnings from the Change Healthcare JV of approximately $250 million to $270 million in fiscal 2020
- Dr. Ken Washington joined McKesson's Board of Directors as a new independent director effective July 1, 2019

Business Summary

- Revenue growth of 6%[1]
- Adjusted Earnings per diluted share of $3.31
- Raised Fiscal 2020 Adjusted Earnings outlook to $14.00 to $14.60 per diluted share from $13.85 to $14.45 per diluted share
- Free cash flow of ($162) million
- Returned $759 million of cash to shareholders
  - $684 million of common stock repurchases
  - $75 million of dividend payments
- Raised the quarterly dividend by 5% to $0.41

[1]7% on an FX-Adjusted basis

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Condensed Consolidated Statement of Earnings

Q1 Fiscal 2020 Results

Adjusted Results ($ in millions, except per share amounts)	**Q1 FY 2020**	**YoY Change**
Revenues	$55,728	6%
Gross Profit	$2,769	2%
Operating Expenses	($1,999)	1%
Income from Continuing Operations before Interest Expense and Income Taxes	$933	9%
Interest Expense	($56)	(8)%
Income Tax Expense	($198)	33%
Noncontrolling Interests	($54)	(7)%
Net Income Attributable to McKesson	$625	6%
Earnings per Share (diluted)	$3.31	14%
Diluted Shares (in millions)	189	(7)%

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U.S. Pharmaceutical and Specialty Solutions

Q1 Fiscal 2020 Results

Adjusted Results ($ in millions)	Q1 FY 2020	YoY Change
U.S. Pharmaceutical and Specialty Solutions		
Revenues	$44,165	8%
Operating Profit	$600	11%
Operating Margin	1.36%	4 bp

- Q1 revenue growth driven by solid contributions from our largest retail national pharmacy customers, growth across our specialty businesses, and continued solid performance within our health systems segment, partially offset by branded to generic conversions
- Q1 operating profit growth primarily due to strong growth in our specialty businesses, continued strong performance by our sourcing operations and the lapping of prior year opioid-related expenses

European Pharmaceutical Solutions
Q1 Fiscal 2020 Results

Adjusted Results ($ in millions)	Q1 FY 2020	YoY Change
European Pharmaceutical Solutions		
Revenues	$6,710	(3)%
Operating Profit	$35	(53)%
Operating Margin	0.52%	(55) bp

- Q1 revenue negatively impacted by $421 million due to foreign currency effects. FX-Adjusted revenue was $7,122 million, up 3% YoY, driven by market growth in the distribution wholesale business
- Q1 operating profit down mainly due to the weak retail pharmacy environment in the U.K

Medical-Surgical Solutions
Q1 Fiscal 2020 Results

Adjusted Results ($ in millions)	Q1 FY 2020	YoY Change
Medical-Surgical Solutions		
Revenues	$1,903	12%
Operating Profit	$159	27%
Operating Margin	8.36%	102 bp

- Q1 revenue growth primarily driven by the MSD acquisition and growth in our Primary Care and Extended Care businesses, including strength in pharmaceutical products and our home delivery business. The aforementioned acquisition closed in the prior fiscal year on June 1, 2018, and has now been fully lapped
- Q1 operating profit growth driven by organic growth and contribution from the MSD acquisition

Other & Corporate
Q1 Fiscal 2020 Results

Adjusted Results ($ in millions)	**Q1 FY 2020**	**YoY Change**
Other		
Revenues	$2,950	(1)%
Operating Profit	$276	30%
Operating Margin	NM	NM
Corporate		
Operating Loss	($137)	44%

- Other primarily includes McKesson Canada, McKesson Prescription Technology Solutions (MRxTS) and the equity method investment in the Change Healthcare JV
- Q1 operating profit growth mainly driven by increased equity income from our investment in Change Healthcare and continued strength in our MRxTS business
- Corporate expense YoY growth was primarily driven by the increase in opioid-related litigation costs and the overall timing of technology investments in the fiscal year, partially offset by a one-time benefit recorded in the first quarter of approximately 10 cents

 NM means not meaningful

Cash

Cash Balance Walk*

($ in millions)

Balance at March 31, 2019	**$**	**2,981**
Operating Cash Flow		(51)
Capital Expenditures		(111)
Free Cash Flow		(162)
Acquisitions		(46)
Other Investing Cash Flows		28
Share repurchases**		(701)
Dividends paid		(75)
Other Financing Cash Flows and FX		(78)
Net Decrease in Cash		(1,034)
Balance at June 30, 2019	**$**	**1,947**

Cash Dynamics

- Free cash flow of ($162) million
- Share repurchases of $0.7 billion
  - Remaining share repurchase authorization of $2.8 billion
- Raised the quarterly dividend by 5% to $0.41, payable in October

*Cash comprises cash, cash equivalents and restricted cash
**Includes shares surrendered for tax withholding

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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 July 31, 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	Low-to-mid single digit percent growth	$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

Bold, italicized numbers indicate updates to fiscal 2020 financial guidance

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Fiscal 2020 Segment Adjusted Earnings Outlook

Year-over-Year Percent Change

	Revenues	Operating Profit
U.S. Pharmaceutical and Specialty Solutions	Low- to mid-single digit growth	Low- to mid-single digit growth
European Pharmaceutical Solutions	Low- to mid-single digit growth	***Low end of low- to mid-single digit growth***
Medical-Surgical Solutions	High-single digit growth	High-single to low-double digit growth
Other	Flat to low-single digit decline	Low- to mid-single digit decline

Bold, italicized numbers indicate updates to fiscal 2020 financial guidance

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Fiscal 2020 Adjusted Earnings Assumptions

($ and shares in millions)

	FY20 Outlook
Corporate Expenses	***Low end of $725 - $775***
Income From Equity Method Investment Attributable to McKesson's Interest 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 185
Property Acquisitions and Capitalized Software	$500 - $700
FX Impact	Net neutral impact

Bold, italicized numbers indicate updates to fiscal 2020 financial guidance

Appendix

Reconciliation of GAAP Amounts to Free Cash Flow

($ in millions)	Q1 FY 20	Q1 FY 19	YoY Change
Major GAAP cash flow categories:			
Operating cash flow	**$ (51)**	$ (1,061)	$ 1,010
Investing cash flow	**$ (129)**	$ (875)	$ 746
Financing cash flow	**$ (872)**	$ 1,541	$ (2,413)
Free cash flow (non-GAAP measure):			
Operating cash flow	**$ (51)**	$ (1,061)	$ 1,010
Capital expenditures for property, plant and equipment and capitalized software	**$ (111)**	$ (145)	$ 34
Free cash flow	**$ (162)**	$ (1,206)	$ 1,044

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 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

Q1 Fiscal 2020

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, 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 and Asset Impairment Charges, Net	Other Adjustments, Net	Adjusted Earnings (Non-GAAP)	As Reported (GAAP)	Adjusted Earnings (Non-GAAP)
Gross profit	$ 2,787	$ -	$ -	$ (15)	$ -	$ (3)	$ -	$ 2,769	*- %*	*2 %*
Operating expenses [2]	$ (2,153)	$ 112	$ 17	$ -	$ -	$ 23	$ 2	$ (1,999)	*(20) %*	*1 %*
Other income, net [4]	$ 37	$ -	$ -	$ -	$ -	$ -	$ 18	$ 55	*(8) %*	*34 %*
Income from equity method investment in Change Healthcare Joint Venture [5]	$ 4	$ 77	$ 27	$ -	$ -	$ -	$ -	$ 108	*107 %*	*69 %*
Income from continuing operations before income taxes	$ 619	$ 189	$ 44	$ (15)	$ -	$ 20	$ 20	$ 877	*NM*	*10 %*
Income tax expense	$ (136)	$ (45)	$ (11)	$ 4	$ -	$ (5)	$ (5)	$ (198)	*56 %*	*33 %*
Income from continuing operations, net of tax, attributable to McKesson Corporation	$ 429	$ 144	$ 33	$ (11)	$ -	$ 15	$ 15	$ 625	*409 %*	*6 %*
Earnings per diluted common share from continuing operations, net of tax, attributable to McKesson Corporation [a]	$ 2.27	$ 0.76	$ 0.18	$ (0.06)	$ -	$ 0.08	$ 0.08	$ 3.31 [c]	*429 %*	*14 %*
Diluted weighted average common shares	189	189	189	189	189	189	189	189	*(6) %*	*(7) %*

Note: Please see footnote information on the following slide.

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GAAP to Non-GAAP Reconciliation

Q1 Fiscal 2019

Schedule 2

	Quarter Ended June 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 and Asset Impairment Charges, Net	Other Adjustments, Net	Adjusted Earnings (Non-GAAP)
Gross profit	$ 2,779	$ -	$ 1	$ (21)	$ (35)	$ -	$ -	$ 2,724
Operating expenses (1) (2) (3)	$ (2,696)	$ 121	$ 20	$ -	$ -	$ 96	$ 487	$ (1,972)
Other income, net	$ 40	$ 1	$ -	$ -	$ -	$ -	$ -	$ 41
Income (loss) from equity method investment in Change Healthcare Joint Venture (5)	$ (56)	$ 77	$ 40	$ -	$ -	$ -	$ 3	$ 64
Income from continuing operations before income taxes	$ 6	$ 199	$ 61	$ (21)	$ (35)	$ 96	$ 490	$ 796
Income tax expense	$ (87)	$ (50)	$ (16)	$ 6	$ 9	$ (11)	$ -	$ (149)
Income (loss) from continuing operations, net of tax, attributable to McKesson Corporation	$ (139)	$ 149	$ 45	$ (15)	$ (26)	$ 85	$ 490	$ 589
Earnings (loss) per diluted 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
Diluted weighted average common shares (b)	202	203	203	203	203	203	203	203

(a) Certain computations may reflect rounding adjustments.

(b) We calculate GAAP net loss per diluted share for fiscal 2019 using a weighted average of 202 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 2019 on a fully diluted basis, using a weighted average of 203 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 share on an FX-Adjusted basis for fiscal 2020 was $3.33 per diluted share, which excludes the foreign currency exchange effect of $0.02 per diluted share.

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

Q1 Fiscal 2020 and Q1 Fiscal 2019

Schedule 3

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

	Quarter Ended June 30, 2019			Quarter Ended June 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	$ 44,165	$ -	$ 44,165	$ 40,977	$ -	$ 40,977	$ -	$ 44,165	$ -	$ 44,165	*8 %*	*8 %*	*8 %*	*8 %*
European Pharmaceutical Solutions	6,710	-	6,710	6,935	-	6,935	412	7,122	412	7,122	*(3)*	*(3)*	*3*	*3*
Medical-Surgical Solutions	1,903	-	1,903	1,703	-	1,703	-	1,903	-	1,903	*12*	*12*	*12*	*12*
Other [(a)]	2,950	-	2,950	2,992	-	2,992	98	3,048	98	3,048	*(1)*	*(1)*	*2*	*2*
Revenues	$ 55,728	$ -	$ 55,728	$ 52,607	$ -	$ 52,607	$ 510	$ 56,238	$ 510	$ 56,238	*6 %*	*6 %*	*7 %*	*7 %*
OPERATING PROFIT [(2)]														
U.S. Pharmaceutical and Specialty Solutions	$ 579	$ 21	$ 600	$ 543	$ (3)	$ 540	$ -	$ 579	$ -	$ 600	*7 %*	*11 %*	*7 %*	*11 %*
European Pharmaceutical Solutions [(1)]	5	30	35	(560)	634	74	1	6	2	37	*101*	*(53)*	*101*	*(50)*
Medical-Surgical Solutions	125	34	159	93	32	125	-	125	-	159	*34*	*27*	*34*	*27*
Other [(a) (3) (5)]	141	135	276	114	99	213	-	141	3	279	*24*	*30*	*24*	*31*
Operating profit	850	220	1,070	190	762	952	1	851	5	1,075	*347*	*12*	*348*	*13*
Corporate [(4)]	(175)	38	(137)	(123)	28	(95)	-	(175)	(1)	(138)	*42*	*44*	*42*	*45*
Income from continuing operations before interest expense and income taxes	$ 675	$ 258	$ 933	$ 67	$ 790	$ 857	$ 1	$ 676	$ 4	$ 937	*907 %*	*9 %*	*909 %*	*9 %*
OPERATING PROFIT (LOSS) AS A % OF REVENUES														
U.S. Pharmaceutical and Specialty Solutions	1.31 %		1.36 %	1.33 %		1.32 %		1.31 %		1.36 %	*(2) bp*	*4 bp*	*(2) bp*	*4 bp*
European Pharmaceutical Solutions	0.07		0.52	(8.07)		1.07		0.08		0.52	*814*	*(55)*	*815*	*(55)*
Medical-Surgical Solutions	6.57		8.36	5.46		7.34		6.57		8.36	*111*	*102*	*111*	*102*

[(a)] Other primarily includes the results of our McKesson Canada and McKesson Prescription Technology Solutions businesses. Operating profit for Other includes our proportionate share of income (loss) from our equity method 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 Footnotes

McKESSON CORPORATION
FINANCIAL STATEMENT NOTES

(1) Operating expenses for 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.

(2) Operating expenses for fiscals 2020 and 2019 include pre-tax restructuring and asset impairment charges of $23 million ($17 million after-tax) and $96 million ($85 million after-tax), primarily for our Canada and the United Kingdom retail businesses, and Corporate.

(3) Operating expenses for 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.

(4) Other income for fiscal 2020 includes a pre-tax charge of $17 million ($12 million after-tax) representing settlement charges for our frozen U.S. defined benefit pension plan, within Corporate. This charge is included under "Other Adjustments, Net" in the reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) provided in the Schedule 2 of the accompanying financial statement tables.

(5) Income or loss from our equity method investment in Change Healthcare Joint Venture includes the amortization of equity investment intangibles and other acquired intangibles of $77 million for fiscals 2020 and 2019. This charge is included in our proportionate share of the income or loss from our equity method investment in Change Healthcare Joint Venture within Other.

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Supplemental Non-GAAP Financial Information

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. 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 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 presentation.

  <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, 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, 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 and asset impairment charges</u> - 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 include normal levels of reinvestment in the business. Any credit adjustments due to subsequent changes in estimates are also excluded from the Adjusted Earnings.

  <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 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, our equity method investment in Change Healthcare Joint Venture's financial results are adjusted for the above noted items.

Supplemental Non-GAAP Financial Information

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 presentation.

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.

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