

McKesson Corporation

Q3 Fiscal 2019 Financial Performance

Financial Results and Company Highlights

January 31, 2019

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

Q3 Fiscal 2019 Governance Updates

- John Hammergren Chairman/CEO retirement effective March 31, 2019
 - Advisory capacity thereafter
 - Retain Chairman role at Change Healthcare
- Brian Tyler, current President and Chief Operating Officer, to transition to Chief Executive Officer role, effective April 1, 2019
- Edward Mueller, current lead independent director, will become Chairman, effective April 1, 2019

Business Update

Brian Tyler

President and Chief Operating Officer

Q3 Fiscal 2019 Highlights

Solid Quarterly Results; Narrowed Full-Year Guidance

Company Updates

- John Hammergren to retire as Chairman and CEO effective 3/31/19
- Brian Tyler to become CEO effective 4/1/19
- Ed Mueller to become Chairman effective 4/1/19
- Kevin Kettler appointed as Chairman of the Management Board of McKesson Europe effective 11/1/18
- Rite Aid 10-year renewal
- Operating model progress
 - Announced global headquarters move to Las Colinas
 - Expanded Genpact relationship

Business Summary

- Revenue growth of 5%
- Adjusted EPS of \$3.40, flat to prior year
- Narrowed our Fiscal 2019 Adjusted Earnings outlook to \$13.45 – \$13.65 per diluted share from \$13.20 – \$13.80 per diluted share
- Balanced capital deployment of \$0.8B in Q3

Financial Overview

Britt Vitalone

Executive Vice President and Chief Financial Officer

Q3 and YTD Fiscal 2019

GAAP to Adjusted Earnings Per Diluted Share Reconciliation

	<u>Q3</u>	<u>YTD</u>
GAAP Earnings Per Diluted Share	\$ 2.41	\$ 4.17
<u>Adjustments</u>		
Amortization of acquisition-related intangibles	0.76	2.24
Acquisition-related expenses and adjustments	0.20	0.69
LIFO inventory-related adjustments	(0.08)	(0.24)
Gains from antitrust legal settlements	(0.39)	(0.52)
Restructuring and asset impairment charges	0.47	1.23
Other adjustments	0.03	2.32
Adjusted Earnings Per Diluted Share	\$ 3.40	\$ 9.89

Q3 Fiscal 2019 Other Items

- Customer charge: \$60M, or approximately \$0.23 per diluted share, associated with a customer bankruptcy.
- Opioids: Reversed \$17M, or approximately \$0.06 per diluted share, in charges related to New York Opioid Stewardship Act, which was more than offset by higher than expected opioid-related litigation expenses.
- Discrete tax items: Recorded discrete tax benefits of \$58M, or approximately \$0.30 per diluted share, related to tax planning initiatives.

Note: All items included in both GAAP and Non-GAAP results

Condensed Consolidated Statement of Earnings

Q3 and YTD Fiscal 2019

Adjusted Results* (\$ in millions, except per share amounts)	Q3 FY 2019	YoY Change	YTD Q3 FY 2019	YoY Change
Revenues	\$56,208	5%	\$161,890	3%
Gross Profit	\$2,845	5%	\$8,351	3%
Operating Expense	(\$2,007)	8%	(\$5,854)	6%
Income from Operations before Interest Expense and Taxes	\$918	(2)%	\$2,758	(3)%
Interest Expense	(\$67)	-	(\$194)	(5)%
Income Tax Expense	(\$130)	30%	(\$428)	(21)%
Noncontrolling Interest	(\$57)	(2)%	(\$169)	-
Net Income Attributable to McKesson	\$664	(7)%	\$1,967	2%
Earnings per Share (diluted)	\$3.40	-	\$9.89	8%
Diluted Shares (in millions)	195	(6)%	199	(5)%

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

Segment Results: U.S. Pharmaceutical and Specialty Solutions

Q3 and YTD Fiscal 2019

Adjusted Results* (\$ in millions)	Q3 FY 2019	YoY Change	YTD Q3 FY 2019	YoY Change
U.S. Pharmaceutical and Specialty Solutions				
Revenues	\$44,279	6%	\$126,866	3%
Operating Profit	\$593	(2)%	\$1,768	(2)%
Operating Margin	1.34%	(10)bps	1.39%	(8)bps

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

Segment Results: European Pharmaceutical Solutions

Q3 and YTD Fiscal 2019

Adjusted Results* (\$ in millions)	Q3 FY 2019	YoY Change	YTD Q3 FY 2019	YoY Change
European Pharmaceutical Solutions				
Revenues	\$6,911	(1)%	\$20,485	2%
Operating Profit	\$69	(19)%	\$196	(24)%
Operating Margin	1.00%	(22)bps	0.96%	(32)bps

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

Segment Results: Medical-Surgical Solutions

Q3 and YTD Fiscal 2019

Adjusted Results* (\$ in millions)	Q3 FY 2019	YoY Change	YTD Q3 FY 2019	YoY Change
Medical-Surgical Solutions				
Revenues	\$2,012	19%	\$5,663	16%
Operating Profit	\$170	21%	\$433	8%
Operating Margin	8.45%	12bps	7.65%	(58)bps

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

Results: Other & Corporate

Q3 and YTD Fiscal 2019

Adjusted Results* (\$ in millions)	Q3 FY 2019	YoY Change	YTD Q3 FY 2019	YoY Change
Other				
Revenues	\$3,006	1%	\$8,876	-
Operating Profit	\$224	5%	\$737	8%
Operating Margin	NM	NM	NM	NM
Corporate				
Operating Loss	(\$138)	29%	(\$376)	21%

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

NM means not meaningful

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Cash

YTD Cash Balance Walk*

(\$ in millions)

Balance at March 31, 2018	\$	2,672
Operating Cash Flow		141
Capital Expenditures		(405)
Free Cash Flow		(264)
Acquisitions		(866)
Share Repurchases, Net		(1,388)
Dividends		(216)
Net Debt		2,145
Other		171
Net Decrease in Cash		(823)
Balance at December 31, 2018	\$	1,849

Cash Dynamics

- Operating Cash Flow reflects working capital timing and seasonal investments
- YTD share buybacks of \$1.4 billion
 - Remaining share repurchase authorization of \$3.7 billion
- Dividends paid of \$216 million
- Net debt comprised of:
 - Short-term borrowings of ~\$1.0 billion driven by commercial paper utilization
 - Q3 issuance of long-term debt of \$1.1 billion

*Cash comprises cash, cash equivalents and restricted cash

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 low-single digit	\$208.4 billion
Income from Continuing Operations before Interest Expense and Income Taxes	Down low-single digit	\$3.9 billion
Diluted Earnings per Share	\$13.45 to \$13.65	\$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	Down low- to mid-single digit
European Pharmaceutical Solutions	Flat	Decline year over year; 2HFY19 similar to 1HFY19
Medical-Surgical Solutions	Up low-double digit	High end of range of up mid- to high-single digit
Other	Flat	Up mid-single digit

Fiscal 2019 Adjusted Earnings Assumptions

(\$ and shares in millions)

FY19 Outlook	
Corporate Expenses	Increase high-single digit
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	Low end of \$600 - \$800
FX Impact	Net unfavorable impact of up to 5 cents per diluted share year over year

Appendix

Reconciliation of GAAP Amounts to Free Cash Flow

(\$M)	Q3YTD FY 19	Q3YTD FY 18	YoY Change
Major GAAP cash flow categories:			
Operating cash flow	\$ 141	\$ 1,321	\$ (1,180)
Investing cash flow	\$ (1,151)	\$ (1,952)	\$ 801
Financing cash flow	\$ 317	\$ (1,147)	\$ 1,464
Free cash flow (non-GAAP measure):			
Operating cash flow	\$ 141	\$ 1,321	\$ (1,180)
Capital expenditures for property, plant and equipment and capitalized software	\$ (405)	\$ (392)	\$ (13)
Free cash flow	\$ (264)	\$ 929	\$ (1,193)

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

Q3 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 December 31, 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 ⁽¹⁾	\$ 2,970	\$ -	\$ -	\$ (21)	\$ (104)	\$ -	\$ -	\$ 2,845	9%	5%
Operating expenses ⁽⁶⁾	\$ (2,287)	\$ 122	\$ 27	\$ -	\$ -	\$ 110	\$ 21	\$ (2,007)	22%	8%
Other income, net ⁽⁸⁾	\$ 84	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (56)	\$ 28	320%	27%
Income (Loss) from equity method investment in Change Healthcare ⁽⁹⁾	\$ (50)	\$ 75	\$ 25	\$ -	\$ -	\$ -	\$ 2	\$ 52	(44)%	(5)%
Income from continuing operations before income taxes	\$ 650	\$ 197	\$ 52	\$ (21)	\$ (104)	\$ 110	\$ (33)	\$ 851	(7)%	(2)%
Income tax expense ⁽¹⁰⁾	\$ (123)	\$ (50)	\$ (13)	\$ 6	\$ 27	\$ (18)	\$ 41	\$ (130)	(147)%	30%
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 470	\$ 147	\$ 39	\$ (15)	\$ (77)	\$ 92	\$ 8	\$ 664	(48)%	(7)%
Diluted earnings per common share from continuing operations, net of tax, attributable to McKesson Corporation ^(a)	\$ 2.41	\$ 0.76	\$ 0.20	\$ (0.08)	\$ (0.39)	\$ 0.47	\$ 0.03	\$ 3.40 ^(b)	(44)%	-%
Diluted weighted average common shares	195	195	195	195	195	195	195	195	(6)%	(6)%

Note: Please see footnote information on the following slide.

GAAP to Non-GAAP Reconciliation

Q3 Fiscal 2018

Schedule 2A
(continued)

	Quarter Ended December 31, 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⁾	\$ 2,715	\$ -	\$ 6	\$ (2)	\$ -	\$ (1)	\$ -	\$ 2,718
Operating expenses ^{(4) (7)}	\$ (1,881)	\$ 123	\$ 24	\$ -	\$ -	\$ 33	\$ (157)	\$ (1,858)
Other income, net	\$ 20	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ 1	\$ 22
Income (Loss) from equity method investment in Change Healthcare ⁽⁹⁾	\$ (90)	\$ 70	\$ 63	\$ -	\$ -	\$ -	\$ 12	\$ 55
Income from continuing operations before income taxes	\$ 697	\$ 193	\$ 94	\$ (2)	\$ -	\$ 32	\$ (144)	\$ 870
Income tax benefit (expense) ⁽¹⁰⁾	\$ 263	\$ (53)	\$ (27)	\$ 1	\$ -	\$ (4)	\$ (280)	\$ (100)
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 902	\$ 140	\$ 67	\$ (1)	\$ -	\$ 28	\$ (424)	\$ 712
Diluted earnings per common share from continuing operations, net of tax, attributable to McKesson Corporation ^(a)	\$ 4.32	\$ 0.67	\$ 0.32	\$ (0.01)	\$ -	\$ 0.14	\$ (2.03)	\$ 3.41
Diluted weighted average common shares	208	208	208	208	208	208	208	208

(a) Certain computations may reflect rounding adjustments.

(b) Adjusted Earnings per share on a Constant Currency basis for third quarter of fiscal 2019 was \$3.41 per diluted share, which excludes the foreign currency exchange effect of \$0.01 per diluted share.

Refer to the section entitled "Financial Statement Notes" at the end of this release.

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

GAAP to Non-GAAP Reconciliation

YTD Fiscal 2019

Schedule 2B

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

	Nine Months Ended December 31, 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⁾	\$ 8,553	\$ -	\$ 1	\$ (64)	\$ (139)	\$ -	\$ -	\$ 8,351	5%	3%
Operating expenses ^{(3) (5) (6)}	\$ (7,098)	\$ 364	\$ 84	\$ -	\$ -	\$ 288	\$ 508	\$ (5,854)	11%	6%
Other income, net ⁽⁸⁾	\$ 144	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ (56)	\$ 89	41%	44%
Income (Loss) from equity method investment in Change Healthcare ⁽⁹⁾	\$ (162)	\$ 229	\$ 99	\$ -	\$ -	\$ -	\$ 6	\$ 172	(40)%	(14)%
Income from continuing operations before income taxes	\$ 1,243	\$ 594	\$ 184	\$ (64)	\$ (139)	\$ 288	\$ 458	\$ 2,564	(7)%	(3)%
Income tax expense ⁽¹⁰⁾	\$ (245)	\$ (148)	\$ (46)	\$ 17	\$ 36	\$ (44)	\$ 2	\$ (428)	(633)%	(21)%
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 829	\$ 446	\$ 138	\$ (47)	\$ (103)	\$ 244	\$ 460	\$ 1,967	(31)%	2%
Diluted earnings per common share from continuing operations, net of tax, attributable to McKesson Corporation ^(a)	\$ 4.17	\$ 2.24	\$ 0.69	\$ (0.24)	\$ (0.52)	\$ 1.23	\$ 2.32	\$ 9.89 ^(b)	(27)%	8%
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

YTD Fiscal 2018

Schedule 2B
(continued)

	Nine Months Ended December 31, 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⁾	\$ 8,109	\$ -	\$ 12	\$ (5)	\$ -	\$ (1)	\$ -	\$ 8,115
Operating expenses ^{(2) (4) (5) (6) (7)}	\$ (6,403)	\$ 369	\$ 19	\$ -	\$ -	\$ 293	\$ 182	\$ (5,540)
Other income, net ⁽⁸⁾	\$ 102	\$ 1	\$ 1	\$ -	\$ -	\$ -	\$ (42)	\$ 62
Income (Loss) from equity method investment in Change Healthcare ⁽⁹⁾	\$ (271)	\$ 214	\$ 245	\$ -	\$ -	\$ -	\$ 12	\$ 200
Income from continuing operations before income taxes	\$ 1,333	\$ 584	\$ 277	\$ (5)	\$ -	\$ 292	\$ 152	\$ 2,633
Income tax benefit (expense) ⁽¹⁰⁾	\$ 46	\$ (183)	\$ (90)	\$ 2	\$ -	\$ (56)	\$ (259)	\$ (540)
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 1,210	\$ 401	\$ 187	\$ (3)	\$ -	\$ 236	\$ (107)	\$ 1,924
Diluted earnings per common share from continuing operations, net of tax, attributable to McKesson Corporation ^(a)	\$ 5.75	\$ 1.90	\$ 0.89	\$ (0.01)	\$ -	\$ 1.12	\$ (0.51)	\$ 9.14
Diluted weighted average common shares	210	210	210	210	210	210	210	210

(a) Certain computations may reflect rounding adjustments.

(b) Adjusted Earnings per share on a Constant Currency basis for fiscal 2019 was \$9.90 per diluted share, which excludes the foreign currency exchange effect of \$0.01 per diluted share.

Refer to the section entitled “Financial Statement Notes” at the end of this release.

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

GAAP to Non-GAAP Reconciliation

Q3 Fiscal 2019 and Q3 Fiscal 2018

Schedule 3A

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

	Quarter Ended December 31, 2018			Quarter Ended December 31, 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	\$ 44,279	\$ -	\$ 44,279	\$ 41,989	\$ -	\$ 41,989	\$ -	\$ 44,279	\$ -	\$ 44,279	6 %	6 %	6 %	6 %
European Pharmaceutical Solutions	6,911	-	6,911	6,989	-	6,989	228	7,139	228	7,139	(1)	(1)	2	2
Medical-Surgical Solutions	2,012	-	2,012	1,893	-	1,893	-	2,012	-	2,012	19	19	19	19
Other ^(a)	3,006	-	3,006	2,966	-	2,966	113	3,119	113	3,119	1	1	5	5
Revenues	\$ 56,208	\$ -	\$ 56,208	\$ 53,817	\$ -	\$ 53,817	\$ 341	\$ 56,549	\$ 341	\$ 56,549	5 %	5 %	5 %	5 %
OPERATING PROFIT ^(b)														
U.S. Pharmaceutical and Specialty Solutions ⁽¹⁾	\$ 871	\$ (78)	\$ 593	\$ 565	\$ 40	\$ 605	\$ -	\$ 671	\$ -	\$ 593	19 %	(2) %	19 %	(2) %
European Pharmaceutical Solutions	26	43	69	18	69	85	-	26	2	71	63	(19)	63	(16)
Medical-Surgical Solutions	136	34	170	123	18	141	-	136	-	170	11	21	11	21
Other ^{(a) (4) (7) (8) (9)}	74	150	224	180	33	213	(3)	71	2	226	(59)	5	(61)	6
Operating profit	907	149	1,056	884	160	1,044	(3)	904	4	1,060	3	1	2	2
Corporate	(190)	52	(138)	(120)	13	(107)	-	(190)	-	(138)	58	29	58	29
Income from continuing operations before interest expense and income taxes	\$ 717	\$ 201	\$ 918	\$ 764	\$ 173	\$ 937	\$ (3)	\$ 714	\$ 4	\$ 922	(6) %	(2) %	(7) %	(2) %
OPERATING PROFIT AS A % OF REVENUES														
U.S. Pharmaceutical and Specialty Solutions	1.52 %		1.34 %	1.35 %		1.44 %		1.52 %		1.34 %	17 bp	(10) bp	17 bp	(10) bp
European Pharmaceutical Solutions	0.38		1.00	0.23		1.22		0.36		0.99	15	(22)	13	(23)
Medical-Surgical Solutions	6.76		8.45	7.27		8.33		6.76		8.45	(51)	12	(51)	12

^(a) Other primarily includes the results of our McKesson Canada and McKesson Prescription Technology Solutions businesses. Other for fiscal 2018 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.

Refer to the section entitled "Financial Statement Notes" at the end 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

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

	Nine Months Ended December 31, 2018			Nine Months Ended December 31, 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	\$ 126,866	\$ -	\$ 126,866	\$ 122,854	\$ -	\$ 122,854	\$ -	\$ 126,866	\$ -	\$ 126,866	3 %	3 %	3 %	3 %
European Pharmaceutical Solutions	20,485	-	20,485	20,144	-	20,144	(191)	20,294	(191)	20,294	2	2	1	1
Medical-Surgical Solutions	5,663	-	5,663	4,886	-	4,886	-	5,663	-	5,663	16	16	16	16
Other ^(a)	8,876	-	8,876	8,845	-	8,845	115	8,991	115	8,991	-	-	2	2
Revenues	<u>\$ 161,890</u>	<u>\$ -</u>	<u>\$ 161,890</u>	<u>\$ 156,729</u>	<u>\$ -</u>	<u>\$ 156,729</u>	<u>\$ (76)</u>	<u>\$ 161,814</u>	<u>\$ (76)</u>	<u>\$ 161,814</u>	<u>3 %</u>	<u>3 %</u>	<u>3 %</u>	<u>3 %</u>
OPERATING PROFIT ^(b)														
U.S. Pharmaceutical and Specialty Solutions ⁽¹⁾⁽⁸⁾	\$ 1,824	\$ (56)	\$ 1,768	\$ 1,750	\$ 54	\$ 1,804	\$ -	\$ 1,824	\$ -	\$ 1,768	4 %	(2) %	4 %	(2) %
European Pharmaceutical Solutions ⁽⁵⁾	(524)	720	196	(496)	754	258	21	(503)	(2)	194	6	(24)	1	(25)
Medical-Surgical Solutions	334	99	433	349	53	402	-	334	-	433	(4)	8	(4)	8
Other ^{(a)(2)(3)(4)(7)(8)(9)}	283	454	737	271	414	685	(9)	274	3	740	4	8	1	8
Operating profit	1,917	1,217	3,134	1,874	1,275	3,149	12	1,929	1	3,135	2	-	3	-
Corporate	(480)	104	(376)	(337)	25	(312)	-	(480)	-	(376)	42	21	42	21
Income from continuing operations before interest expense and income taxes	<u>\$ 1,437</u>	<u>\$ 1,321</u>	<u>\$ 2,758</u>	<u>\$ 1,537</u>	<u>\$ 1,300</u>	<u>\$ 2,837</u>	<u>\$ 12</u>	<u>\$ 1,449</u>	<u>\$ 1</u>	<u>\$ 2,759</u>	<u>(7) %</u>	<u>(3) %</u>	<u>(6) %</u>	<u>(3) %</u>
OPERATING PROFIT AS A % OF REVENUES														
U.S. Pharmaceutical and Specialty Solutions	1.44 %		1.39 %	1.42 %		1.47 %		1.44 %		1.39 %	2 bp	(8) bp	2 bp	(8) bp
European Pharmaceutical Solutions	(2.56)		0.96	(2.46)		1.28		(2.48)		0.96	(10)	(32)	(2)	(32)
Medical-Surgical Solutions	5.90		7.65	7.14		8.23		5.90		7.65	(124)	(58)	(124)	(58)

^(a) Other primarily includes the results of our McKesson Canada and McKesson Prescription Technology Solutions businesses. Other for fiscal 2018 includes 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.

Refer to the section entitled "Financial Statement Notes" at the end 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 NOTES

- (1) The third quarters of fiscal 2019 and 2018 include pre-tax credits of \$21 million and \$2 million, and the first nine months of fiscal 2019 and 2018 include pre-tax credits of \$64 million and \$5 million related to our last-in, first-out ("LIFO") method of accounting for inventories. The third quarter and first nine months of fiscal 2019 include \$104 million and \$139 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 nine months of fiscal 2018 includes a pre-tax gain of \$37 million (\$22 million after-tax) for Other, 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 first nine months 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, 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) Operating expenses for the third quarter and first nine months of fiscal 2018 include a pre-tax credit of \$46 million (\$30 million after-tax) for Other, representing a reduction in our tax receivable agreement liability payable to the shareholders of Change Healthcare Holdings, Inc., as a result of the 2017 Tax Cuts and Jobs Act ("2017 Tax Act"). This credit 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 first nine months of fiscal 2019 and 2018 include non-cash goodwill impairment charges of \$570 million (pre-tax and after-tax) and \$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.
- (6) Operating expenses for the third quarter and first nine months of fiscal 2019 include pre-tax restructuring and asset impairment charges of \$110 million (\$92 million after-tax) and \$288 million (\$244 million after-tax), primarily for our retail businesses in Canada and the United Kingdom ("U.K.") and Corporate. Operating expenses for the first nine months of fiscal 2018 include pre-tax restructuring and asset impairment charges of \$242 million (\$202 million after-tax), primarily for our retail businesses in the U.K.
- (7) The third quarter and first nine months of fiscal 2018 include a pre-tax gain of \$109 million (\$30 million after-tax) recognized from the 2018 third quarter sale of our Enterprise Information Solutions ("EIS") business 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.
- (8) The third quarter and first nine months of fiscal 2019 include a pre-tax gain of \$56 million (\$41 million after-tax) recognized from the sale of an equity method investment within Other. The first nine months of fiscal 2018 include a pre-tax gain of \$43 million (\$26 million after-tax) recognized from the fiscal 2018 second quarter sale of an equity method investment within our U.S. Pharmaceutical and Specialty Solutions segment. These gains 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.
- (9) Loss from our equity method investment in Change Healthcare includes the amortization of equity investment intangibles and other acquired intangibles of \$75 million and \$70 million for the third quarters of fiscal 2019 and 2018, and \$229 million and \$214 million for the first nine months 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 within Other.
- (10) The third quarters of fiscal 2019 and 2018 include net discrete tax expenses of \$27 million and net discrete tax benefits of \$370 million, and first nine months of fiscal 2019 and 2018 include net discrete tax benefits of \$11 million and \$370 million recognized in connection with the 2017 Tax Act. These discrete tax expenses and benefits 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.

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; 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.