

McKesson Corporation
Fiscal 2019 Financial Results
Fiscal 2020 Annual Outlook

May 8, 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, as amended, that involve risks and uncertainties that could cause actual results to differ materially from those in those 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 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 performance of the company’s investment in Change Healthcare; the company’s ability to manage and complete divestitures; 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 or intangible assets; 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. 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.

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

Solid Results Provide Improving Momentum Entering Fiscal 2020

Company Updates

- Renewed pharmaceutical distribution relationship with CVS Health through June 2023
- Board of Directors formed the Compliance Committee to enhance oversight of our compliance programs and identify and evaluate risks
- Accelerating Management Actions
 - Immediate actions to improve operational performance
 - Q4 restructuring actions, primarily in European business
 - Cost savings target¹ increased to \$400M-\$500M by end of FY21
- Enhanced Leadership and Executive Team
 - Kirk Kaminsky appointed president of U.S. Pharmaceutical and Specialty Solutions business effective April 15, 2019
 - Tracy Faber appointed executive vice president and chief human resources officer effective October 1, 2019, following Jorge Figueredo's announced retirement

¹Gross pre-tax annual run rate savings

²3% on an FX-Adjusted basis

Business Summary

- Q4 revenue growth of 2%² and full-year revenue growth of 3%
- Adjusted Earnings per diluted share of \$3.69 for Q4 and \$13.57 for full year
- Full-year Fiscal 2019 operating cash flow of \$4.0B and free cash flow of \$3.5B
- Fiscal 2020 Adjusted Earnings outlook of \$13.85 to \$14.45 per diluted share

Q4 and Full-Year Fiscal 2019 Items

- Q4 GAAP loss per diluted share and full-year GAAP earnings per diluted share included after-tax net charges totaling ~\$1.5 billion and ~\$2.2 billion, respectively, or \$7.63 and \$11.00 per diluted share, respectively, reflecting non-cash goodwill and long-lived asset impairment charges, as well as restructuring charges largely in the company's European businesses
- Full-year Fiscal 2019 GAAP operating profit includes \$151 million of opioid-related expenses, including \$37 million to resolve all claims regarding McKesson's operations with the State of West Virginia
- Returned \$1.9 billion to shareholders through share repurchases and dividends in Fiscal 2019

Condensed Consolidated Statement of Earnings

Q4 and Full Year Fiscal 2019

Adjusted Results (\$ in millions, except per share amounts)	Q4 FY 2019	YoY Change	Full Year FY 2019	YoY Change
Revenues	\$52,429	2%	\$214,319	3%
Gross Profit	\$2,996	- %	\$11,347	2%
Operating Expenses	(\$2,078)	1%	(\$7,932)	4%
Income from Continuing Operations before Interest Expense and Income Taxes	\$1,026	- %	\$3,784	(2)%
Interest Expense	(\$70)	(11)%	(\$264)	(7)%
Income Tax Expense	(\$197)	21%	(\$625)	(11)%
Noncontrolling Interests	(\$52)	(15)%	(\$221)	(4)%
Net Income Attributable to McKesson	\$707	(2)%	\$2,674	1%
Earnings per Share (diluted)	\$3.69	6%	\$13.57	8%
Diluted Shares (in millions)	192	(7)%	197	(6)%

U.S. Pharmaceutical and Specialty Solutions

Q4 and Full Year Fiscal 2019 Results

Adjusted Results (\$ in millions)	Q4 FY 2019	YoY Change	Full Year FY 2019	YoY Change
U.S. Pharmaceutical and Specialty Solutions				
Revenues	\$40,897	3%	\$167,763	3%
Operating Profit	\$752	(1)%	\$2,520	(2)%
Operating Margin	1.84%	(8) bp	1.50%	(8) bp

- Q4 revenue growth primarily driven by growth in McKesson Plasma and Biologics and BDI Pharma, and our specialty businesses, partially offset by brand to generic conversions and Q4 Fiscal 2018 customer losses
- Q4 operating profit decline driven by Q4 Fiscal 2018 customer losses, partially offset by strong growth in our specialty businesses

European Pharmaceutical Solutions

Q4 and Full Year Fiscal 2019 Results

Adjusted Results (\$ in millions)	Q4 FY 2019	YoY Change	Full Year FY 2019	YoY Change
European Pharmaceutical Solutions				
Revenues	\$6,757	(6)%	\$27,242	-
Operating Profit	\$23	(72)%	\$219	(36)%
Operating Margin	0.34%	(80) bp	0.80%	(44) bp

- Q4 FX-Adjusted revenue of \$7,293 million, up 2% YoY, primarily driven by our wholesale business, partially offset by ongoing weakness in our U.K. retail pharmacy business
- Q4 FX-Adjusted operating profit of \$26 million, down 68% YoY, primarily driven by an unfavorable inventory charge of approximately \$20 million and ongoing weakness in our U.K. retail pharmacy business
- Actions taken in Q4 focused on consolidation of businesses as well as expected further closures of retail pharmacy stores across Europe

Medical-Surgical Solutions

Q4 and Full Year Fiscal 2019 Results

Adjusted Results (\$ in millions)	Q4 FY 2019	YoY Change	Full Year FY 2019	YoY Change
Medical-Surgical Solutions				
Revenues	\$1,955	13%	\$7,618	15%
Operating Profit	\$172	21%	\$605	11%
Operating Margin	8.80%	57 bp	7.94%	(29) bp

- Q4 revenue growth primarily driven by Medical Specialty Distributors (MSD) acquisition and growth in the Primary Care and Lab Solutions businesses
- Q4 operating profit growth driven by contribution from MSD, operational performance and cost management

Other & Corporate

Q4 and Full Year Fiscal 2019 Results

Adjusted Results (\$ in millions)	Q4 FY 2019	YoY Change	Full Year FY 2019	YoY Change
Other				
Revenues	\$2,820	(6)%	\$11,696	(1)%
Operating Profit	\$258	6%	\$995	7%
Operating Margin	NM	NM	NM	NM
Corporate				
Operating Loss	(\$179)	(13)%	(\$555)	7%

- Other includes McKesson Canada, McKesson Prescription Technology Solutions (MRxTS) and equity income from Change Healthcare
- Q4 operating profit growth driven primarily by MRxTS
- Full-year corporate expenses impacted by increase in opioid-related expenses, totaling \$114 million, and investments in technology infrastructure

NM means not meaningful

Cash

Full Year Cash Balance Walk*

(\$ in millions)

Balance at March 31, 2018	\$	2,672
Operating Cash Flow		4,036
Capital Expenditures		(557)
Free Cash Flow		3,479
Acquisitions		(905)
Other Investing Cash Flows		81
Share repurchases		(1,639)
Dividends paid		(292)
Proceeds from Issuance of long-term debt		1,099
Repayment of long-term debt		(1,112)
Other Financing Cash Flows and FX		(402)
Net Increase in Cash		309
Balance at March 31, 2019	\$	2,981

*Cash comprises cash, cash equivalents and restricted cash

Cash Dynamics

- Operating cash flow reflects strong working capital performance and timing
- Share repurchases of \$1.6 billion
 - Remaining share repurchase authorization of \$3.5 billion
- Dividends paid of \$292 million
- Paid \$905 million for acquisitions, including Medical Specialties Distributors (MSD)

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 May 8, 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	\$13.85 to \$14.45	\$13.57
Free Cash Flow	\$2.8 to \$3.0 billion	\$3.5 billion

Fiscal 2020 Segment Adjusted Earnings Outlook

Year-over-Year Percent Change

	Revenues	Operating Profit
U.S. Pharmaceutical and Specialty Solutions	Low- to mid-single digit growth	Low- to mid-single digit growth
European Pharmaceutical Solutions	Low- to mid-single digit growth	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

Fiscal 2020 Adjusted Earnings Assumptions

(\$ and shares in millions)

	FY20 Outlook
Corporate Expenses	\$725 - \$775
Income From Equity Method Investment Attributable to McKesson's Interest in Change Healthcare ¹	\$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

¹Assumes 70% equity ownership through March 31, 2020

Appendix

Reconciliation of GAAP Amounts to Free Cash Flow

(\$ in millions)	FY 2019	FY 2018	YoY Change
Major GAAP cash flow categories:			
Operating cash flow	\$ 4,036	\$ 4,345	\$ (309)
Investing cash flow	\$ (1,381)	\$ (2,993)	\$ 1,612
Financing cash flow	\$ (2,227)	\$ (3,084)	\$ 857
Free cash flow (non-GAAP measure):			
Operating cash flow	\$ 4,036	\$ 4,345	\$ (309)
Payments for property, plant and equipment and capitalized software expenditures	\$ (557)	\$ (580)	\$ 23
Free cash flow	\$ 3,479	\$ 3,765	\$ (286)

GAAP to Non-GAAP Reconciliation

Q4 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 March 31, 2019								Change 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⁾	\$ 3,201	\$ -	\$ -	\$ (146)	\$ (63)	\$ 4	\$ -	\$ 2,996	4%	-%
Operating expenses ^{(5) (6)}	\$ (3,770)	\$ 121	\$ 34	\$ -	\$ -	\$ 309	\$ 1,228	\$ (2,078)	(6)%	1%
Other income, net	\$ 38	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38	36%	36%
Income (loss) from equity method investment in Change Healthcare ⁽⁹⁾	\$ (32)	\$ 75	\$ 27	\$ -	\$ -	\$ -	\$ -	\$ 70	(239)%	(3)%
Income (loss) from continuing operations before income taxes	\$ (633)	\$ 196	\$ 61	\$ (146)	\$ (63)	\$ 313	\$ 1,228	\$ 956	(42)%	1%
Income tax expense	\$ (111)	\$ (47)	\$ (15)	\$ 37	\$ 16	\$ (58)	\$ (19)	\$ (197)	NM	21%
Income (loss) from continuing operations, net of tax, attributable to McKesson Corporation	\$ (796)	\$ 149	\$ 46	\$ (109)	\$ (47)	\$ 255	\$ 1,209	\$ 707	(31)%	(2)%
Diluted earnings (loss) per common share from continuing operations, net of tax, attributable to McKesson Corporation ^{(a) (b)}	\$ (4.17)	\$ 0.78	\$ 0.24	\$ (0.56)	\$ (0.24)	\$ 1.33	\$ 6.30	\$ 3.69 ^(c)	(25)%	6%
Diluted weighted average common shares	191	192	192	192	192	192	192	192	(7)%	(7)%

Note: Please see footnote information on the following slide.

GAAP to Non-GAAP Reconciliation

Q4 Fiscal 2018

Schedule 2A
(continued)

	Quarter Ended March 31, 2018							
	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⁾	\$ 3,075	\$ -	\$ 2	\$ (94)	\$ -	\$ -	\$ -	\$ 2,983
Operating expenses ^{(5) (6)}	\$ (4,019)	\$ 134	\$ 49	\$ -	\$ -	\$ 387	\$ 1,389	\$ (2,060)
Other income, net	\$ 28	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ (1)	\$ 28
Income from equity method investment in Change Healthcare ⁽⁹⁾	\$ 23	\$ 74	\$ 48	\$ -	\$ -	\$ -	\$ (73)	\$ 72
Loss on debt extinguishment ⁽¹⁰⁾	\$ (122)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 122	\$ -
Income (loss) from continuing operations before income taxes	\$ (1,094)	\$ 208	\$ 100	\$ (94)	\$ -	\$ 387	\$ 1,437	\$ 944
Income tax benefit (expense) ⁽¹¹⁾	\$ 7	\$ (64)	\$ (34)	\$ 33	\$ -	\$ (33)	\$ (72)	\$ (163)
Income (loss) from continuing operations, net of tax, attributable to McKesson Corporation	\$ (1,148)	\$ 144	\$ 66	\$ (61)	\$ -	\$ 354	\$ 1,365	\$ 720
Diluted earnings (loss) per common share from continuing operations, net of tax, attributable to McKesson Corporation ^{(a) (b)}	\$ (5.58)	\$ 0.70	\$ 0.31	\$ (0.29)	\$ -	\$ 1.72	\$ 6.60	\$ 3.49
Diluted weighted average common shares	206	207	207	207	207	207	207	207

^(a) Certain computations may reflect rounding adjustments.

^(b) Diluted net loss per share for the fourth quarters of fiscal 2019 and 2018, as reported under GAAP, is calculated using a weighted average of 191 million and 206 million common shares and excludes dilutive securities from the denominator due to their antidilutive effects. Potentially dilutive securities were excluded from the fiscal 2019 and 2018 GAAP per share computations due to our reported net loss for the fourth quarters of fiscal 2019 and 2018. Diluted adjusted earnings (Non-GAAP) per share, and GAAP to Non-GAAP per share reconciling items, are calculated using a weighted average of 192 million and 207 million common shares and include dilutive securities for the fourth quarters of fiscal 2019 and 2018. Any cross-footing differences in per share amounts are due to a difference in weighted average shares outstanding in calculating GAAP net loss and non-GAAP net income.

^(c) Adjusted Earnings per share on an FX-Adjusted basis for the fourth quarter of fiscal 2019 was \$3.71 per diluted share, which excludes the foreign currency exchange effect of \$0.02 per diluted share.

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

Full Year Fiscal 2019

Schedule 2B

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

	Year Ended March 31, 2019								Change Vs. Prior Year	
	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⁾	\$ 11,754	\$ -	\$ 1	\$ (210)	\$ (202)	\$ 4	\$ -	\$ 11,347	5%	2%
Operating expenses ^{(3) (5) (6)}	\$ (10,868)	\$ 485	\$ 118	\$ -	\$ -	\$ 597	\$ 1,736	\$ (7,932)	4%	4%
Other income, net ⁽⁶⁾	\$ 182	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ (56)	\$ 127	40%	41%
Income (loss) from equity method investment in Change Healthcare ⁽⁹⁾	\$ (194)	\$ 304	\$ 126	\$ -	\$ -	\$ -	\$ 6	\$ 242	(22)%	(11)%
Income (loss) from continuing operations before income taxes	\$ 610	\$ 790	\$ 245	\$ (210)	\$ (202)	\$ 601	\$ 1,686	\$ 3,520	155%	(2)%
Income tax expense	\$ (356)	\$ (195)	\$ (61)	\$ 54	\$ 52	\$ (102)	\$ (17)	\$ (625)	(772)%	(11)%
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 33	\$ 595	\$ 184	\$ (156)	\$ (150)	\$ 499	\$ 1,669	\$ 2,674	(47)%	1%
Diluted earnings per common share from continuing operations, net of tax, attributable to McKesson Corporation ^(a)	\$ 0.17	\$ 3.02	\$ 0.93	\$ (0.79)	\$ (0.76)	\$ 2.53	\$ 8.47	\$ 13.57 ^(b)	(43)%	8%
Diluted weighted average common shares	197	197	197	197	197	197	197	197	(6)%	(6)%

Note: Please see footnote information on the following slide.

GAAP to Non-GAAP Reconciliation

Full Year Fiscal 2018

Schedule 2B
(continued)

	Year Ended March 31, 2018							
	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⁾	\$ 11,184	\$ -	\$ 14	\$ (99)	\$ -	\$ (1)	\$ -	\$ 11,098
Operating expenses ^{(2) (4) (5) (6) (7)}	\$ (10,422)	\$ 503	\$ 68	\$ -	\$ -	\$ 680	\$ 1,571	\$ (7,600)
Other income, net ⁽⁸⁾	\$ 130	\$ 1	\$ 2	\$ -	\$ -	\$ -	\$ (43)	\$ 90
Income (loss) from equity method investment in Change Healthcare ⁽⁹⁾	\$ (248)	\$ 288	\$ 293	\$ -	\$ -	\$ -	\$ (61)	\$ 272
Loss on debt extinguishment ⁽¹⁰⁾	\$ (122)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 122	\$ -
Income from continuing operations before income taxes	\$ 239	\$ 792	\$ 377	\$ (99)	\$ -	\$ 679	\$ 1,589	\$ 3,577
Income tax benefit (expense) ⁽¹¹⁾	\$ 53	\$ (247)	\$ (124)	\$ 35	\$ -	\$ (89)	\$ (331)	\$ (703)
Income from continuing operations, net of tax, attributable to McKesson Corporation	\$ 62	\$ 545	\$ 253	\$ (64)	\$ -	\$ 590	\$ 1,258	\$ 2,644
Diluted earnings per common share from continuing operations, net of tax, attributable to McKesson Corporation ^(a)	\$ 0.30	\$ 2.60	\$ 1.20	\$ (0.31)	\$ -	\$ 2.82	\$ 6.01	\$ 12.62
Diluted weighted average common shares	209	209	209	209	209	209	209	209

^(a) Certain computations may reflect rounding adjustments.

^(b) Adjusted Earnings per share on an FX-adjusted basis for fiscal 2019 was \$13.59 per diluted share, which excludes the foreign currency exchange effect of \$0.02 per diluted share.

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

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GAAP to Non-GAAP Reconciliation

Q4 Fiscal 2019 and Q4 Fiscal 2018

Schedule 3A

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

	Quarter Ended March 31, 2019			Quarter Ended March 31, 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	\$ 40,897	\$ -	\$ 40,897	\$ 39,733	\$ -	\$ 39,733	\$ -	\$ 40,897	\$ -	\$ 40,897	3 %	3 %	3 %	3 %
European Pharmaceutical Solutions	6,757	-	6,757	7,176	-	7,176	536	7,293	536	7,293	(6)	(6)	2	2
Medical-Surgical Solutions	1,955	-	1,955	1,725	-	1,725	-	1,955	-	1,955	13	13	13	13
Other ^(a)	2,820	-	2,820	2,994	-	2,994	131	2,951	131	2,951	(6)	(6)	(1)	(1)
Revenues	<u>\$ 52,429</u>	<u>\$ -</u>	<u>\$ 52,429</u>	<u>\$ 51,628</u>	<u>\$ -</u>	<u>\$ 51,628</u>	<u>\$ 667</u>	<u>\$ 53,096</u>	<u>\$ 667</u>	<u>\$ 53,096</u>	2 %	2 %	3 %	3 %
OPERATING PROFIT (LOSS)^{(a) (b)}														
U.S. Pharmaceutical and Specialty Solutions ⁽¹⁾	\$ 873	\$ (121)	\$ 752	\$ 785	\$ (23)	\$ 762	\$ -	\$ 873	\$ -	\$ 752	11 %	(1) %	11 %	(1) %
European Pharmaceutical Solutions	(1,454)	1,477	23	(1,185)	1,267	82	(108)	(1,562)	3	26	23	(72)	32	(68)
Medical-Surgical Solutions	121	51	172	112	30	142	-	121	-	172	8	21	8	21
Other ^{(a) (b) (c)}	111	147	258	(378)	621	243	3	114	3	261	129	6	130	7
Operating profit (loss)	(349)	1,554	1,205	(666)	1,895	1,229	(105)	(454)	6	1,211	(48)	(2)	(32)	(1)
Corporate	(214)	35	(179)	(227)	21	(206)	-	(214)	-	(179)	(6)	(13)	(6)	(13)
Income (loss) from continuing operations before interest expense and income taxes	<u>\$ (563)</u>	<u>\$ 1,589</u>	<u>\$ 1,026</u>	<u>\$ (893)</u>	<u>\$ 1,916</u>	<u>\$ 1,023</u>	<u>\$ (105)</u>	<u>\$ (668)</u>	<u>\$ 6</u>	<u>\$ 1,032</u>	(37) %	- %	(25) %	1 %
OPERATING PROFIT (LOSS) AS A % OF REVENUES														
U.S. Pharmaceutical and Specialty Solutions	2.13 %		1.84 %	1.98 %		1.92 %		2.13 %		1.84 %	15 bp	(8) bp	15 bp	(8) bp
European Pharmaceutical Solutions	(21.52)		0.34	(16.51)		1.14		(21.42)		0.36	(501)	(80)	(491)	(78)
Medical-Surgical Solutions	6.19		8.80	6.49		8.23		6.19		8.80	(30)	57	(30)	57

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

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GAAP to Non-GAAP Reconciliation

Full Year Fiscal 2019 and Full Year Fiscal 2018

Schedule 3B

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

	Year Ended March 31, 2019			Year Ended March 31, 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	\$ 167,763	\$ -	\$ 167,763	\$ 162,587	\$ -	\$ 162,587	\$ -	\$ 167,763	\$ -	\$ 167,763	3 %	3 %	3%	3 %
European Pharmaceutical Solutions	27,242	-	27,242	27,320	-	27,320	345	27,587	345	27,587	-	-	1	1
Medical-Surgical Solutions	7,618	-	7,618	6,611	-	6,611	-	7,618	-	7,618	15	15	15	15
Other ^(a)	11,696	-	11,696	11,839	-	11,839	246	11,942	246	11,942	(1)	(1)	1	1
Revenues	<u>\$ 214,319</u>	<u>\$ -</u>	<u>\$ 214,319</u>	<u>\$ 208,357</u>	<u>\$ -</u>	<u>\$ 208,357</u>	<u>\$ 591</u>	<u>\$ 214,910</u>	<u>\$ 591</u>	<u>\$ 214,910</u>	<u>3 %</u>	<u>3 %</u>	<u>3%</u>	<u>3 %</u>
OPERATING PROFIT^(a)														
U.S. Pharmaceutical and Specialty Solutions ^{(1)(a)}	\$ 2,697	\$ (177)	\$ 2,520	\$ 2,535	\$ 31	\$ 2,566	\$ -	\$ 2,697	\$ -	\$ 2,520	6 %	(2) %	6%	(2) %
European Pharmaceutical Solutions	(1,978)	2,197	219	(1,681)	2,021	340	(87)	(2,065)	1	220	18	(36)	23	(35)
Medical-Surgical Solutions	455	150	605	461	83	544	-	455	-	605	(1)	11	(1)	11
Other ^{(a)(2)(5)(4)(7)(8)(9)}	394	601	995	(107)	1,035	928	(6)	388	6	1,001	468	7	463	8
Operating profit	1,568	2,771	4,339	1,208	3,170	4,378	(93)	1,475	7	4,346	30	(1)	22	(1)
Corporate	(694)	139	(555)	(564)	46	(518)	-	(694)	-	(555)	23	7	23	7
Income from continuing operations before interest expense and income taxes	<u>\$ 874</u>	<u>\$ 2,910</u>	<u>\$ 3,784</u>	<u>\$ 644</u>	<u>\$ 3,216</u>	<u>\$ 3,860</u>	<u>\$ (93)</u>	<u>\$ 781</u>	<u>\$ 7</u>	<u>\$ 3,791</u>	<u>36 %</u>	<u>(2) %</u>	<u>21%</u>	<u>(2) %</u>
OPERATING PROFIT (LOSS) AS A % OF REVENUES														
U.S. Pharmaceutical and Specialty Solutions	1.61 %		1.50 %	1.56 %		1.58 %		1.61 %		1.50 %	5 bp	(8) bp	5 bp	(8) bp
European Pharmaceutical Solutions	(7.26)		0.80	(6.15)		1.24		(7.49)		0.80	(111)	(44)	(134)	(44)
Medical-Surgical Solutions	5.97		7.94	6.97		8.23		5.97		7.94	(100)	(29)	(100)	(29)

^(a) Other primarily includes the results of our McKesson Canada and McKesson Prescription Technology Solutions businesses. Other for fiscal 2018 includes 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 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) The fourth quarters of fiscal 2019 and 2018 include pre-tax credits of \$146 million and \$94 million, and fiscal 2019 and 2018 include pre-tax credits of \$210 million and \$99 million related to our last-in, first-out ("LIFO") method of accounting for inventories. The fourth quarter of fiscal 2019 and fiscal 2019 include \$63 million and \$202 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 fiscal 2018 include 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 fiscal 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 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) Operating expenses for 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 fourth quarter of fiscal 2019 and fiscal 2019 include pre-tax non-cash goodwill impairment charges of \$1,206 million (\$1,186 million after-tax) and \$1,776 million (\$1,756 million after-tax) for our European Pharmaceutical Solutions segment. The fourth quarter of fiscal 2018 and fiscal 2018 include non-cash goodwill impairment charges (pre-tax and after-tax) of \$933 million and \$1,283 million for our European Pharmaceutical Solutions segment. The fourth quarter of fiscal 2018 and fiscal 2018 also include non-cash goodwill impairment charges (pre-tax and after-tax) of \$455 million for Rexall Health, within Other. 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 fourth quarter of fiscal 2019 and fiscal 2019 include pre-tax restructuring and asset impairment charges of \$309 million (\$251 million after-tax) and \$597 million (\$495 million after-tax), primarily for our retail businesses in Canada and the United Kingdom and Corporate. Operating expenses for the fourth quarter of fiscal 2018 and fiscal 2018 include pre-tax restructuring and asset impairment charges of \$387 million (\$354 million after-tax) and \$680 million (\$591 million after-tax), primarily for our Europe business.
- (7) Fiscal 2018 includes a pre-tax gain of \$109 million (\$30 million after-tax) recognized from the fiscal 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) Fiscal 2019 includes a pre-tax gain of \$56 million (\$41 million after-tax) recognized from the sale of an equity investment within Other. Fiscal 2018 includes a pre-tax gain of \$43 million (\$26 million after-tax) recognized from the fiscal 2018 second quarter sale of an equity 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 \$74 million for the fourth quarters of fiscal 2019 and 2018, and \$304 million and \$288 million for fiscal 2019 and 2018. The fourth quarter of fiscal 2018 and fiscal 2018 include our proportionate share of tax benefits recognized by Change Healthcare related to the 2017 Tax Act of \$76 million. The amortization expenses and 2017 Tax Act benefits are included in our proportionate share of the loss from our equity method investment in Change Healthcare within Other.
- (10) The fourth quarter of fiscal 2018 and fiscal 2018 include a pre-tax loss of \$122 million (\$78 million after-tax) on debt extinguishment related to our February 2018 tender offers to redeem a portion of our existing debt. 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.
- (11) The fourth quarter of fiscal 2018 and fiscal 2018 include net discrete tax benefits of \$54 million and \$424 million recognized in connection with the 2017 Tax Act. These discrete tax 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 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, 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 presentation.

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.

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.

Supplemental Non-GAAP Financial Information

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SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION (continued)

- **FX-Adjusted (Non-GAAP):** McKesson also presents its financial results on an FX-Adjusted basis, which is the same measure formerly designated Constant Currency. 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.
- **Free Cash Flow (Non-GAAP):** McKesson also provides free cash flow, a non-GAAP measure. Free cash flow is defined as net cash provided by operating activities less payments for property, plant and equipment and capitalized software expenditures, as outlined in the company's condensed consolidated statements of cash flows.

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 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.