

# **McKesson Corporation**

## **Q2 Fiscal 2019 Financial Performance**

**Financial Results and Company Highlights**

October 25, 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](http://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](http://www.mckesson.com) under the “Investors” tab.

# Opening Remarks

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**John Hammergren**

Chairman and Chief Executive Officer

**Brian Tyler**

President and Chief Operating Officer

# Q2 Fiscal 2019 Highlights

Quarter Ahead Of Expectations; Raised Lower End of Full-Year Guidance

## Company Updates

- Our Board of Directors welcomed Dominic Caruso as a new independent director
- Brian Tyler appointed as President and Chief Operating Officer
- Cost saving targets established
  - Strategic growth initiative: gross pre-tax annual run-rate savings of \$300M-\$400M by end of FY21
- Relaunched manufacturer solutions capabilities as McKesson Life Sciences
- The Department of Veterans Affairs extended agreement for another two years

## Business Summary

- Revenue growth of 2%<sup>1</sup>
- Adjusted EPS of \$3.60, reflecting lower tax rate and contractual liability reversal
- Narrowed and raised the low end of our Fiscal 2019 Adjusted Earnings outlook to \$13.20 – \$13.80 per diluted share from \$13.00 – \$13.80 per diluted share
- Year-to-date Free Cash Flows of \$70M, modestly ahead of expectations
- Balanced capital deployment of \$0.8B in Q2

<sup>1</sup> Stated in constant currency

# Financial Overview

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**Britt Vitalone**

Executive Vice President and Chief Financial Officer

# Q2 Fiscal 2019

## GAAP to Adjusted Earnings Per Diluted Share Reconciliation

**GAAP Earnings Per Diluted Share** **\$ 2.51**

### Adjustments

Amortization of acquisition-related intangibles 0.75

Acquisition-related expenses and adjustments 0.27

LIFO inventory-related adjustments (0.08)

Restructuring and asset impairment charges 0.34

Other adjustments (0.19)

**Adjusted Earnings Per Diluted Share** **\$ 3.60**

# YTD Fiscal 2019

## GAAP to Adjusted Earnings Per Diluted Share Reconciliation

<b>GAAP Earnings Per Diluted Share</b>	<b>\$ 1.79</b>
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### Adjustments

Amortization of acquisition-related intangibles	1.49
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Acquisition-related expenses and adjustments	0.49
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LIFO inventory-related adjustments	(0.16)
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Gains from antitrust legal settlements	(0.13)
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Restructuring and asset impairment charges	0.76
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Other adjustments	<u>2.26</u>
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<b>Adjusted Earnings Per Diluted Share</b>	<b>\$ 6.50</b>
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# Q2 Fiscal 2019 Other Items

- **Contractual Obligation:** McKesson waived its right to certain distributions from Change Healthcare in exchange for release from a contractual obligation due to other Change Healthcare shareholders. As a result, McKesson recognized a reduction to adjusted operating expenses of \$90M, or \$0.33 per diluted share, upon the extinguishment of the associated distribution payable that had previously been recorded as a long-term payable.
- **Tax Discrete:** McKesson recognized a discrete tax benefit of \$42M, or \$0.21 per diluted share, related to the intercompany sale of certain intellectual property to a U.S.-domiciled entity.
- **Opioids:** McKesson recognized (\$34M), or (\$0.12) per diluted share, in opioid-related adjusted operating expenses. These expenses were driven primarily by ongoing litigation.



# Condensed Consolidated Statement of Earnings

## Q2 Fiscal 2019

Adjusted Results* (\$ in millions, except per share amounts)	Q2 FY 2019	YoY Change	Constant Currency	YoY Change
Revenues	\$53,075	2%	\$53,256	2%
Gross Profit	\$2,782	(1)%	\$2,810	-
Operating Expense	(\$1,875)	-	(\$1,893)	1%
Income from Operations before Interest Expense and Taxes	\$983	(6)%	\$993	(5)%
Interest Expense	(\$66)	(4)%		
Income Tax Expense	(\$149)	(35)%		
Noncontrolling Interest	(\$54)	(2)%		
Net Income Attributable to McKesson	\$714	4%		
Earnings per Share (diluted)	\$3.60	10%		
Diluted Shares (in millions)	199	(5)%		

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

# Condensed Consolidated Statement of Earnings

## YTD Fiscal 2019

Adjusted Results* (\$ in millions, except per share amounts)	YTD Q2 FY 2019	YoY Change	Constant Currency	YoY Change
Revenues	\$105,682	2%	\$105,265	2%
Gross Profit	\$5,506	2%	\$5,467	1%
Operating Expense	(\$3,847)	4%	(\$3,810)	3%
Income from Operations before Interest Expense and Taxes	\$1,840	(3)%	\$1,837	(3)%
Interest Expense	(\$127)	(7)%		
Income Tax Expense	(\$298)	(32)%		
Noncontrolling Interest	(\$112)	1%		
Net Income Attributable to McKesson	\$1,303	8%		
Earnings per Share (diluted)	\$6.50	13%		
Diluted Shares (in millions)	201	(5)%		

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

# Segment Results: U.S. Pharmaceutical and Specialty Solutions

## Q2 and YTD Fiscal 2019

Adjusted Results* (\$ in millions)	Q2 FY 2019	YoY Change	Constant Currency	YoY Change
<b>U.S. Pharmaceutical and Specialty Solutions</b>				
Revenues	\$41,610	2%		
Operating Profit	\$635	(5)%		
Operating Margin	1.53%	(12)bps		

Adjusted Results* (\$ in millions)	YTD Q2 FY 2019	YoY Change	Constant Currency	YoY Change
<b>U.S. Pharmaceutical and Specialty Solutions</b>				
Revenues	\$82,587	2%		
Operating Profit	\$1,175	(2)%		
Operating Margin	1.42%	(6)bps		

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

# Segment Results: European Pharmaceutical Solutions

## Q2 and YTD Fiscal 2019

Adjusted Results* (\$ in millions)	Q2 FY 2019	YoY Change	Constant Currency	YoY Change
<b>European Pharmaceutical Solutions</b>				
Revenues	\$6,639	(2)%	\$6,707	(1)%
Operating Profit	\$53	(40)%	\$54	(39)%
Operating Margin	0.80%	(51)bps	0.81%	(50)bps

Adjusted Results* (\$ in millions)	YTD Q2 FY 2019	YoY Change	Constant Currency	YoY Change
<b>European Pharmaceutical Solutions</b>				
Revenues	\$13,574	3%	\$13,155	-
Operating Profit	\$127	(27)%	\$123	(29)%
Operating Margin	0.94%	(38)bps	0.94%	(38)bps

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

# Segment Results: Medical-Surgical Solutions

## Q2 and YTD Fiscal 2019

Adjusted Results* (\$ in millions)	Q2 FY 2019	YoY Change	Constant Currency	YoY Change
<b>Medical-Surgical Solutions</b>				
Revenues	\$1,948	17%		
Operating Profit	\$138	1%		
Operating Margin	7.08%	(111)bps		

Adjusted Results* (\$ in millions)	YTD Q2 FY 2019	YoY Change	Constant Currency	YoY Change
<b>Medical-Surgical Solutions</b>				
Revenues	\$3,651	14%		
Operating Profit	\$263	1%		
Operating Margin	7.20%	(97)bps		

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

# Results: Other & Corporate

## Q2 Fiscal 2019

Adjusted Results* (\$ in millions)	Q2 FY 2019	YoY Change	Constant Currency	YoY Change
<b>Other</b>				
Revenues	\$2,878	(5)%	\$2,991	(1)%
Operating Profit	\$300	24%	\$310	29%
Operating Margin	NM	NM	NM	NM
<b>Corporate</b>				
Operating Loss	(\$143)	54%	(\$144)	55%

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

# Results: Other & Corporate

## YTD Fiscal 2019

Adjusted Results* (\$ in millions)	YTD Q2 FY 2019	YoY Change	Constant Currency	YoY Change
<b>Other</b>				
Revenues	\$5,870	-	\$5,872	-
Operating Profit	\$513	9%	\$514	9%
Operating Margin	NM	NM	NM	NM
<b>Corporate</b>				
Operating Loss	(\$238)	16%	(\$238)	16%

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

# Cash

## YTD Cash Balance Walk\*

(\$ in millions)

<b>Balance at March 31, 2018</b>	<b>\$</b>	<b>2,672</b>
Other Operating Cash Flows		1,224
Working Capital, Net**		(906)
Cash Used In Operations		318
Capital Expenditures		(248)
Free Cash Flow		70
Acquisitions		(840)
Other Investing Cash Flows		105
Share Repurchases, Net		(888)
Net Short-Term Borrowings		1,393
Other Financing Cash Flows and FX		(394)
Net Decrease in Cash		(554)
<b>Balance at September 30, 2018</b>	<b>\$</b>	<b>2,118</b>

## Cash Dynamics

- Working capital:
  - Days sales outstanding decreased 1 day YoY to 26 days
  - Days sales in inventory decreased 1 day YoY to 30 days
  - Days payables outstanding decreased 2 days YoY to 59 days
- Acquisitions: Medical Specialties Distributors (MSD) closed 6/1/18 for \$784 million
- Share repurchase program: remaining repurchase authorization of \$4.2 billion
- Short-term borrowings: commercial paper net utilization of \$1.4 billion
- Dividends paid: \$139 million

\*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	Decline low- to mid-single digits percent growth	\$3.9 billion
Diluted Earnings per Share	\$13.20 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	Low end of range of flat to down mid-single digit
European Pharmaceutical Solutions	Flat to up mid-single digit	Decline year over year; 2HFY19 similar to 1HFY19
Medical-Surgical Solutions	Up low-double digit	Up mid- to high-single digit
Other	Up low-single digit	Increase year over year

# Fiscal 2019 Adjusted Earnings Assumptions

(\$ and shares in millions)

FY19 Outlook	
Corporate Expenses	Increase year over year
Income From Equity Method Investment in Change Healthcare	Decline year over year; 2HFY19 similar to 1HFY19
Interest Expense	Decline year over year
Effective Tax Rate	17% - 19%
Net Income Attributable to Noncontrolling Interest	Decline year over year
Diluted Weighted Average Shares Outstanding	Approximately 197
Property Acquisitions and Capitalized Software	\$600 - \$800
FX Impact	Net favorable impact of up to 10 cents per diluted share year over year

*Appendix*

# Reconciliation of GAAP Amounts to Free Cash Flow

(\$M) Q2 YTD FY19      Q2 YTD FY18      YoY Change

## Major GAAP cash flow categories:

Operating cash flow	\$	318	\$	1,339	\$	(1,021)
Investing cash flow	\$	(983)	\$	(1,865)	\$	882
Financing cash flow	\$	198	\$	(1,272)	\$	1,470

## Free cash flow (non-GAAP measure):

Operating cash flow	\$	318	\$	1,339	\$	(1,021)
Property acquisitions and capitalized software	\$	(248)	\$	(255)	\$	7
Free cash flow	\$	70	\$	1,084	\$	(1,014)

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 measures as an indication of the strength of the Company and its ability to generate cash.

# GAAP to Non-GAAP Reconciliation

## Q2 Fiscal 2019

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, 2018							Vs. Prior Quarter		
	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 <sup>(1)</sup>	\$ 2,804	\$ -	\$ -	\$ (22)	\$ -	\$ -	\$ -	\$ 2,782	(1)%	(1)%
Operating expenses <sup>(7)</sup>	\$ (2,115)	\$ 121	\$ 37	\$ -	\$ -	\$ 82	\$ -	\$ (1,875)	(18)%	-%
Other income, net	\$ 20	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20	(71)%	(26)%
Income (Loss) from equity method investment in Change Healthcare <sup>(8)</sup>	\$ (56)	\$ 77	\$ 34	\$ -	\$ -	\$ -	\$ 1	\$ 56	(8)%	(25)%
Income from continuing operations before income taxes	\$ 587	\$ 198	\$ 71	\$ (22)	\$ -	\$ 82	\$ 1	\$ 917	230%	(6)%
Income tax expense	\$ (35)	\$ (48)	\$ (17)	\$ 5	\$ -	\$ (15)	\$ (39)	\$ (149)	(71)%	(35)%
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 498	\$ 150	\$ 54	\$ (17)	\$ -	\$ 67	\$ (38)	\$ 714	NM	4%
Diluted earnings per common share from continuing operations, net of tax, attributable to McKesson Corporation <sup>(a)</sup>	\$ 2.51	\$ 0.75	\$ 0.27	\$ (0.08)	\$ -	\$ 0.34	\$ (0.19)	\$ 3.60 <sup>(b)</sup>	NM	10%
Diluted weighted average common shares	199	199	199	199	199	199	199	199	(5)%	(5)%

Note: Please see footnote information on the following slide.

# GAAP to Non-GAAP Reconciliation

## Q2 Fiscal 2018

**Schedule 2A**  
**(continued)**

	Quarter Ended September 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 <sup>(1)</sup>	\$ 2,834	\$ -	\$ 2	\$ (29)	\$ -	\$ -	\$ -	\$ 2,807
Operating expenses <sup>(6) (7)</sup>	\$ (2,595)	\$ 125	\$ 6	\$ -	\$ -	\$ 257	\$ 341	\$ (1,866)
Other income, net	\$ 69	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ (43)	\$ 27
Income (Loss) from equity method investment in Change Healthcare <sup>(8)</sup>	\$ (61)	\$ 73	\$ 63	\$ -	\$ -	\$ -	\$ -	\$ 75
Income from continuing operations before income taxes	\$ 178	\$ 199	\$ 71	\$ (29)	\$ -	\$ 257	\$ 298	\$ 974
Income tax expense	\$ (122)	\$ (64)	\$ (24)	\$ 11	\$ -	\$ (51)	\$ 20	\$ (230)
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 1	\$ 135	\$ 47	\$ (18)	\$ -	\$ 206	\$ 318	\$ 689
Diluted earnings per common share from continuing operations, net of tax, attributable to McKesson Corporation <sup>(a)</sup>	\$ 0.01	\$ 0.63	\$ 0.23	\$ (0.09)	\$ -	\$ 0.98	\$ 1.52	\$ 3.28
Diluted weighted average common shares	210	210	210	210	210	210	210	210

<sup>(a)</sup> Certain computations may reflect rounding adjustments.

<sup>(b)</sup> Adjusted Earnings per share on a Constant Currency basis for second quarter of fiscal year 2019 was \$3.64 per diluted share, which excludes the foreign currency exchange effect of \$0.04 per diluted share.

*NM* Computation not meaningful

<sup>(1) (6) (7) (8)</sup> 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.



# GAAP to Non-GAAP Reconciliation

## YTD Fiscal 2019

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, 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 <sup>(1)</sup>	\$ 5,583	\$ -	\$ 1	\$ (43)	\$ (35)	\$ -	\$ -	\$ 5,506	4%	2%
Operating expenses <sup>(4) (6) (7)</sup>	\$ (4,811)	\$ 242	\$ 57	\$ -	\$ -	\$ 178	\$ 487	\$ (3,847)	6%	4%
Other income, net	\$ 60	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61	(27)%	53%
Income (Loss) from equity method investment in Change Healthcare <sup>(8)</sup>	\$ (112)	\$ 154	\$ 74	\$ -	\$ -	\$ -	\$ 4	\$ 120	(38)%	(17)%
Income from continuing operations before income taxes	\$ 593	\$ 397	\$ 132	\$ (43)	\$ (35)	\$ 178	\$ 491	\$ 1,713	(7)%	(3)%
Income tax expense	\$ (122)	\$ (98)	\$ (33)	\$ 11	\$ 9	\$ (26)	\$ (39)	\$ (298)	(44)%	(32)%
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 359	\$ 299	\$ 99	\$ (32)	\$ (26)	\$ 152	\$ 452	\$ 1,303	17%	8%
Diluted earnings per common share from continuing operations, net of tax, attributable to McKesson Corporation <sup>(a)</sup>	\$ 1.79	\$ 1.49	\$ 0.49	\$ (0.16)	\$ (0.13)	\$ 0.76	\$ 2.26	\$ 6.50 <sup>(b)</sup>	23%	13%
Diluted weighted average common shares	201	201	201	201	201	201	201	201	(5)%	(5)%

Note: Please see footnote information on the following slide.

# GAAP to Non-GAAP Reconciliation

YTD Fiscal 2018

**Schedule 2B**  
**(continued)**

	Six Months Ended September 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 <sup>(1)</sup>	\$ 5,394	\$ -	\$ 6	\$ (3)	\$ -	\$ -	\$ -	\$ 5,397
Operating expenses <sup>(2) (6) (7)</sup>	\$ (4,522)	\$ 246	\$ (5)	\$ -	\$ -	\$ 260	\$ 339	\$ (3,682)
Other income, net	\$ 82	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ (43)	\$ 40
Income (Loss) from equity method investment in Change Healthcare <sup>(8)</sup>	\$ (181)	\$ 144	\$ 182	\$ -	\$ -	\$ -	\$ -	\$ 145
Income from continuing operations before income taxes	\$ 636	\$ 391	\$ 183	\$ (3)	\$ -	\$ 260	\$ 296	\$ 1,763
Income tax expense	\$ (217)	\$ (130)	\$ (63)	\$ 1	\$ -	\$ (52)	\$ 21	\$ (440)
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 308	\$ 261	\$ 120	\$ (2)	\$ -	\$ 208	\$ 317	\$ 1,212
Diluted earnings per common share from continuing operations, net of tax, attributable to McKesson Corporation <sup>(a)</sup>	\$ 1.46	\$ 1.23	\$ 0.57	\$ (0.01)	\$ -	\$ 0.98	\$ 1.50	\$ 5.73
Diluted weighted average common shares	211	211	211	211	211	211	211	211

<sup>(a)</sup> Certain computations may reflect rounding adjustments.

<sup>(b)</sup> Adjusted Earnings per share on a Constant Currency basis for fiscal year 2019 was \$6.49 per diluted share, which excludes the foreign currency exchange effect of \$0.01 per diluted share.

<sup>(1) (2) (4) (6) (7) (8)</sup> 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.

# GAAP to Non-GAAP Reconciliation

## Q2 Fiscal 2019 and Q2 Fiscal 2018

Schedule 3A

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

	Quarter Ended September 30, 2018			Quarter Ended September 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)
<b>REVENUES</b>														
U.S. Pharmaceutical and Specialty Solutions	\$ 41,610	\$ -	\$ 41,610	\$ 40,603	\$ -	\$ 40,603	\$ -	\$ 41,610	\$ -	\$ 41,610	2 %	2 %	2 %	2 %
European Pharmaceutical Solutions	6,639	-	6,639	6,773	-	6,773	68	6,707	68	6,707	(2)	(2)	(1)	(1)
Medical-Surgical Solutions	1,948	-	1,948	1,660	-	1,660	-	1,948	-	1,948	17	17	17	17
Other <sup>(a)</sup>	2,878	-	2,878	3,025	-	3,025	113	2,991	113	2,991	(5)	(5)	(1)	(1)
Revenues	\$ 53,075	\$ -	\$ 53,075	\$ 52,061	\$ -	\$ 52,061	\$ 181	\$ 53,256	\$ 181	\$ 53,256	2 %	2 %	2 %	2 %
<b>OPERATING PROFIT <sup>(7)</sup></b>														
U.S. Pharmaceutical and Specialty Solutions <sup>(1)</sup>	\$ 610	\$ 25	\$ 635	\$ 710	\$ (40)	\$ 670	\$ -	\$ 610	\$ -	\$ 635	(14) %	(5) %	(14) %	(5) %
European Pharmaceutical Solutions <sup>(6)</sup>	10	43	53	(547)	636	89	-	10	1	54	102	(40)	102	(39)
Medical-Surgical Solutions	105	33	138	118	18	136	-	105	-	138	(11)	1	(11)	1
Other <sup>(a) (8)</sup>	95	205	300	74	167	241	7	102	10	310	28	24	38	29
Operating profit	820	306	1,126	355	781	1,136	7	827	11	1,137	131	(1)	133	-
Corporate	(167)	24	(143)	(108)	15	(93)	-	(167)	(1)	(144)	55	54	55	55
Income from continuing operations before interest expense and income taxes	\$ 653	\$ 330	\$ 983	\$ 247	\$ 796	\$ 1,043	\$ 7	\$ 660	\$ 10	\$ 993	164 %	(6) %	167 %	(5) %
<b>OPERATING PROFIT AS A % OF REVENUES</b>														
U.S. Pharmaceutical and Specialty Solutions	1.47 %		1.53 %	1.75 %		1.65 %		1.47 %		1.53 %	(28) bp	(12) bp	(28) bp	(12) bp
European Pharmaceutical Solutions	0.15		0.80	(8.08)		1.31		0.15		0.81	823	(51)	823	(50)
Medical-Surgical Solutions	5.39		7.08	7.11		8.19		5.39		7.08	(172)	(111)	(172)	(111)

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

<sup>(1) (6) (7) (8)</sup> 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.

# GAAP to Non-GAAP Reconciliation

## YTD Fiscal 2019 and YTD Fiscal 2018

Schedule 3B

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

	Six Months Ended September 30, 2018			Six Months Ended September 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)
<b>REVENUES</b>														
U.S. Pharmaceutical and Specialty Solutions	\$ 82,587	\$ -	\$ 82,587	\$ 80,885	\$ -	\$ 80,885	\$ -	\$ 82,587	\$ -	\$ 82,587	2 %	2 %	2 %	2 %
European Pharmaceutical Solutions	13,574	-	13,574	13,155	-	13,155	(419)	13,155	(419)	13,155	3	3	-	-
Medical-Surgical Solutions	3,651	-	3,651	3,193	-	3,193	-	3,651	-	3,651	14	14	14	14
Other <sup>(a)</sup>	5,870	-	5,870	5,879	-	5,879	2	5,872	2	5,872	-	-	-	-
Revenues	\$ 105,682	\$ -	\$ 105,682	\$ 103,112	\$ -	\$ 103,112	\$ (417)	\$ 105,265	\$ (417)	\$ 105,265	2 %	2 %	2 %	2 %
<b>OPERATING PROFIT <sup>(7)</sup></b>														
U.S. Pharmaceutical and Specialty Solutions <sup>(1)</sup>	\$ 1,153	\$ 22	\$ 1,175	\$ 1,185	\$ 14	\$ 1,199	\$ -	\$ 1,153	\$ -	\$ 1,175	(3) %	(2) %	(3) %	(2) %
European Pharmaceutical Solutions <sup>(6)</sup>	(550)	677	127	(512)	685	173	21	(529)	(4)	123	(7)	(27)	(3)	(29)
Medical-Surgical Solutions	198	65	263	226	35	261	-	198	-	263	(12)	1	(12)	1
Other <sup>(a) (2) (4) (8)</sup>	209	304	513	91	381	472	(6)	203	1	514	130	9	123	9
Operating profit	1,010	1,068	2,078	990	1,115	2,105	15	1,025	(3)	2,075	2	(1)	4	(1)
Corporate	(290)	52	(238)	(217)	12	(205)	-	(290)	-	(238)	34	16	34	16
Income from continuing operations before interest expense and income taxes	\$ 720	\$ 1,120	\$ 1,840	\$ 773	\$ 1,127	\$ 1,900	\$ 15	\$ 735	\$ (3)	\$ 1,837	(7) %	(3) %	(5) %	(3) %
<b>OPERATING PROFIT AS A % OF REVENUES</b>														
U.S. Pharmaceutical and Specialty Solutions	1.40 %		1.42 %	1.47 %		1.48 %		1.40 %		1.42 %	(7) bp	(6) bp	(7) bp	(6) bp
European Pharmaceutical Solutions	(4.05)		0.94	(3.89)		1.32		(4.02)		0.94	(16)	(38)	(13)	(38)
Medical-Surgical Solutions	5.42		7.20	7.08		8.17		5.42		7.20	(166)	(97)	(166)	(97)

<sup>(a)</sup> Other primarily includes the results of our McKesson Canada and McKesson Prescription Technology Solutions businesses. Other for fiscal year 2018 includes 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.

<sup>(1) (2) (4) (6) (7) (8)</sup> 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

The following explanations are provided for the financial results as reported under U.S. GAAP.

- 1) The second quarters of fiscal 2019 and 2018 include pre-tax credits of \$22 million and \$29 million, and the first half of fiscal 2019 and 2018 include pre-tax credits of \$43 million and \$3 million related to our last-in-first-out ("LIFO") method of accounting for inventories. The first half of fiscal 2019 includes \$35 million of net cash proceeds representing our share of antitrust legal settlements. These credits are included within our U.S. Pharmaceutical and Specialty Solutions segment.
- 2) Operating expenses for the first half of fiscal 2018 includes 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 majority of our technology business to form a joint venture, Change Healthcare in the fourth quarter of 2017. This credit is included under "Acquisition-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.
- 3) Operating expenses for the second quarter and first half of fiscal 2019 include a pre-tax credit of \$90 million (\$66 million after-tax) representing the reversal of a payable to the shareholders of Change Healthcare Holdings, Inc. associated with the Tax Receivables Agreement.
- 4) Operating expenses for the first half of fiscal 2019 includes a gain from an escrow settlement of \$97 million (pre-tax and after-tax) representing certain indemnity and other claims related to our third quarter 2017 acquisition of Rexall Health. 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.
- 5) Operating expenses for the second quarter and first half of fiscal 2019 include opioid-related costs of \$34 million pre-tax (\$25 million after-tax) and \$76 million pre-tax (\$60 million after-tax). Corporate expenses for the second quarter and first half of fiscal 2019 include opioid-related costs of \$43 million pre-tax (\$32 million after-tax) and \$59 million pre-tax (\$48 million after-tax). Opioid-related costs represent primarily litigation expenses and other-related costs.
- 6) The first half of fiscal 2019 includes non-cash goodwill impairment charges of \$570 million (pre-tax and after-tax) for our European Pharmaceutical Solutions segment. The second quarter and first half of fiscal 2018 include non-cash goodwill impairment charges of \$350 million (pre-tax and after-tax) for our European Pharmaceutical Solutions segment. These charges are included under "Other Adjustments, Net" in the reconciliation of McKesson's GAAP financial results to Adjusted Earnings (Non-GAAP) provided in the Schedule 2 of the accompanying financial statement tables.
- 7) Operating expenses for the second quarter and first half of fiscal 2019 include pre-tax restructuring and asset impairment charges of \$82 million (\$67 million after-tax) and \$178 million (\$152 million after-tax), primarily for our Canada and Europe businesses and Corporate. Operating expenses for the second quarter and first half of fiscal 2018 include pre-tax restructuring and asset impairment charges of \$236 million (\$197 million after-tax), primarily for our Europe business.
- 8) Loss from our equity method investment in Change Healthcare includes the amortization of equity investment intangibles and other acquired intangibles of \$77 million and \$73 million for second quarters of fiscal 2019 and 2018, and \$154 million and \$144 million for the first half of fiscal 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

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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, acquisition and 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 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 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, 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

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## 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 and subsequent true-up adjustments related to the December 2017 enactment of the 2017 Tax Cuts and Jobs Act during the one year measurement period; 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.