McKesson Corporation Third Quarter Fiscal 2023 Earnings Call

February 1, 2023

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Cautionary Statements

This presentation 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,” “targets” or the negative of these words or other comparable terminology. The discussion of financial outlook, guidance, trends, strategy, plans, assumptions, or intentions, and our greenhouse gas emission targets 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 not achieve our GHG emissions reduction targets; SBTi may not validate a sufficient number of our suppliers’ GHG reduction targets; we may incur additional costs or operational impacts related to our GHG reduction initiatives; we may be adversely affected by global climate change or by legal, regulatory or market responses to such change; and we face uncertainties and risks related to COVID-19 vaccination distribution and related ancillary supply kit programs.

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 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.

Delivering sustainable growth and long-term shareholder value

Our Vision:

To improve care in every setting –
one product, one partner, one patient at a time

Our Priorities:

- **Focus on People and Culture**
- **Evolve and Grow the Portfolio**
- **Expand Oncology and Biopharma Ecosystems**
- **Sustainable Core Growth**

Third Quarter
Fiscal 2023 Results

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Continued strength and momentum across business

Business Summary

- Q3 revenues of **$70.5 billion** increased 3%
- Q3 Adjusted Earnings per Diluted Share of **$6.90** increased 12%
- Raised fiscal 2023 Adjusted Earnings per Diluted Share outlook to $25.75 to $26.15 from $24.45 to $24.95

Company Updates

- Recognized by Newsweek as one of America's Greatest Workplaces for Diversity in 2023
- Science-Based Target initiatives (SBTi) approved near-term science-based greenhouse gas emissions reduction targets
- Continued to expand our differentiated oncology and biopharma businesses
    - Formed a joint venture combining McKesson's US Oncology Research and HCA Healthcare's Sarah Cannon Research Institute
    - Completed the acquisition of Rx Savings Solutions
    - The US Oncology Network expanded footprint with two large multidisciplinary practices

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Consolidated financial information

Q3 and YTD Fiscal 2023 Results

Results ($ and shares in millions, expect per share amounts)	Q3 FY 23	YoY Change	YTD Q3 FY 23	YoY Change
Revenues	$ 70,490	3 %	$ 207,801	5 %
Adjusted Gross Profit	$ 3,050	(10) %	$ 9,132	(7) %
Adjusted Operating Expenses	$ (1,835)	(14) %	$ (5,632)	(12) %
Adjusted Operating Profit	$ 1,393	9 %	$ 3,727	2 %
Interest expense	$ (69)	68 %	$ (169)	25 %
Adjusted Income Tax Expense	$ (311)	29 %	$ (738)	25 %
Net income attributable to noncontrolling interests	$ (41)	(11) %	$ (123)	(10) %
Adjusted Earnings	$ 972	3 %	$ 2,697	(3) %
Adjusted Earnings per Diluted Share	$ 6.90	12 %	$ 18.78	5 %
Diluted weighted-average common shares	141.0	(8) %	143.7	(8) %

Includes Adjusted, Non-GAAP measures; refer to press tables for further non-GAAP information.

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U.S. Pharmaceutical

Q3 and YTD Fiscal 2023 Results

Results ($ in millions)	**Q3 FY 23**	**YoY Change**	**YTD Q3 FY 23**	**YoY Change**
U.S. Pharmaceutical				
Revenues	$ 61,934	13 %	$ 178,940	13 %
Adjusted Segment Operating Profit	$ 778	6 %	$ 2,245	4 %
Adjusted Segment Operating Profit Margin	1.26 %	(8) bp	1.25 %	(11) bp

Q3 revenue growth 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

Q3 Adjusted Segment Operating Profit increase driven by growth in distribution of specialty products to providers and health systems. Excluding the impact of COVID-19 vaccine distribution, the U.S. Pharmaceutical segment delivered Adjusted Segment Operating Profit growth of 7%

Includes Adjusted, Non-GAAP measures; refer to press tables for further non-GAAP information.

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Prescription Technology Solutions

Q3 and YTD Fiscal 2023 Results

Results ($ in millions)	**Q3 FY 23**	**YoY Change**	**YTD Q3 FY 23**	**YoY Change**
Prescription Technology Solutions				
Revenues	$ 1,121	9 %	$ 3,205	13 %
Adjusted Segment Operating Profit	$ 155	7 %	$ 461	8 %
Adjusted Segment Operating Profit Margin	13.83 %	(23) bp	14.38 %	(67) bp

Q3 revenue increase driven by growth in prescription volumes in our third-party logistics business and higher technology service revenues

Q3 Adjusted Segment Operating Profit increase driven by growth in access, affordability, and adherence solutions. During the quarter, we continued to organically invest in this segment as we position our products and services for sustainable long-term growth

Includes Adjusted, Non-GAAP measures; refer to press tables for further non-GAAP information.

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Medical-Surgical Solutions

Q3 and YTD Fiscal 2023 Results

Results ($ in millions)	Q3 FY 23	YoY Change	YTD Q3 FY 23	YoY Change
Medical-Surgical Solutions				
Revenues	$ 2,986	(3) %	$ 8,421	(4) %
Adjusted Segment Operating Profit	$ 336	2 %	$ 911	1 %
Adjusted Segment Operating Profit Margin	11.25 %	54 bp	10.82 %	45 bp

Q3 revenue decrease driven by lower sales of COVID-19 tests and lower contribution from kitting, storage, and distribution of ancillary supplies for the U.S. government's COVID-19 vaccine program, partially offset by growth in the primary care business

Q3 Adjusted Segment Operating Profit increase driven by growth in the primary care business and organic business performance, partially offset by lower sales of COVID-19 tests and lower contribution from kitting, storage, and distribution of ancillary supplies for the U.S. government's COVID-19 vaccine program. Excluding the impact of COVID-19 related items, the Medical-Surgical Solutions segment delivered Adjusted Segment Operating Profit growth of 25%

Includes Adjusted, Non-GAAP measures; refer to press tables for further non-GAAP information.

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International

Q3 and YTD Fiscal 2023 Results

Results ($ in millions)	Q3 FY 23	YoY Change	YTD Q3 FY 23	YoY Change
International				
Revenues[1]	$ 4,449	(53) %	$ 17,235	(38) %
Adjusted Segment Operating Profit[1]	$ 143	(36) %	$ 418	(25) %
Adjusted Segment Operating Profit Margin	3.21 %	86 bp	2.43 %	43 bp

Q3 FX-Adjusted revenue of $4.9 billion, down 48% year-over-year, driven by the divestitures of McKesson's European businesses

Q3 FX-Adjusted Segment Operating Profit of $158 million, down 29% year-over-year, driven by the divestitures of McKesson's European businesses

[1] Revenue and Adjusted Segment Operating Profit is presented without adjustments for the effects of foreign currency

Includes Adjusted, Non-GAAP measures; refer to press tables for further non-GAAP information.

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Corporate

Q3 and YTD Fiscal 2023 Results

Results ($ in millions)	Q3 FY 23	YoY Change	YTD Q3 FY 23	YoY Change
Corporate				
Adjusted Corporate Expenses	$ (19)	(88) %	$ (308)	(22) %

Q3 Adjusted Corporate Expenses decreased 88% year-over-year driven by a pre-tax benefit of $126 million associated with gain from the termination of the tax receivable agreement with Change Healthcare and lower opioid-related litigation expenses

Includes Adjusted, Non-GAAP measures; refer to press tables for further non-GAAP information.

Opioid-Related Costs

Q3 and YTD Fiscal 2023 Results

Results ($ in millions)		**Q3 FY 23**		**Q3 FY 22**		**YTD Q3 FY 23**		**YTD Q3 FY 22**
Opioid-related costs								
Claims and litigation charges, net (GAAP-only)	$	(1)	$	7	$	(5)	$	193
Legal fees and other	$	9	$	33	$	37	$	104
Total expense	**$**	**8**	**$**	**40**	**$**	**32**	**$**	**297**

Claims and Litigation Charges[1]:
Q3 opioid-related costs included a GAAP-only pre-tax credit of $1 million related to our estimated liability for opioid-related claims of government entities

Legal Fees and Other:
Opioid-related costs, primarily litigation expenses, included in Adjusted Operating Expenses and reflected in Corporate

[1] McKesson's total estimated liability for opioid-related claims was $7.2 billion as of December 31, 2022, which includes a current portion of $0.6 billion

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Cash

($ in millions)

YTD Cash Balance Walk

Balance at March 31, 2022[1]	**$**	**3,935**
Operating cash flow		1,834
Capital expenditures		(376)
Free Cash Flow		**1,458**
Acquisitions		(856)
Other investing cash flows		934
Share repurchases		(3,500)
Dividends paid		(216)
Other financing cash flows and FX		553
Change in cash classified as Assets held for sale		470
Net decrease in cash		(1,157)
Balance at December 31, 2022[1]	**$**	**2,778**
Less: Restricted cash		(4)
Cash and cash equivalents at December 31, 2022	**$**	**2,774**

[1] Cash comprises cash, cash equivalents, and restricted cash

Cash Dynamics

Free Cash Flow of **$1.5 billion**

Returned **$3.7 billion** of cash to shareholders year-to-date

- Repurchased **$3.5 billion** of shares
- Paid **$216 million** in dividends

Remaining share repurchase authorization of **$3.8 billion as of December 31, 2022**

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Fiscal 2023 Outlook

On the following slides, McKesson presents an overview of its fiscal 2023 Outlook assumptions. 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.

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Fiscal 2023 outlook

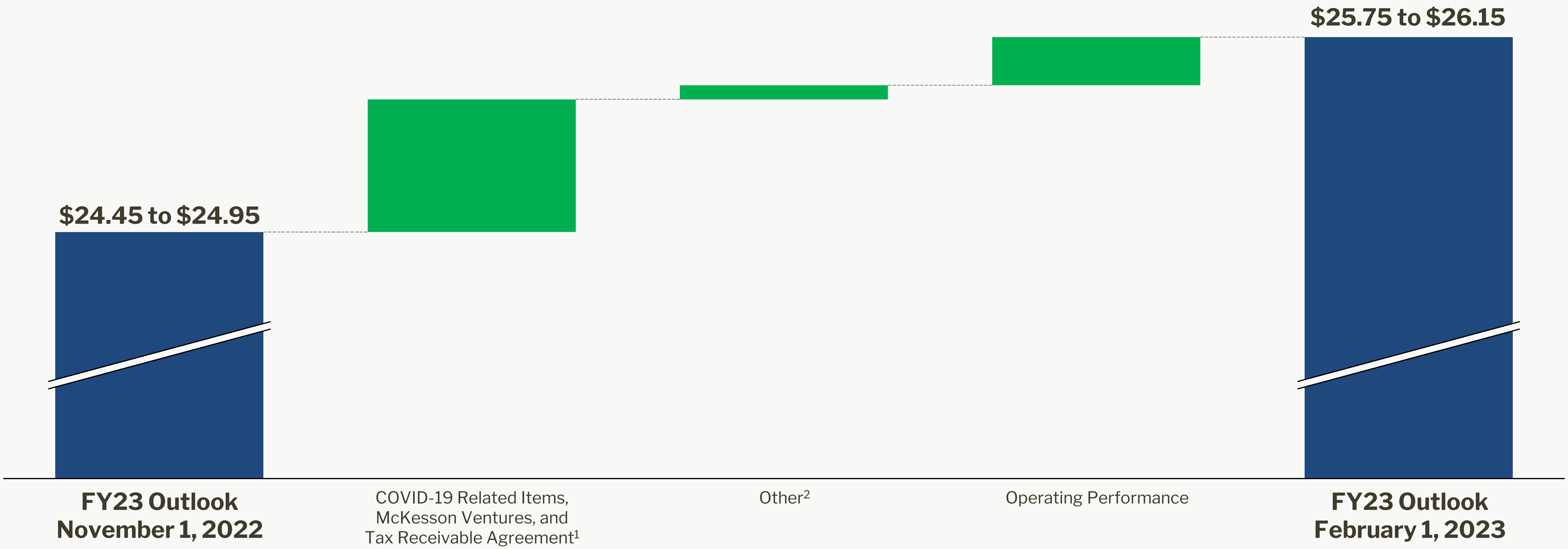
FY23 Adjusted EPS Guidance $25.75 to $26.15

	FY23 Outlook	FY22 Actual
COVID-19 vaccine distribution for U.S. government	**$0.70 to $0.80** *Previously $0.60 to $0.70*	$0.89
Kitting, storage, and distribution of ancillary supplies for U.S. government and COVID-19 tests	**$1.10 to $1.20** *Previously $1.00 to $1.10*	$1.78
Net gains and losses associated with McKesson Ventures' equity investments[1]	Approximately ($0.15)	$0.47
Gain from termination of the tax receivable agreement with Change Healthcare[2]	**$0.65**	--
Total Impact of Certain Items	**$2.30 to $2.50** *Previously $1.45 to $1.65*	**$3.14**

Excluding the impacts of Certain Items indicates 13% to 16% forecasted growth

[1] Related to year-to-date net gains and losses associated with McKesson Ventures' equity investments
[2] McKesson received cash payment of $126 million in the third quarter of fiscal 2023 due to early termination of the tax receivable agreement with Change Healthcare

Full Year FY23 Adjusted EPS guidance increased



[1] Outlook range increased to $2.30 to $2.50, from previous range of $1.45 to $1.65
[2] Includes diluted weighted average common shares and interest expense

Fiscal 2023 outlook
Consolidated metrics

Metric	Fiscal 2023 Outlook	Fiscal 2022 Actual
Adjusted Earnings per Diluted Share	**$25.75 to $26.15** *Previously $24.45 to $24.95*	$23.69
Revenues	3% to 7% growth	11% growth
Adjusted Operating Profit	**2% to 6% growth** *Previously 4% decline to 2% growth*	25% growth
Adjusted Corporate Expenses	**$435 to $475 million** *Previously $580 to $620 million*	$579 million
Interest Expense	**$245 to $255 million** *Previously $225 to $235 million*	$178 million
Income Attributable to Non-Controlling Interests	**$165 to $175 million** *Previously $160 to $180 million*	$173 million
Adjusted Effective Tax Rate	18% to 20%	18%
Free Cash Flow	$3.2 to $3.6 billion	$3.9 billion
Share repurchases	Approximately $3.5 billion	$3.5 billion
Diluted weighted average common shares	**Approximately 142 million** *Previously 142 to 144 million*	154.1 million
Opioid-related litigation expenses	Approximately $50 million	$130 million

Fiscal 2023 outlook

Segment metrics

	U.S. Pharmaceutical	Prescription Technology Solutions	Medical-Surgical Solutions	International
FY23 Revenue	12% to 15% growth	10% to 16% growth	**1% to 5% decline** *Previously 4% to 8% decline*	42% to 46% decline
FY23 Adjusted Segment Operating Profit:				
Reported	**5% to 8% growth** *Previously 3% to 6% growth*	**14% to 17% growth** *Previously 16% to 22% growth*	**1% to 4% decline** *Previously 3% to 6% decline*	**26% to 29% decline** *Previously 27% to 33% decline*
Excluding COVID-19 impacts in the U.S.[1]	**7% to 9% growth** *Previously 5% to 7% growth*		**12% to 15% growth** *Previously 11% to 15% growth*	

[1] Excluding the impacts attributable to the U.S. government's COVID-19 vaccine distribution in U.S. Pharmaceutical and the impacts attributable to kitting, storage, and distribution of ancillary supplies and COVID-19 tests in Medical-Surgical Solutions. See slide 15 for fiscal 2022 actuals and fiscal 2023 outlook

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Appendix

GAAP to Non-GAAP Reconciliation

Q3 and YTD Fiscal 2023 and Fiscal 2022

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

Schedule 2

	Three Months Ended December 31,			Nine Months Ended December 31,		
	2022	2021	Change	2022	2021	Change
Income from continuing operations (GAAP)	$ 1,119	$ 39	— %	$ 2,899	$ 885	228 %
Net income attributable to noncontrolling interests (GAAP)	(41)	(46)	(11)	(123)	(136)	(10)
Income (loss) from continuing operations attributable to McKesson Corporation (GAAP)	1,078	(7)	—	2,776	749	271
Pre-tax adjustments:						
Amortization of acquisition-related intangibles	57	81	(30)	170	263	(35)
Transaction-related expenses and adjustments (1) (2) (3) (4) (5)	(9)	882	(101)	(158)	1,343	(112)
LIFO inventory-related adjustments	5	(33)	115	(31)	(79)	(61)
Gains from antitrust legal settlements	(129)	—	—	(129)	(46)	180
Restructuring, impairment, and related charges, net (6)	31	18	72	84	208	(60)
Claims and litigation charges, net (7)	(1)	7	(114)	(5)	193	(103)
Other adjustments, net (8) (9) (10)	(78)	—	—	(71)	347	(120)
Income tax effect on pre-tax adjustments	18	(4)	550	61	(196)	131
Adjusted Earnings (Non-GAAP)	$ 972	$ 944	3 %	$ 2,697	$ 2,782	(3)%

Refer to Slide 24 of this presentation for all footnote references.
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GAAP to Non-GAAP Reconciliation

Q3 and YTD Fiscal 2023 and Fiscal 2022

Schedule 2
(Continued)

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

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Change	Nine Months Ended December 31, 2022	Nine Months Ended December 31, 2021	Change
Earnings per diluted common share from continuing operations attributable to McKesson Corporation (GAAP) [a]	$ 7.65	$ (0.04)	— %	$ 19.32	$ 4.81	302 %
After-tax adjustments:						
Amortization of acquisition-related intangibles	0.32	0.42	(24)	0.93	1.33	(30)
Transaction-related expenses and adjustments	(0.17)	5.80	(103)	(0.70)	8.55	(108)
LIFO inventory-related adjustments	0.03	(0.16)	119	(0.16)	(0.38)	(58)
Gains from antitrust legal settlements	(0.67)	—	—	(0.66)	(0.22)	200
Restructuring, impairment, and related charges, net	0.17	0.09	89	0.45	1.07	(58)
Claims and litigation charges, net	(0.01)	0.04	(125)	(0.03)	1.03	(103)
Other adjustments, net	(0.42)	—	—	(0.37)	1.67	(122)
Adjusted Earnings per Diluted Share (Non-GAAP) [b] [c]	$ 6.90	$ 6.15	12	$ 18.78	$ 17.86	5
After-tax adjustments: [d]						
U.S. government's COVID-19 vaccine distribution program	(0.25)	(0.26)	(4)	(0.66)	(0.82)	(20)
U.S. government's kitting, storage, and distribution of ancillary supplies program and	(0.38)	(0.57)	(33)	(0.96)	(1.36)	(29)
Net losses (gains) associated with McKesson Ventures' equity investments [11]	—	—	—	0.13	(0.49)	127
Termination of Tax Receivable Agreement with Change Healthcare [12]	(0.65)	—	—	(0.65)	—	—
Adjusted Earnings per Diluted Share Excluding Certain Items (Non-GAAP) [b]	$ 5.62	$ 5.32	6 %	$ 16.64	$ 15.19	10 %
Diluted weighted-average common shares outstanding	141.0	153.5	(8)%	143.7	155.8	(8)%

Refer to Slide 24 of this presentation for all footnote references.

GAAP to Non-GAAP Reconciliation

Q3 and YTD Fiscal 2023 and Fiscal 2022

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

Schedule 2
(Continued)

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Change	Nine Months Ended December 31, 2022	Nine Months Ended December 31, 2021	Change
Gross profit (GAAP)	$ 3,174	$ 3,428	(7)%	$ 9,292	$ 9,812	(5)%
Pre-tax adjustments:						
LIFO inventory-related adjustments	5	(33)	115	(31)	(79)	(61)
Gains from antitrust legal settlements	(129)	—	—	(129)	(46)	180
Other adjustments, net [10]	—	—	—	—	147	(100)
Adjusted Gross Profit (Non-GAAP)	$ 3,050	$ 3,395	(10)%	$ 9,132	$ 9,834	(7)%
Total operating expenses (GAAP)	$ (1,933)	$ (3,130)	(38)%	$ (5,891)	$ (8,407)	(30)%
Pre-tax adjustments:						
Amortization of acquisition-related intangibles	57	81	(30)	170	262	(35)
Transaction-related expenses and adjustments [1] [2] [3] [4]	(9)	882	(101)	(16)	1,343	(101)
Restructuring, impairment, and related charges, net [6]	31	18	72	84	208	(60)
Claims and litigation charges, net [7]	(1)	7	(114)	(5)	193	(103)
Other adjustments, net [10]	20	—	—	26	9	189
Adjusted Operating Expenses (Non-GAAP)	$ (1,835)	$ (2,142)	(14)%	$ (5,632)	$ (6,392)	(12)%
Other income, net (GAAP)	$ 276	$ 20	— %	$ 466	$ 202	131 %
Pre-tax adjustments:						
Amortization of acquisition-related intangibles	—	—	—	—	1	(100)
Transaction-related expenses and adjustments [5]	—	—	—	(142)	—	—
Other adjustments, net [8]	(98)	—	—	(97)	—	—
Adjusted Other Income (Non-GAAP)	$ 178	$ 20	790 %	$ 227	$ 203	12 %

Refer to Slide 24 of this presentation for all footnote references.
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GAAP to Non-GAAP Reconciliation

Q3 and YTD Fiscal 2023 and Fiscal 2022

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

Schedule 2
(Continued)

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Change	Nine Months Ended December 31, 2022	Nine Months Ended December 31, 2021	Change
Loss on debt extinguishment (GAAP)	$ —	$ —	— %	$ —	$ (191)	(100)%
Pre-tax adjustments:						
Other adjustments, net [9]	—	—	—	—	191	(100)
Adjusted Loss on Debt Extinguishment (Non-GAAP)	$ —	$ —	— %	$ —	$ —	— %
Income tax expense (GAAP)	$ (329)	$ (238)	38 %	$ (799)	$ (396)	102 %
Tax adjustments:						
Amortization of acquisition-related intangibles	(13)	(16)	(19)	(37)	(56)	(34)
Transaction-related expenses and adjustments	(15)	9	(267)	57	(11)	618
LIFO inventory-related adjustments	(1)	8	(113)	8	20	(60)
Gains from antitrust legal settlements	34	—	—	34	12	183
Restructuring, impairment, and related charges, net	(7)	(4)	75	(19)	(41)	(54)
Claims and litigation charges, net	—	(1)	(100)	1	(33)	103
Other adjustments, net	20	—	—	17	(87)	120
Adjusted Income Tax Expense (Non-GAAP)	$ (311)	$ (242)	29 %	$ (738)	$ (592)	25 %

Refer to Slide 24 of this presentation for all footnote references.
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GAAP to Non-GAAP Reconciliation

Q3 and YTD Fiscal 2023 and Fiscal 2022

__Schedule 2__
(Continued)

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

(a) Certain computations may reflect rounding adjustments.

(b) We calculate loss per diluted common share from continuing operations attributable to McKesson Corporation (GAAP) for the three months ended December 31, 2021 using a weighted average of 151.6 million common shares, which excludes dilutive securities from the denominator due to their antidilutive effect when calculating a net loss per diluted share. We calculate adjusted earnings per diluted share (Non-GAAP) for the three months ended December 31, 2021 on a fully diluted basis, using a weighted average of 153.5 million common shares.

(c) Adjusted earnings per diluted share on an FX-adjusted basis for the three and nine months ended December 31, 2022 was $6.97 and $18.98, respectively, which excludes the foreign currency exchange effect of $0.07 and $0.20, respectively.

(d) After-tax adjustments include the following tax impacts per diluted share:

- U.S. government's COVID-19 vaccine distribution program includes income tax expense of $0.09 per diluted share for each of the three months ended December 31, 2022 and 2021, and $0.23 and $0.29 per diluted share for the nine months ended December 31, 2022 and 2021, respectively;
- U.S. government's kitting, storage, and distribution of ancillary supplies program and COVID-19 tests includes income tax expense of $0.13 and $0.20 per diluted share for the three months ended December 31, 2022 and 2021, respectively, and $0.34 and $0.48 per diluted share for the nine months ended December 31, 2022 and 2021, respectively;
- Net losses (gains) associated with McKesson Ventures' equity investments includes income tax benefit of $0.04 per diluted share and income tax expense of $0.17 per diluted share for the nine months ended December 31, 2022 and 2021, respectively; and
- Termination of Tax Receivable Agreement with Change Healthcare early termination fee includes income tax expense of $0.23 per diluted share for the three and nine months ended December 31, 2022 and 2021.

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

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

For more information relating to the Adjusted Earnings (Non-GAAP), Adjusted Earnings per Diluted Share (Non-GAAP), Adjusted Earnings per Diluted Share Excluding Certain Items (Non-GAAP), 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 presentation.

GAAP to Non-GAAP Reconciliation

Q3 Fiscal 2023 and Q3 Fiscal 2022

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

Schedule 3

	Three Months Ended December 31,													
	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	$ 61,934	$ —	$ 61,934	$ 55,041	$ —	$ 55,041	$ —	$ 61,934	$ —	$ 61,934	13 %	13 %	13 %	13 %
Prescription Technology Solutions	1,121	—	1,121	1,031	—	1,031	—	1,121	—	1,121	9	9	9	9
Medical-Surgical Solutions	2,986	—	2,986	3,082	—	3,082	—	2,986	—	2,986	(3)	(3)	(3)	(3)
International	4,449	—	4,449	9,460	—	9,460	461	4,910	461	4,910	(53)	(53)	(48)	(48)
Revenues	$ 70,490	$ —	$ 70,490	$ 68,614	$ —	$ 68,614	$ 461	$ 70,951	$ 461	$ 70,951	3 %	3 %	3 %	3 %
OPERATING PROFIT (LOSS) [6]														
U.S. Pharmaceutical	$ 850	$ (72)	$ 778	$ 744	$ (9)	$ 735	$ —	$ 850	$ —	$ 778	14 %	6 %	14 %	6 %
Prescription Technology Solutions	136	19	155	129	16	145	—	136	—	155	5	7	5	7
Medical-Surgical Solutions	328	8	336	308	22	330	—	328	—	336	6	2	6	2
International [1][2][3]	136	7	143	(668)	890	222	12	148	15	158	120	(36)	122	(29)
Subtotal	1,450	(38)	1,412	513	919	1,432	12	1,462	15	1,427	183	(1)	185	—
Corporate expenses, net [1][2][3][8]	67	(86)	(19)	(195)	36	(159)	—	67	(1)	(20)	134	(88)	134	(87)
Income from continuing operations before interest expense and income taxes	$ 1,517	$ (124)	$ 1,393	$ 318	$ 955	$ 1,273	$ 12	$ 1,529	$ 14	$ 1,407	377 %	9 %	381 %	11 %
OPERATING PROFIT (LOSS) AS A % OF REVENUES														
U.S. Pharmaceutical	1.37 %		1.26 %	1.35 %		1.34 %		1.37 %		1.26 %	2 bp	(8) bp	2 bp	(8) bp
Prescription Technology Solutions	12.13		13.83	12.51		14.06		12.13		13.83	(38)	(23)	(38)	(23)
Medical-Surgical Solutions	10.98		11.25	9.99		10.71		10.98		11.25	99	54	99	54
International	3.06		3.21	(7.06)		2.35		3.01		3.22	1,012	86	1,007	87

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

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

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 presentation.

MCKESSON

GAAP to Non-GAAP Reconciliation

YTD Fiscal 2023 and YTD Fiscal 2022

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

Schedule 3
(Continued)

	Nine Months Ended December 31,													
	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	$ 178,940	$ —	$ 178,940	$ 158,471	$ —	$ 158,471	$ —	$ 178,940	$ —	$ 178,940	13 %	13 %	13 %	13 %
Prescription Technology Solutions	3,205	—	3,205	2,844	—	2,844	—	3,205	—	3,205	13	13	13	13
Medical-Surgical Solutions	8,421	—	8,421	8,734	—	8,734	—	8,421	—	8,421	(4)	(4)	(4)	(4)
International	17,235	—	17,235	27,815	—	27,815	1,668	18,903	1,668	18,903	(38)	(38)	(32)	(32)
Revenues	$ 207,801	$ —	$ 207,801	$ 197,864	$ —	$ 197,864	$ 1,668	$ 209,469	$ 1,668	$ 209,469	5 %	5 %	6 %	6 %
OPERATING PROFIT (LOSS) [6]														
U.S. Pharmaceutical [5]	$ 2,442	$ (197)	$ 2,245	$ 2,186	$ (34)	$ 2,152	$ —	$ 2,442	$ —	$ 2,245	12 %	4 %	12 %	4 %
Prescription Technology Solutions	400	61	461	361	67	428	—	400	—	461	11	8	11	8
Medical-Surgical Solutions [10]	883	28	911	679	227	906	—	883	—	911	30	1	30	1
International [1] [2] [3] [4]	93	325	418	(761)	1,316	555	31	124	43	461	112	(25)	116	(17)
Subtotal	3,818	217	4,035	2,465	1,576	4,041	31	3,849	43	4,078	55	—	56	1
Corporate expenses, net [1] [2] [3] [7] [8]	49	(357)	(308)	(858)	462	(396)	(3)	46	(3)	(311)	106	(22)	105	(21)
Income from continuing operations before interest expense and income taxes	$ 3,867	$ (140)	$ 3,727	$ 1,607	$ 2,038	$ 3,645	$ 28	$ 3,895	$ 40	$ 3,767	141 %	2 %	142 %	3 %
OPERATING PROFIT (LOSS) AS A % OF REVENUES														
U.S. Pharmaceutical	1.36 %		1.25 %	1.38 %		1.36 %		1.36 %		1.25 %	(2) bp	(11) bp	(2) bp	(11) bp
Prescription Technology Solutions	12.48		14.38	12.69		15.05		12.48		14.38	(21)	(67)	(21)	(67)
Medical-Surgical Solutions	10.49		10.82	7.77		10.37		10.49		10.82	272	45	272	45
International	0.54		2.43	(2.74)		2.00		0.66		2.44	328	43	340	44

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

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 presentation.

MCKESSON

GAAP to Non-GAAP Reconciliation

YTD Fiscal 2023 and YTD Fiscal 2022

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

Schedule 6

	Nine Months Ended December 31, 2022	Nine Months Ended December 31, 2021	Change
GAAP CASH FLOW CATEGORIES			
Net cash provided by operating activities	$ 1,834	$ 1,547	19 %
Net cash used in investing activities	(298)	(272)	10
Net cash used in financing activities	(3,178)	(4,332)	(27)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	15	35	(57)
Change in cash, cash equivalents, and restricted cash classified within Assets held for sale	470	(215)	319
Net decrease in cash, cash equivalents, and restricted cash	$ (1,157)	$ (3,237)	(64)%
FREE CASH FLOW (NON-GAAP)			
Net cash provided by operating activities	$ 1,834	$ 1,547	19 %
Payments for property, plant, and equipment	(265)	(253)	5
Capitalized software expenditures	(111)	(127)	(13)
Free Cash Flow (Non-GAAP)	$ 1,458	$ 1,167	25 %

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 presentation.

MCKESSON

Financial Statement Notes

McKESSON CORPORATION
FINANCIAL STATEMENT NOTES

(1) Transaction-related expenses and adjustments for the three and nine months ended December 31, 2022 includes pre-tax net gains of $31 million ($36 million after-tax) and $66 million ($35 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 nine months ended December 31, 2022 of $34 million ($39 million after-tax) and $306 million ($275 million after-tax), respectively, are included within Corporate expenses, net, and charges (pre-tax and after-tax) of $3 million and $240 million, respectively, are included within International. These 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 nine months ended December 31, 2021 includes pre-tax charges of $26 million ($31 million after-tax) and $517 million ($503 million after-tax), respectively, to remeasure assets and liabilities held for sale to fair value less costs to sell related to the sale of certain of our European businesses to the PHOENIX Group and to impair certain internal-use software that would not be utilized in the future. Pre-tax gains of $32 million ($27 million after-tax) and pre-tax charges of $117 million ($107 million after-tax) for the three and nine months ended December 31, 2021, respectively, primarily related to the effect of accumulated other comprehensive income balances associated with the disposal group, are included within Corporate expenses, net. Charges of $58 million (pre-tax and after-tax) and pre-tax charges of $400 million ($396 million after-tax) for the three and nine months ended December 31, 2021, respectively, 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 net 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 nine months ended December 31, 2021 includes pre-tax charges of $823 million ($829 million after-tax) to remeasure assets and liabilities held for sale to fair value less costs to sell related to the sale of our retail and distribution businesses in the United Kingdom to AURELIUS, primarily 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.

(4) Transaction-related expenses and adjustments for the nine months ended December 31, 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.

(5) Transaction-related expenses and adjustments for the nine months ended December 31, 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.

(6) Restructuring, impairment, and related charges, net for the three and nine months ended December 31, 2022 includes pre-tax charges of $31 million ($24 million after-tax) and $84 million ($65 million after-tax), respectively, primarily within International and Corporate expenses, net. The three and nine months ended December 31, 2021 includes pre-tax charges of $18 million ($14 million after-tax) and $208 million ($167 million after-tax), respectively, primarily within Corporate expenses, net as well as impairment of certain long-lived assets 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.

Financial Statement Notes

FINANCIAL STATEMENT NOTES (continued)

(7) Claims and litigation charges, net for the nine months ended December 31, 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;
- 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.

These charges are included within Corporate expenses, net and 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 nine months ended December 31, 2022 includes a pre-tax gain of $97 million ($72 million after-tax) within Corporate expenses, net from termination of fixed interest rate swaps accounted for as cash flow hedges. Management believes that this gain is not part of normal business operations and is therefore excluded from our determination of adjusted results. 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.

(9) Other adjustments, net for the nine months ended December 31, 2021 includes a pre-tax loss of $191 million ($141 million after-tax) on debt extinguishment within Corporate expenses, net related to our July 2021 tender offer to redeem a portion of our then-existing debt. 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.

(10) Other adjustments, net for the nine months ended December 31, 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 were 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 was 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 planned 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.

(11) Net losses (gains) associated with McKesson Ventures' equity investments for the nine months ended December 31, 2022 and 2021 included pre-tax net losses of $24 million ($18 million after-tax) and pre-tax net gains of $104 million ($77 million after-tax), respectively, within Corporate expenses, net. These amounts were recorded in “Other income, net” in the Condensed Consolidated Statements of Operations (GAAP) provided in Schedule 1 of the accompanying financial statement tables.

(12) Termination of Tax Receivable Agreement ("TRA") with Change Healthcare for the three and nine months ended December 31, 2022 consists of a pre-tax gain of $126 million ($93 million after-tax) within Corporate expenses, net, related to a cash payment received as a result of an exercise of the option by Change Healthcare Inc. ("Change") pursuant to the TRA for early termination of the agreement. We entered into this agreement as part of the formation of a joint venture with Change, from which McKesson has since exited. This amount was recorded in “Other income, net” in the Condensed Consolidated Statements of Operations (GAAP) provided in Schedule 1 of the accompanying financial statement tables.

Supplemental Non-GAAP Financial Information

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 presentation.

- **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 Earnings per Diluted Share Excluding Certain Items (Non-GAAP):** We define Adjusted Earnings per Diluted Share Excluding Certain Items as Adjusted Earnings (Non-GAAP), excluding the impacts of the U.S. government's COVID-19 vaccine distribution program, the U.S. government's kitting, storage, and distribution of ancillary supplies for COVID-19 vaccines program, sales of COVID-19 tests, net gains and losses associated with McKesson Ventures' equity investments, and the gain recognized related to termination of the TRA with Change, as well as the related income tax effects for each of these items, as applicable, divided by diluted weighted-average shares outstanding.

Supplemental Non-GAAP Financial Information

SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION (continued)

The following provides further details regarding certain adjustments made to our Adjusted Earnings per Diluted Share (Non-GAAP) financial results to arrive at our Adjusted Earnings per Diluted Share Excluding Certain Items (Non-GAAP) as defined above:

U.S. government's COVID-19 vaccine distribution program - The Company distributes certain COVID-19 vaccines in support of the U.S. government through a contract with the Centers for Disease Control and Prevention. The results of operations related to this vaccine distribution program are reflected in the U.S. Pharmaceutical segment.

U.S. government's kitting, storage, and distribution of ancillary supplies program and COVID-19 tests - The Company operates under a contract to manage the assembly, storage, and distribution of ancillary supply kits for COVID-19 vaccines as directed by the Department of Health and Human Services. Sales of COVID-19 tests are also included in the Company's results of operations. These items are reflected in the Medical-Surgical Solutions segment.

- **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.

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.

Supplemental Non-GAAP Financial Information

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 presentation.

- **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 presentation.

- **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 presentation.

Supplemental Non-GAAP Financial Information

SUPPLEMENTAL NON-GAAP FINANCIAL INFORMATION (continued)

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 this presentation 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.