# McKESSON CORPORATION REPORTS FISCAL 2023 SECOND-QUARTER RESULTS AND RAISES FULL-YEAR GUIDANCE

**Second-Quarter Highlights:**

- Total revenues of $70.2 billion increased 5%.
- Earnings per diluted share from continuing operations of $6.46 increased $4.75.
- Adjusted Earnings per Diluted Share of $6.06 decreased 1%.
- Adjusted Earnings per Diluted Share increased 11% when excluding certain items[1].

**Fiscal 2023 Outlook:**

- Increased fiscal 2023 Adjusted Earnings per Diluted Share guidance range to $24.45 to $24.95, from the previous range of $23.95 to $24.65.
- Fiscal 2023 Adjusted Earnings per Diluted Share guidance includes approximately $1.45 to $1.65, an increase from the previous range of $0.99 to $1.29, attributable to the following:
  - $0.60 to $0.70 related to the U.S. government's COVID-19 vaccine distribution program;
  - $1.00 to $1.10 related to the U.S. government's kitting, storage, and distribution of ancillary supplies program and COVID-19 tests;
  - Approximately ($0.15) related to year-to-date net gains and losses associated with McKesson Ventures' equity investments.
- Fiscal 2023 Adjusted Earnings per Diluted Share guidance indicates 11% to 14% forecasted growth compared to prior year, excluding the impacts of the above items from both fiscal 2023 guidance and fiscal 2022 results.

**IRVING, Texas, November 1, 2022 -** McKesson Corporation (NYSE:MCK) today reported results for the second-quarter ended September 30, 2022.

**Fiscal 2023 Second-Quarter Result Summary**

| | Second-Quarter | | | Year-to-Date | | |
|---|---|---|---|---|---|---|
| *($ in millions, except per share amounts)* | **FY23** | **FY22** | **Change** | **FY23** | **FY22** | **Change** |
| **Revenues** | $ 70,157 | $ 66,576 | 5 % | $137,311 | $129,250 | 6 % |
| **Income from Continuing Operations [2]** | 932 | 267 | 249 | 1,698 | 756 | 125 |
| **Adjusted Earnings [2,3]** | 874 | 958 | (9) | 1,725 | 1,838 | (6) |
| **Earnings per Diluted Share [2]** | 6.46 | 1.71 | 278 | 11.71 | 4.82 | 143 |
| **Adjusted Earnings per Diluted Share [2,3]** | 6.06 | 6.15 | (1) | 11.89 | 11.71 | 2 |

[1] Certain items refer to the impacts attributable to the U.S. government's COVID-19 vaccine distribution of $0.41 in 1H FY23, $0.58 in 1H FY22, and $0.89 in FY22; kitting, storage, and distribution of ancillary supplies and COVID-19 tests of $0.58 in 1H FY23, $0.79 in 1H FY22, and $1.78 in FY22; and net gains and losses associated with McKesson Ventures' equity investments of approximately ($0.15) in 1H FY23, $0.49 in 1H FY22, and $0.47 in FY22

[2] Reflects continuing operations attributable to McKesson, net of tax

[3] Represents a non-GAAP financial measure; refer to the reconciliations of non-GAAP financial measures included in accompanying schedules

"Our financial results for the second quarter demonstrate how the continued development of our strategy, operating execution, and talented teams are driving solid growth. This performance enables further investments in both our oncology and biopharma businesses, which are foundations for our ability to deliver long term shareholder value," said Brian Tyler, chief executive officer. "McKesson continues to advance as a diversified healthcare services leader. Our expanding capabilities, combined with continued execution, give us the confidence in our outlook, and as a result, we are raising our guidance for fiscal 2023 Adjusted Earnings per Diluted Share to $24.45 to $24.95."

Second-quarter revenues were $70.2 billion, an increase of 5% from a year ago, primarily driven by growth in the U.S. Pharmaceutical segment, resulting from increased specialty product volumes, including retail national account customers, and market growth, partially offset by lower revenues in the International segment as a result of the progress on the planned divestiture of McKesson's European business.

Second-quarter earnings per diluted share from continuing operations was $6.46 compared to $1.71 a year ago, an increase of $4.75.

Second-quarter Adjusted Earnings per Diluted Share was $6.06 compared to $6.15 a year ago, a decrease of 1%, driven by prior year net gains from McKesson Ventures' equity investments and lower contribution from the U.S. government's COVID-19 vaccine distribution, kitting, and storage programs and COVID-19 tests, partially offset by a lower share count. Second-quarter Adjusted Earnings per Diluted Share included pre-tax net losses of approximately $3 million associated with McKesson Ventures' equity investments, compared to pre-tax net gains of approximately $97 million in the second-quarter of fiscal 2022.

For the first six months of the fiscal year, McKesson returned $1.6 billion of cash to shareholders, which included $1.5 billion of common stock repurchases and $139 million of dividend payments. During the first six months of the fiscal year, McKesson generated cash from operations of $166 million, and invested $222 million in capital expenditures, resulting in negative Free Cash Flow of $56 million.

**Business Highlights**

- McKesson signed an agreement in principle to extend its pharmaceutical distribution partnership with CVS Health through June 2027.
- McKesson continues to expand its differentiated oncology and biopharma businesses, further demonstrating meaningful progress against its company priorities.
    - On October 31, 2022, McKesson and HCA Healthcare completed its transaction and formed a joint venture combining McKesson's US Oncology Research and HCA Healthcare's Sarah Cannon Research Institute to advance cancer care and increase access to oncology clinical research. McKesson also acquired Genospace, a leading innovator in precision medicine and clinical trial matching.
    - On November 1, 2022, McKesson closed the transaction of Rx Savings Solutions (RxSS), a prescription price transparency and benefit insight company that offers affordability and adherence solutions to health plans and employers.
- McKesson progressed in its planned exit of business operations within the European region and has completed divestitures in 11 of the 12 countries. After entering into an agreement in July 2021 to sell certain McKesson Europe businesses in France, Italy, Ireland, Portugal, Belgium, and Slovenia to the PHOENIX Group, McKesson closed the transaction on October 31, 2022.

**U.S. Pharmaceutical Segment**

- Second-quarter revenues were $60.1 billion, an increase of 12%, driven by increased volume of specialty products, including higher volumes from retail national account customers, and market growth, partially offset by branded to generic conversions.
- Second-quarter Segment Operating Profit was $896 million. Adjusted Segment Operating Profit was $756 million, an increase of 3%, driven by growth in distribution of specialty products to providers and health systems, partially offset by lower demand of COVID-19 vaccine distribution. Excluding the impact of COVID-19 vaccine distribution, the U.S. Pharmaceutical segment delivered Adjusted Segment Operating Profit growth of 5%.

**Prescription Technology Solutions Segment**

- Second-quarter revenues were $1.0 billion, an increase of 9%, driven by growth in prescription volumes in our third-party logistics business and higher technology service revenues.
- Second-quarter Segment Operating Profit was $120 million. Adjusted Segment Operating Profit was $141 million, a decrease of 2%, driven by higher operating expenses, resulting from increased headcount associated with annual support of customer programs.

**Medical-Surgical Solutions Segment**

- Second-quarter revenues were $2.8 billion, a decrease of 9%, driven by lower sales of COVID-19 tests, partially offset by growth in the primary care business.
- Second-quarter Segment Operating Profit was $299 million. Adjusted Segment Operating Profit was $307 million, a decrease of 4%, driven by lower sales of COVID-19 tests, partially offset by organic business performance. Excluding the impact of COVID-19 related items, the Medical-Surgical Solutions segment delivered Adjusted Segment Operating Profit growth of 7%.

**International Segment**

- Second-quarter revenues were $6.2 billion. On an FX-Adjusted basis, revenues were $6.9 billion, a decrease of 25%, driven by the divestitures of McKesson's UK and Austrian businesses.
- Second-quarter Segment Operating Loss was $37 million. On an FX-Adjusted basis, Adjusted Segment Operating Profit was $151 million, a decrease of 7%, driven by the divestitures of McKesson's UK and Austrian businesses.

**Company Updates**

- Kathleen Wilson-Thompson, a member of McKesson's independent Directors, was recognized with the Distinguished Alumna Award by the DirectWomen Organization for her leadership and contributions to board service.
- Brian Tyler signed the Disability:IN's "CEO Letter on Disability Inclusion," reaffirming McKesson's commitment to create an inclusive workplace for its employees.

## Fiscal 2023 Outlook

McKesson raised fiscal 2023 Adjusted Earnings per Diluted Share guidance to $24.45 to $24.95 from the previous range of $23.95 to $24.65 to reflect operating business performance and increased contribution from the U.S. government's COVID-19 vaccine distribution, kitting, and storage programs and COVID-19 tests.

Fiscal 2023 Adjusted Earnings per Diluted Share guidance includes approximately $1.45 to $1.65 of impacts attributable to the following:

| | November 2022 Outlook | August 2022 Outlook |
|---|---|---|
| U.S. government's COVID-19 vaccine distribution program | $0.60 to $0.70 | $0.35 to $0.45 |
| U.S. government's kitting, storage, and distribution of ancillary supplies program and COVID-19 tests | $1.00 to $1.10 | $0.75 to $0.95 |
| Net gains and losses associated with McKesson Ventures' equity investments | Approximately ($0.15) | ($0.11) |
| **Total impact of items** | **$1.45 to $1.65** | **$0.99 to $1.29** |

Fiscal 2023 Adjusted Earnings per Diluted Share guidance indicates 11% to 14% forecasted growth compared to prior year, excluding the impacts of the above items from both fiscal 2023 guidance and fiscal 2022 results.

Additional modeling considerations will be provided in the earnings call presentation.

## Conference Call Details

McKesson has scheduled a conference call for today, Tuesday, November 1st at 4:30 PM ET to discuss the company's financial results. The audio webcast of the conference call will be available live and archived on McKesson's Investor Relations website at investor.mckesson.com.

## Upcoming Investor Events

McKesson management will be participating in the following investor conference:

- J.P. Morgan Healthcare Conference, January 9-12, 2023

Audio webcast, and a complete listing of upcoming events for the investment community, including details and updates, will be available on McKesson's Investor Relations website.

**Non-GAAP Financial Measures**

GAAP refers to the U.S. generally accepted accounting principles. This press release includes GAAP financial measures as well as Non-GAAP financial measures, including Adjusted Gross Profit, Adjusted Operating Expenses, Adjusted Other Income, Adjusted Loss on Debt Extinguishment, Adjusted Income Tax Expense, Adjusted Earnings, Adjusted Earnings per Diluted Share, Adjusted Segment Operating Profit, Adjusted Segment Operating Profit Margin, Adjusted Corporate Expenses, Adjusted Operating Profit, FX-Adjusted results and Free Cash Flow which are financial measures not calculated in accordance with GAAP. Refer to the “Supplemental Non-GAAP Financial Information” section of the accompanying financial statement tables for the definitions and usefulness of the Company’s Non-GAAP financial measures and the attached schedules for reconciliations of the differences between the Non-GAAP financial measures and their most directly comparable GAAP financial measures.

The Company does not provide forward-looking guidance on a GAAP basis as McKesson 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, because McKesson cannot reliably forecast LIFO inventory-related adjustments, certain litigation loss and gain contingencies, restructuring, impairment and related charges, and other adjustments, which are difficult to predict and estimate. These items are inherently uncertain and depend on various factors, many of which are beyond the company’s control, and as such, any associated estimate and its impact on GAAP performance could vary materially.

**Cautionary Statements**

This earnings release contains 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. Forward-looking statements may be identified by their use of terminology such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “projects,” “plans”,” estimates” or the negative of these words or other comparable terminology. The discussion of financial outlook, trends, strategy, plans, assumptions, or intentions, and discussions about an agreement in principle, may also include forward-looking statements. Readers should not place undue reliance on forward-looking statements, such as financial performance forecasts, which speak only as of the date they are first made. Except to the extent required by law, we undertake no obligation to update or revise our forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, anticipated, or implied. Although it is not possible to predict or identify all such risks and uncertainties, we encourage investors to read the risk factors described in our most recent annual and periodic report filed with the Securities and Exchange Commission.

These risk factors include, but are not limited to: we experience costly and disruptive legal disputes and settlements, including regarding our role in distributing controlled substances such as opioids; we might experience losses not covered by insurance; we might be adversely impacted by changes in tax legislation or challenges to our tax positions; we from time to time record significant charges from impairment to goodwill, intangibles, inventory and other assets or investments; we experience cybersecurity incidents and might experience significant computer system compromises or data breaches; we might experience significant problems with information systems or networks; we may be unsuccessful in retail pharmacy profitability; we might be harmed by large customer purchase reductions, payment defaults or contract non-renewal; our contracts with government entities involve future funding and compliance risks; we might be harmed by changes in our relationships or contracts with suppliers; we might be adversely impacted by delays or other difficulties with divestitures; we might be adversely impacted by healthcare reform such as changes in pricing and reimbursement models; we might be adversely impacted by changes or disruptions in product supply and we have experienced and may experience difficulties in sourcing products and changes in pricing due to the effects of the COVID-19 pandemic and Russo-Ukrainian War on supply chains; we might be adversely impacted as a result of our distribution of generic pharmaceuticals; we might be adversely impacted by an economic slowdown or recession and by disruption in capital and credit markets that might impede our access to credit, increase our borrowing costs and impair the financial soundness of our customers and suppliers; we might be adversely impacted by monetary inflation or fluctuations in foreign currency exchange rates; we might be adversely impacted by events outside of our control, such as widespread public health issues (including the effects we have experienced from the COVID-19 pandemic), natural disasters, political events (such as the Russo-Ukrainian War) and other catastrophic events; we may be adversely affected by global climate change or by legal, regulatory or market responses to such change; the company might not achieve a definitive contract for an agreement in principle; and we face uncertainties and risks related to COVID-19 vaccination distribution and related ancillary supply kit programs.

**About McKesson Corporation**

McKesson Corporation is a diversified healthcare services leader dedicated to advancing health outcomes for patients everywhere. Our teams partner with biopharma companies, care providers, pharmacies, manufacturers, governments, and others to deliver insights, products and services to help make quality care more accessible and affordable. Learn more about how McKesson is impacting virtually every aspect of healthcare at McKesson.com and read Our Stories.

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*Schedule 1*

**McKESSON CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (GAAP)**
**(unaudited)**
**(in millions, except per share amounts)**

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Change | Six Months Ended September 30, 2022 | Six Months Ended September 30, 2021 | Change |
|---|---|---|---|---|---|---|
| Revenues | $ 70,157 | $ 66,576 | 5 % | $ 137,311 | $ 129,250 | 6 % |
| Cost of sales | (67,062) | (63,224) | 6 | (131,193) | (122,866) | 7 |
| Gross profit | 3,095 | 3,352 | (8) | 6,118 | 6,384 | (4) |
| Selling, distribution, general, and administrative expenses | (1,950) | (2,669) | (27) | (3,909) | (4,901) | (20) |
| Claims and litigation charges, net | 9 | (112) | 108 | 4 | (186) | 102 |
| Restructuring, impairment, and related charges, net | (30) | (32) | (6) | (53) | (190) | (72) |
| Total operating expenses | (1,971) | (2,813) | (30) | (3,958) | (5,277) | (25) |
| Operating income | 1,124 | 539 | 109 | 2,160 | 1,107 | 95 |
| Other income, net | 175 | 139 | 26 | 190 | 182 | 4 |
| Loss on debt extinguishment | — | (191) | (100) | — | (191) | (100) |
| Interest expense | (55) | (45) | 22 | (100) | (94) | 6 |
| Income from continuing operations before income taxes | 1,244 | 442 | 181 | 2,250 | 1,004 | 124 |
| Income tax expense | (271) | (132) | 105 | (470) | (158) | 197 |
| Income from continuing operations | 973 | 310 | 214 | 1,780 | 846 | 110 |
| Loss from discontinued operations, net of tax | (6) | — | — | (4) | (3) | 33 |
| Net income | 967 | 310 | 212 | 1,776 | 843 | 111 |
| Net income attributable to noncontrolling interests | (41) | (43) | (5) | (82) | (90) | (9) |
| Net income attributable to McKesson Corporation | $ 926 | $ 267 | 247 % | $ 1,694 | $ 753 | 125 % |
| | | | | | | |
| Earnings (loss) per common share attributable to McKesson Corporation [(a)] | | | | | | |
| Diluted | | | | | | |
| Continuing operations | $ 6.46 | $ 1.71 | 278 % | $ 11.71 | $ 4.82 | 143 % |
| Discontinued operations | (0.04) | — | — | (0.03) | (0.02) | 50 |
| Total | $ 6.42 | $ 1.71 | 275 % | $ 11.68 | $ 4.80 | 143 % |
| | | | | | | |
| Basic | | | | | | |
| Continuing operations | $ 6.51 | $ 1.73 | 276 % | $ 11.81 | $ 4.87 | 143 % |
| Discontinued operations | (0.04) | — | — | (0.02) | (0.02) | — |
| Total | $ 6.47 | $ 1.73 | 274 % | $ 11.79 | $ 4.85 | 143 % |
| | | | | | | |
| Dividends declared per common share | $ 0.54 | $ 0.47 | | $ 1.01 | $ 0.89 | |
| | | | | | | |
| Weighted-average common shares outstanding | | | | | | |
| Diluted | 144.1 | 155.8 | (8)% | 145.0 | 156.9 | (8)% |
| Basic | 143.1 | 154.1 | (7) | 143.7 | 155.1 | (7) |

(a) Certain computations may reflect rounding adjustments.

All percentage changes displayed above which are not meaningful are displayed as zero percent.

Refer to our applicable filings with the SEC for additional disclosures including our Quarterly Reports on Form 10-Q for fiscal 2023 and 2022 as well as our Annual Report on Form 10-K for fiscal 2022.

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

| | Three Months Ended September 30, | | | Six Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| Income from continuing operations (GAAP) | $ 973 | $ 310 | 214 % | $ 1,780 | $ 846 | 110 % |
| Net income attributable to noncontrolling interests (GAAP) | (41) | (43) | (5) | (82) | (90) | (9) |
| **Income from continuing operations attributable to McKesson Corporation (GAAP)** | 932 | 267 | 249 | 1,698 | 756 | 125 |
| Pre-tax adjustments: | | | | | | |
| Amortization of acquisition-related intangibles | 57 | 84 | (32) | 113 | 182 | (38) |
| Transaction-related expenses and adjustments (1) (2) (3) (4) | (159) | 430 | (137) | (149) | 461 | (132) |
| LIFO inventory-related adjustments | (23) | (23) | — | (36) | (46) | (22) |
| Gains from antitrust legal settlements | — | (34) | (100) | — | (46) | (100) |
| Restructuring, impairment, and related charges, net (5) | 30 | 32 | (6) | 53 | 190 | (72) |
| Claims and litigation charges, net (6) (7) | (9) | 112 | (108) | (4) | 186 | (102) |
| Other adjustments, net (8) (9) | 2 | 190 | (99) | 7 | 347 | (98) |
| Income tax effect on pre-tax adjustments | 44 | (100) | 144 | 43 | (192) | 122 |
| **Adjusted Earnings (Non-GAAP)** | $ 874 | $ 958 | (9)% | $ 1,725 | $ 1,838 | (6)% |
| | | | | | | |
| Diluted weighted-average common shares outstanding | 144.1 | 155.8 | (8)% | 145.0 | 156.9 | (8)% |
| | | | | | | |
| **Earnings per diluted common share from continuing operations attributable to McKesson Corporation (GAAP) (a)** | $ 6.46 | $ 1.71 | 278 % | $ 11.71 | $ 4.82 | 143 % |
| After-tax adjustments: | | | | | | |
| Amortization of acquisition-related intangibles | 0.31 | 0.42 | (26) | 0.61 | 0.90 | (32) |
| Transaction-related expenses and adjustments | (0.71) | 2.64 | (127) | (0.53) | 2.81 | (119) |
| LIFO inventory-related adjustments | (0.12) | (0.11) | 9 | (0.19) | (0.22) | (14) |
| Gains from antitrust legal settlements | — | (0.16) | (100) | — | (0.22) | (100) |
| Restructuring, impairment, and related charges, net | 0.16 | 0.15 | 7 | 0.28 | 0.97 | (71) |
| Claims and litigation charges, net | (0.05) | 0.60 | (108) | (0.02) | 0.98 | (102) |
| Other adjustments, net | 0.01 | 0.90 | (99) | 0.03 | 1.67 | (98) |
| **Adjusted Earnings per Diluted Share (Non-GAAP) (b)** | $ 6.06 | $ 6.15 | (1)% | $ 11.89 | $ 11.71 | 2 % |

(a) Certain computations may reflect rounding adjustments.

(b) Adjusted earnings per diluted share on an FX-adjusted basis for the three and six months ended September 30, 2022 was $6.13 and $12.03, respectively, which excludes the foreign currency exchange effect of $0.07 and $0.14, respectively.

All percentage changes displayed above which are not meaningful are displayed as zero percent.

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

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

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

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Change | Six Months Ended September 30, 2022 | Six Months Ended September 30, 2021 | Change |
|---|---|---|---|---|---|---|
| **Gross profit (GAAP)** | $ 3,095 | $ 3,352 | (8)% | $ 6,118 | $ 6,384 | (4)% |
| Pre-tax adjustments: | | | | | | |
| LIFO inventory-related adjustments | (23) | (23) | — | (36) | (46) | (22) |
| Gains from antitrust legal settlements | — | (34) | (100) | — | (46) | (100) |
| Other adjustments, net [9] | — | — | — | — | 147 | (100) |
| **Adjusted Gross Profit (Non-GAAP)** | $ 3,072 | $ 3,295 | (7)% | $ 6,082 | $ 6,439 | (6)% |
| | | | | | | |
| **Total operating expenses (GAAP)** | $ (1,971) | $ (2,813) | (30)% | $ (3,958) | $ (5,277) | (25)% |
| Pre-tax adjustments: | | | | | | |
| Amortization of acquisition-related intangibles | 57 | 84 | (32) | 113 | 181 | (38) |
| Transaction-related expenses and adjustments [1] [2] [3] | (17) | 430 | (104) | (7) | 461 | (102) |
| Restructuring, impairment, and related charges, net [5] | 30 | 32 | (6) | 53 | 190 | (72) |
| Claims and litigation charges, net [6] [7] | (9) | 112 | (108) | (4) | 186 | (102) |
| Other adjustments, net [9] | 1 | (1) | 200 | 6 | 9 | (33) |
| **Adjusted Operating Expenses (Non-GAAP)** | $ (1,909) | $ (2,156) | (11)% | $ (3,797) | $ (4,250) | (11)% |
| | | | | | | |
| **Other income, net (GAAP)** | $ 175 | $ 139 | 26 % | $ 190 | $ 182 | 4 % |
| Pre-tax adjustments: | | | | | | |
| Amortization of acquisition-related intangibles | — | — | — | — | 1 | (100) |
| Transaction-related expenses and adjustments [4] | (142) | — | — | (142) | — | — |
| Other adjustments, net | 1 | — | — | 1 | — | — |
| **Adjusted Other Income (Non-GAAP)** | $ 34 | $ 139 | (76)% | $ 49 | $ 183 | (73)% |
| | | | | | | |
| **Loss on debt extinguishment (GAAP)** | $ — | $ (191) | (100)% | $ — | $ (191) | (100)% |
| Pre-tax adjustments: | | | | | | |
| Other adjustments, net [8] | — | 191 | (100) | — | 191 | (100) |
| **Adjusted Loss on Debt Extinguishment (Non-GAAP)** | $ — | $ — | — % | $ — | $ — | — % |
| | | | | | | |
| **Income tax expense (GAAP)** | $ (271) | $ (132) | 105 % | $ (470) | $ (158) | 197 % |
| Tax adjustments: | | | | | | |
| Amortization of acquisition-related intangibles | (12) | (18) | (33) | (24) | (40) | (40) |
| Transaction-related expenses and adjustments | 56 | (20) | 380 | 72 | (20) | 460 |
| LIFO inventory-related adjustments | 6 | 6 | — | 9 | 12 | (25) |
| Gains from antitrust legal settlements | — | 9 | (100) | — | 12 | (100) |
| Restructuring, impairment, and related charges, net | (6) | (8) | (25) | (12) | (37) | (68) |
| Claims and litigation charges, net | 2 | (19) | 111 | 1 | (32) | 103 |
| Other adjustments, net | (2) | (50) | (96) | (3) | (87) | (97) |
| **Adjusted Income Tax Expense (Non-GAAP)** | $ (227) | $ (232) | (2)% | $ (427) | $ (350) | 22 % |

All percentage changes displayed above which are not meaningful are displayed as zero percent.

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

For more information relating to the Adjusted Gross Profit (Non-GAAP), Adjusted Operating Expenses (Non-GAAP), Adjusted Other Income (Non-GAAP), Adjusted Loss on Debt Extinguishment (Non-GAAP), and Adjusted Income Tax Expense (Non-GAAP) definitions, refer to the section entitled “Supplemental Non-GAAP Financial Information” of this release.

*Schedule 3*

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

| | Three Months Ended September 30, | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | | As reported | | As adjusted | | Change | | | |
| | As reported (GAAP) | Adjustments | As adjusted (Non-GAAP) | As reported (GAAP) | Adjustments | As adjusted (Non-GAAP) | Foreign currency effects | FX-Adjusted (Non-GAAP) | Foreign currency effects | FX-Adjusted (Non-GAAP) | As reported (GAAP) | As adjusted (Non-GAAP) | As reported FX-Adjusted (Non-GAAP) | As adjusted FX-Adjusted (Non-GAAP) |
| **REVENUES** | | | | | | | | | | | | | | |
| U.S. Pharmaceutical | $ 60,059 | $ — | $ 60,059 | $ 53,411 | $ — | $ 53,411 | $ — | $ 60,059 | $ — | $ 60,059 | 12 % | 12 % | 12 % | 12 % |
| Prescription Technology Solutions | 1,018 | — | 1,018 | 932 | — | 932 | — | 1,018 | — | 1,018 | 9 | 9 | 9 | 9 |
| Medical-Surgical Solutions | 2,843 | — | 2,843 | 3,124 | — | 3,124 | — | 2,843 | — | 2,843 | (9) | (9) | (9) | (9) |
| International | 6,237 | — | 6,237 | 9,109 | — | 9,109 | 633 | 6,870 | 633 | 6,870 | (32) | (32) | (25) | (25) |
| Revenues | $ 70,157 | $ — | $ 70,157 | $ 66,576 | $ — | $ 66,576 | $ 633 | $ 70,790 | $ 633 | $ 70,790 | 5 % | 5 % | 6 % | 6 % |
| **OPERATING PROFIT (LOSS) [5]** | | | | | | | | | | | | | | |
| U.S. Pharmaceutical [4] | $ 896 | $ (140) | $ 756 | $ 760 | $ (25) | $ 735 | $ — | $ 896 | $ — | $ 756 | 18 % | 3 % | 18 % | 3 % |
| Prescription Technology Solutions | 120 | 21 | 141 | 128 | 16 | 144 | — | 120 | — | 141 | (6) | (2) | (6) | (2) |
| Medical-Surgical Solutions | 299 | 8 | 307 | 296 | 23 | 319 | — | 299 | — | 307 | 1 | (4) | 1 | (4) |
| International [1] [2] [3] | (37) | 174 | 137 | (146) | 309 | 163 | 9 | (28) | 14 | 151 | (75) | (16) | (81) | (7) |
| Subtotal | 1,278 | 63 | 1,341 | 1,038 | 323 | 1,361 | 9 | 1,287 | 14 | 1,355 | 23 | (1) | 24 | — |
| Corporate expenses, net [1] [2] [6] | 21 | (165) | (144) | (360) | 277 | (83) | (1) | 20 | (1) | (145) | 106 | 73 | 106 | 75 |
| Income from continuing operations before interest expense and income taxes | $ 1,299 | $ (102) | $ 1,197 | $ 678 | $ 600 | $ 1,278 | $ 8 | $ 1,307 | $ 13 | $ 1,210 | 92 % | (6) % | 93 % | (5) % |
| **OPERATING PROFIT (LOSS) AS A % OF REVENUES** | | | | | | | | | | | | | | |
| U.S. Pharmaceutical | 1.49 % | | 1.26 % | 1.42 % | | 1.38 % | | 1.49 % | | 1.26 % | 7 bp | (12) bp | 7 bp | (12) bp |
| Prescription Technology Solutions | 11.79 | | 13.85 | 13.73 | | 15.45 | | 11.79 | | 13.85 | (194) | (160) | (194) | (160) |
| Medical-Surgical Solutions | 10.52 | | 10.80 | 9.48 | | 10.21 | | 10.52 | | 10.80 | 104 | 59 | 104 | 59 |
| International | (0.59) | | 2.20 | (1.60) | | 1.79 | | (0.41) | | 2.20 | 101 | 41 | 119 | 41 |

All percentage changes displayed above which are not meaningful are displayed as zero percent.

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

For more information relating to the Adjusted Segment Operating Profit (Non-GAAP), Adjusted Operating Profit (Non-GAAP), Adjusted Corporate Expenses (Non-GAAP), FX-Adjusted (Non-GAAP), and Adjusted Segment Operating Profit Margin (Non-GAAP) definitions, refer to the section entitled “Supplemental Non-GAAP Financial Information” of this release.

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

| | Six Months Ended September 30, | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | | As reported | | As adjusted | | Change | | | |
| | As reported (GAAP) | Adjustments | As adjusted (Non-GAAP) | As reported (GAAP) | Adjustments | As adjusted (Non-GAAP) | Foreign currency effects | FX-Adjusted (Non-GAAP) | Foreign currency effects | FX-Adjusted (Non-GAAP) | As reported (GAAP) | As adjusted (Non-GAAP) | As reported FX-Adjusted (Non-GAAP) | As adjusted FX-Adjusted (Non-GAAP) |
| **REVENUES** | | | | | | | | | | | | | | |
| U.S. Pharmaceutical | $ 117,006 | $ — | $ 117,006 | $ 103,430 | $ — | $ 103,430 | $ — | $ 117,006 | $ — | $ 117,006 | 13 % | 13 % | 13 % | 13 % |
| Prescription Technology Solutions | 2,084 | — | 2,084 | 1,813 | — | 1,813 | — | 2,084 | — | 2,084 | 15 | 15 | 15 | 15 |
| Medical-Surgical Solutions | 5,435 | — | 5,435 | 5,652 | — | 5,652 | — | 5,435 | — | 5,435 | (4) | (4) | (4) | (4) |
| International | 12,786 | — | 12,786 | 18,355 | — | 18,355 | 1,207 | 13,993 | 1,207 | 13,993 | (30) | (30) | (24) | (24) |
| Revenues | $137,311 | $ — | $ 137,311 | $ 129,250 | $ — | $ 129,250 | $ 1,207 | $ 138,518 | $ 1,207 | $ 138,518 | 6 % | 6 % | 7 % | 7 % |
| **OPERATING PROFIT (LOSS)** (5) | | | | | | | | | | | | | | |
| U.S. Pharmaceutical (4) | $ 1,592 | $ (125) | $ 1,467 | $ 1,442 | $ (25) | $ 1,417 | $ — | $ 1,592 | $ — | $ 1,467 | 10 % | 4 % | 10 % | 4 % |
| Prescription Technology Solutions | 264 | 42 | 306 | 232 | 51 | 283 | — | 264 | — | 306 | 14 | 8 | 14 | 8 |
| Medical-Surgical Solutions (9) | 555 | 20 | 575 | 371 | 205 | 576 | — | 555 | — | 575 | 50 | — | 50 | — |
| International (1) (2) (3) | (43) | 318 | 275 | (93) | 426 | 333 | 19 | (24) | 28 | 303 | (54) | (17) | (74) | (9) |
| Subtotal | 2,368 | 255 | 2,623 | 1,952 | 657 | 2,609 | 19 | 2,387 | 28 | 2,651 | 21 | 1 | 22 | 2 |
| Corporate expenses, net (1) (2) (6) (7) | (18) | (271) | (289) | (663) | 426 | (237) | (3) | (21) | (2) | (291) | (97) | 22 | (97) | 23 |
| Income from continuing operations before interest expense and income taxes | $ 2,350 | $ (16) | $ 2,334 | $ 1,289 | $ 1,083 | $ 2,372 | $ 16 | $ 2,366 | $ 26 | $ 2,360 | 82 % | (2) % | 84 % | (1) % |
| **OPERATING PROFIT (LOSS) AS A % OF REVENUES** | | | | | | | | | | | | | | |
| U.S. Pharmaceutical | 1.36 % | | 1.25 % | 1.39 % | | 1.37 % | | 1.36 % | | 1.25 % | (3) bp | (12) bp | (3) bp | (12) bp |
| Prescription Technology Solutions | 12.67 | | 14.68 | 12.80 | | 15.61 | | 12.67 | | 14.68 | (13) | (93) | (13) | (93) |
| Medical-Surgical Solutions | 10.21 | | 10.58 | 6.56 | | 10.19 | | 10.21 | | 10.58 | 365 | 39 | 365 | 39 |
| International | (0.34) | | 2.15 | (0.51) | | 1.81 | | (0.17) | | 2.17 | 17 | 34 | 34 | 36 |

All percentage changes displayed above which are not meaningful are displayed as zero percent.

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

For more information relating to the Adjusted Segment Operating Profit (Non-GAAP), Adjusted Operating Profit (Non-GAAP), Adjusted Corporate Expenses (Non-GAAP), FX-Adjusted (Non-GAAP), and Adjusted Segment Operating Profit Margin (Non-GAAP) definitions, refer to the section entitled “Supplemental Non-GAAP Financial Information” of this release.

**McKESSON CORPORATION**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(unaudited)**
**(in millions, except per share amounts)**

| | September 30, 2022 | March 31, 2022 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 2,916 | $ 3,532 |
| Receivables, net | 20,109 | 18,583 |
| Inventories, net | 19,876 | 18,702 |
| Assets held for sale | 2,825 | 4,516 |
| Prepaid expenses and other | 722 | 898 |
| Total current assets | 46,448 | 46,231 |
| Property, plant, and equipment, net | 2,071 | 2,092 |
| Operating lease right-of-use assets | 1,548 | 1,548 |
| Goodwill | 9,239 | 9,451 |
| Intangible assets, net | 1,872 | 2,059 |
| Other non-current assets | 1,903 | 1,917 |
| Total assets | $ 63,081 | $ 63,298 |
| | | |
| **LIABILITIES AND DEFICIT** | | |
| Current liabilities | | |
| Drafts and accounts payable | $ 41,003 | $ 38,086 |
| Current portion of long-term debt | 800 | 799 |
| Current portion of operating lease liabilities | 284 | 297 |
| Liabilities held for sale | 1,991 | 4,741 |
| Other accrued liabilities | 4,279 | 4,543 |
| Total current liabilities | 48,357 | 48,466 |
| Long-term debt | 4,813 | 5,080 |
| Long-term deferred tax liabilities | 1,660 | 1,418 |
| Long-term operating lease liabilities | 1,315 | 1,366 |
| Long-term litigation liabilities | 6,644 | 7,220 |
| Other non-current liabilities | 1,541 | 1,540 |
| McKesson Corporation stockholders’ deficit | | |
| Preferred stock, $0.01 par value, 100 shares authorized, no shares issued or outstanding | — | — |
| Common stock, $0.01 par value, 800 shares authorized, 277 and 275 shares issued at September 30, 2022 and March 31, 2022, respectively | 3 | 2 |
| Additional paid-in capital | 7,609 | 7,275 |
| Retained earnings | 10,579 | 9,030 |
| Accumulated other comprehensive loss | (1,114) | (1,534) |
| Treasury shares, at cost, 135 and 130 shares at September 30, 2022 and March 31, 2022, respectively | (18,844) | (17,045) |
| Total McKesson Corporation stockholders’ deficit | (1,767) | (2,272) |
| Noncontrolling interests | 518 | 480 |
| Total deficit | (1,249) | (1,792) |
| Total liabilities and deficit | $ 63,081 | $ 63,298 |

*Schedule 5*

**McKESSON CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(unaudited)**
**(in millions)**

| | Six Months Ended September 30, 2022 | Six Months Ended September 30, 2021 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | $ 1,776 | $ 843 |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation | 124 | 148 |
| Amortization | 175 | 265 |
| Long-lived asset impairment charges | 11 | 127 |
| Deferred taxes | 170 | (18) |
| Credits associated with last-in, first-out inventory method | (36) | (46) |
| Non-cash operating lease expense | 126 | 152 |
| Gain from sales of businesses and investments | (148) | (101) |
| European businesses held for sale | (35) | 470 |
| Other non-cash items | 157 | 381 |
| Changes in assets and liabilities, net of acquisitions: | | |
| Receivables | (1,883) | (2,311) |
| Inventories | (1,453) | (1,164) |
| Drafts and accounts payable | 2,292 | 1,431 |
| Operating lease liabilities | (174) | (186) |
| Taxes | 82 | 40 |
| Litigation liabilities | (915) | 151 |
| Other | (103) | (12) |
| Net cash provided by operating activities | 166 | 170 |
| **INVESTING ACTIVITIES** | | |
| Payments for property, plant, and equipment | (157) | (186) |
| Capitalized software expenditures | (65) | (93) |
| Acquisitions, net of cash, cash equivalents, and restricted cash acquired | (23) | (4) |
| Proceeds from sales of businesses and investments, net | 496 | 179 |
| Other | (135) | (53) |
| Net cash provided by (used in) investing activities | 116 | (157) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from short-term borrowings | 100 | 3,020 |
| Repayments of short-term borrowings | (100) | (3,020) |
| Proceeds from issuances of long-term debt | — | 498 |
| Repayments of long-term debt | (4) | (1,636) |
| Payments for debt extinguishments | — | (184) |
| Common stock transactions: | | |
| Issuances | 127 | 111 |
| Share repurchases | (1,484) | (1,272) |
| Dividends paid | (139) | (134) |
| Exercise of put right by noncontrolling shareholders of McKesson Europe AG | — | (1,031) |
| Other | (253) | (246) |
| Net cash used in financing activities | (1,753) | (3,894) |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | 24 | 18 |
| Change in cash, cash equivalents, and restricted cash classified within Assets held for sale | 470 | — |
| Net decrease in cash, cash equivalents, and restricted cash | (977) | (3,863) |
| Cash, cash equivalents, and restricted cash at beginning of period | 3,935 | 6,396 |
| Cash, cash equivalents, and restricted cash at end of period | 2,958 | 2,533 |
| Less: Restricted cash at end of period included in Prepaid expenses and other | (42) | (382) |
| Cash and cash equivalents at end of period | $ 2,916 | $ 2,151 |

*Schedule 6*

**McKESSON CORPORATION**
**RECONCILIATION OF GAAP CASH FLOW TO FREE CASH FLOW (NON-GAAP)**
**(unaudited)**
**(in millions)**

| | Six Months Ended September 30, 2022 | Six Months Ended September 30, 2021 | Change |
|---|---|---|---|
| **GAAP CASH FLOW CATEGORIES** | | | |
| Net cash provided by operating activities | $ 166 | $ 170 | (2)% |
| Net cash provided by (used in) investing activities | 116 | (157) | 174 |
| Net cash used in financing activities | (1,753) | (3,894) | (55) |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | 24 | 18 | 33 |
| Change in cash, cash equivalents, and restricted cash classified within Assets held for sale | 470 | — | — |
| Net decrease in cash, cash equivalents, and restricted cash | $ (977) | $ (3,863) | (75)% |
| | | | |
| **FREE CASH FLOW (NON-GAAP)** | | | |
| Net cash provided by operating activities | $ 166 | $ 170 | (2)% |
| Payments for property, plant, and equipment | (157) | (186) | (16) |
| Capitalized software expenditures | (65) | (93) | (30) |
| Free Cash Flow (Non-GAAP) | $ (56) | $ (109) | (49)% |

All percentage changes displayed above which are not meaningful are displayed as zero percent.

For more information relating to the Free Cash Flow (Non-GAAP) definition, refer to the section entitled “Supplemental Non-GAAP Financial Information” of this release.

**McKESSON CORPORATION**
**FINANCIAL STATEMENT NOTES**

(1) Transaction-related expenses and adjustments for the three and six months ended September 30, 2022 includes pre-tax gains of $23 million ($3 million after-tax) and $35 million (charge of $1 million after-tax), respectively, to remeasure assets and liabilities held for sale to fair value less costs to sell related to an agreement to sell certain of our European businesses to the PHOENIX Group. Pre-tax gains for the three and six months ended September 30, 2022 of $166 million ($146 million after-tax) and $272 million ($236 million after-tax), respectively, are included within Corporate expenses, net, and charges (pre-tax and after-tax) of $143 million and $237 million, respectively, are included within International. These pre-tax gains and charges are primarily to remeasure assets and liabilities held for sale to fair value less costs to sell, including the effect of accumulated other comprehensive income balances associated with the disposal group, and are included under "total operating expenses" in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

(2) Transaction-related expenses and adjustments for the three and six months ended September 30, 2021 includes pre-tax charges of $491 million ($472 million after-tax) to remeasure assets and liabilities held for sale to fair value less costs to sell related to an agreement to sell certain of our European businesses to the PHOENIX Group and to impair certain internal-use software that will not be utilized in the future. Pre-tax charges of $149 million ($134 million after-tax) primarily related to the effect of accumulated other comprehensive income balances associated with the disposal group are included within Corporate expenses, net, and pre-tax charges of $342 million ($338 million after-tax) primarily to remeasure assets and liabilities held for sale to fair value less costs to sell, to impair certain internal-use software that will not be utilized in the future, and the effect of accumulated other comprehensive income balances associated with the disposal group are included within International. These charges are included under "total operating expenses" in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

(3) Transaction-related expenses and adjustments for the three and six months ended September 30, 2021 includes a gain of $59 million (pre-tax and after-tax) related to the sale of our Canadian health benefit claims management and plan administrative services business within International. This gain is included under "total operating expenses" in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

(4) Transaction-related expenses and adjustments for the three and six months ended September 30, 2022 includes a pre-tax gain of $142 million ($105 million after-tax) related to the exit of an investment in equity securities within U.S. Pharmaceutical. This gain is included under "other income, net" in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

(5) Restructuring, impairment, and related charges, net for the three and six months ended September 30, 2022 includes pre-tax charges of $30 million ($24 million after-tax) and $53 million ($41 million after-tax), respectively, primarily for Corporate expenses, net. The three months ended September 30, 2021 includes pre-tax charges of $32 million ($24 million after-tax) primarily within Corporate expenses, net and U.S. Pharmaceutical, and for the six months ended September 30, 2021 pre-tax charges of $190 million ($153 million after-tax), primarily within Corporate expenses, net and International. These charges are included under "total operating expenses" in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

(6) Claims and litigation charges, net for the three and six months ended September 30, 2021 includes pre-tax charges of $112 million ($93 million after-tax) related to our estimated liability for opioid-related claims of governmental entities, including Native American tribes, within Corporate expenses, net. These charges are included under "total operating expenses" in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

**FINANCIAL STATEMENT NOTES (continued)**

(7) Claims and litigation charges, net for the six months ended September 30, 2021 includes a pre-tax charge of $27 million ($22 million after-tax) related to an agreement to settle opioid-related claims with the State of New York and its participating subdivisions, including Nassau and Suffolk Counties, and a pre-tax charge of $47 million ($39 million after-tax) related to our estimated liability for a comprehensive proposed agreement to settle opioid-related claims of participating states, their political subdivisions, and other governmental entities, within Corporate expenses, net. These charges are included under "total operating expenses" in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

(8) Other adjustments, net for the three and six months ended September 30, 2021 includes a pre-tax loss of $191 million ($141 million after-tax) on debt extinguishment related to our July 2021 tender offer to redeem a portion of our existing debt, within Corporate expenses, net. This charge is included under "loss on debt extinguishment" in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

(9) Other adjustments, net for the six months ended September 30, 2021 includes pre-tax charges of $155 million ($118 million after-tax) related to inventory write downs on certain excess personal protective equipment within Medical-Surgical Solutions. These charges are driven by the intent of management to not sell this excess inventory which required inventory write downs to zero net realizable value, and instead direct it to charitable organizations or otherwise dispose. A portion of this inventory was committed for donation to charitable organizations during our first quarter of fiscal 2022, which was delivered during fiscal 2022. Due to the nature of this inventory which is no longer intended for sale in a quantitatively significant amount, management believes this charge is not part of normal business operations and is therefore excluded from our determination of adjusted results. A pre-tax charge of $147 million ($112 million after-tax) is included under "gross profit" primarily related to the excess inventory, which we no longer plan to sell, and a pre-tax charge of $8 million ($6 million after-tax) is included under "total operating expenses" related to the completed donation in the reconciliation of McKesson's GAAP operating results to adjusted results (Non-GAAP) provided in Schedule 2 of the accompanying financial statement tables.

# McKESSON CORPORATION
## 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.

- **Adjusted Gross Profit (Non-GAAP):** We define Adjusted Gross Profit as GAAP gross profit, excluding transaction-related expenses and adjustments, last-in, first-out ("LIFO") inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment, and related charges, and other adjustments.

- **Adjusted Operating Expenses (Non-GAAP):** We define Adjusted Operating Expenses as GAAP total operating expenses, excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, restructuring, impairment, and related charges, claims and litigation charges, and other adjustments.

- **Adjusted Other Income (Non-GAAP):** We define Adjusted Other Income as GAAP other income (expense), net, excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, and other adjustments.

- **Adjusted Loss on Debt Extinguishment (Non-GAAP):** We define Adjusted Loss on Debt Extinguishment as GAAP loss on debt extinguishment, excluding other adjustments.

- **Adjusted Income Tax Expense (Non-GAAP):** We define Adjusted Income Tax Expense as GAAP income tax benefit (expense), excluding the income tax effects of amortization of acquisition-related intangibles, transaction-related expenses and adjustments, LIFO inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment, and related charges, claims and litigation charges, and other adjustments. Income tax effects 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.

- **Adjusted Earnings (Non-GAAP):** We define Adjusted Earnings as GAAP income (loss) from continuing operations attributable to McKesson, excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, LIFO inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment, and related charges, claims and litigation charges, other adjustments as well as the related income tax effects for each of these items, as applicable.

- **Adjusted Earnings per Diluted Share (Non-GAAP):** We define Adjusted Earnings per Diluted Share as GAAP earnings (loss) per diluted common share from continuing operations attributable to McKesson, excluding per share impacts of amortization of acquisition-related intangibles, transaction-related expenses and adjustments, LIFO inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment, and related charges, claims and litigation charges, other adjustments as well as the related income tax effects for each of these items, as applicable, divided by diluted weighted-average shares outstanding.

- **Adjusted Segment Operating Profit (Non-GAAP) and Adjusted Segment Operating Profit Margin (Non-GAAP):** We define Adjusted Segment Operating Profit as GAAP segment operating profit (loss), excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, LIFO inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment, and related charges, and other adjustments. We define Adjusted Segment Operating Profit Margin as Adjusted Segment Operating Profit (Non-GAAP) divided by GAAP segment revenues.

- **Adjusted Corporate Expenses (Non-GAAP):** We define Adjusted Corporate Expenses as GAAP corporate expenses, net, excluding transaction-related expenses and adjustments, restructuring, impairment, and related charges, claims and litigation charges, and other adjustments.

- **Adjusted Operating Profit (Non-GAAP):** We define Adjusted Operating Profit as GAAP income (loss) from continuing operations before interest expense and income taxes, excluding amortization of acquisition-related intangibles, transaction-related expenses and adjustments, LIFO inventory-related adjustments, gains from antitrust legal settlements, restructuring, impairment, and related charges, claims and litigation charges, and other adjustments.

**SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION (continued)**

The following provides further details regarding the adjustments made to our GAAP financial results to arrive at our Non-GAAP measures as defined above:

Amortization of acquisition-related intangibles - Amortization expenses of intangible assets directly related to business combinations and the formation of joint ventures.

Transaction-related expenses and adjustments - Transaction, integration, and other expenses that are directly related to business combinations, the formation of joint ventures, divestitures, and other transaction-related costs including initial public offering costs. Examples include transaction closing costs, professional service fees, legal fees, severance charges, retention payments and employee relocation expenses, facility or other exit-related expenses, certain fair value adjustments including deferred revenues, contingent consideration and inventory, recoveries of acquisition-related expenses or post-closing expenses, bridge loan fees and gains or losses on business combinations, and divestitures of businesses that do not qualify as discontinued operations.

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, impairment, and related charges - 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, integration of acquired businesses, and/or company-wide cost saving initiatives. The amount and/or frequency of these restructuring charges are not part of our underlying business, which include normal levels of reinvestment in the business. Any credit adjustments due to subsequent changes in estimates are also excluded from adjusted results.

Claims and litigation charges - Adjustments to certain of the Company's reserves, including those related to estimated probable settlements for its controlled substance monitoring and reporting, and opioid-related claims, as well as any applicable income items or credit adjustments due to subsequent changes in estimates. This does not include our legal fees to defend claims, which are expensed as incurred. This also may include charges or credits for general non-operational claims not directly related to our ongoing business.

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 results from time to time. While not all-inclusive, other adjustments may include: other asset impairments; gains or losses from debt extinguishment; and other similar substantive and/or infrequent items as deemed appropriate.

The Company evaluates the aforementioned Non-GAAP measures on a periodic basis and updates the definitions from time to time. The evaluation considers both the quantitative and qualitative aspects of the Company's presentation of Non-GAAP adjusted results. A reconciliation of McKesson's GAAP financial results to Non-GAAP financial results is provided in Schedules 2 and 3 of the financial statement tables included with this release.

- **FX-Adjusted (Non-GAAP):** McKesson also presents its GAAP financial results and adjusted results (Non-GAAP) on an FX-Adjusted basis. To present our financial results on an FX-Adjusted basis, we convert current year period results of our operations in foreign countries, which are recorded in local currencies, into U.S. dollars by applying the average foreign currency exchange rates of the comparable prior year period. To present Adjusted Earnings per Diluted Share on an FX-Adjusted basis, we estimate the impact of foreign currency rate fluctuations on the Company's noncontrolling interests and adjusted income tax expense, which may vary from quarter to quarter. The supplemental FX-Adjusted information of the Company's GAAP financial results and adjusted results (Non-GAAP) is provided in Schedule 3 of the financial statement tables included with this release.

**SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION (continued)**

- **Free Cash Flow (Non-GAAP):** We define free cash flow as net cash provided by (used in) operating activities less payments for property, plant and equipment and capitalized software expenditures, as disclosed in our condensed consolidated statements of cash flows. A reconciliation of McKesson's GAAP financial results to Free Cash Flow (Non-GAAP) is provided in Schedule 6 of the financial statement tables included with this 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.

The Company internally uses both GAAP and Non-GAAP financial measures in connection with its own financial planning and reporting processes. Management utilizes Non-GAAP financial measures when allocating resources, deploying capital, as well as assessing business performance, and determining 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. We believe free cash flow is important to management and useful to investors as a supplemental measure as it indicates the cash flow available for working capital needs, re-investment opportunities, strategic acquisitions, dividend payments, or other strategic uses of cash. Nonetheless, Non-GAAP adjusted results and related Non-GAAP 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.