

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2019

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 1-13252

McKESSON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

94-3207296

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification No.)

**6555 State Hwy 161,
Irving, TX 75039**

(Address of principal executive offices, including zip code)

(972) 446-4800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<i>(Title of each class)</i>	<i>(Trading Symbol)</i>	<i>(Name of each exchange on which registered)</i>
Common stock, \$0.01 par value	MCK	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 180,187,900 shares of the issuer's common stock were outstanding as of September 30, 2019.

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McKESSON CORPORATION

PART I—FINANCIAL INFORMATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)
(Unaudited)

	Quarter Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
	\$ 57,616	\$ 53,075	\$ 113,344	\$ 105,682
Revenues	\$ 57,616	\$ 53,075	\$ 113,344	\$ 105,682
Cost of Sales	(54,749)	(50,271)	(107,690)	(100,099)
Gross Profit	2,867	2,804	5,654	5,583
Operating Expenses	(2,196)	(2,033)	(4,326)	(4,063)
Goodwill Impairment Charges	—	—	—	(570)
Restructuring, Impairment and Related Charges	(45)	(82)	(68)	(178)
Total Operating Expenses	(2,241)	(2,115)	(4,394)	(4,811)
Operating Income	626	689	1,260	772
Other Income (Expense), Net	(78)	20	(41)	60
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture	(1,454)	(56)	(1,450)	(112)
Interest Expense	(64)	(66)	(120)	(127)
Income (Loss) from Continuing Operations Before Income Taxes	(970)	587	(351)	593
Income Tax Benefit (Expense)	294	(35)	158	(122)
Income (Loss) from Continuing Operations	(676)	552	(193)	471
Income (Loss) from Discontinued Operations, Net of Tax	(1)	1	(7)	2
Net Income (Loss)	(677)	553	(200)	473
Net Income Attributable to Noncontrolling Interests	(53)	(54)	(107)	(112)
Net Income (Loss) Attributable to McKesson Corporation	<u>\$ (730)</u>	<u>\$ 499</u>	<u>\$ (307)</u>	<u>\$ 361</u>
 Earnings (Loss) Per Common Share Attributable to McKesson Corporation				
Diluted				
Continuing operations	\$ (3.99)	\$ 2.51	\$ (1.62)	\$ 1.79
Discontinued operations	—	—	(0.03)	0.01
Total	<u>\$ (3.99)</u>	<u>\$ 2.51</u>	<u>\$ (1.65)</u>	<u>\$ 1.80</u>
Basic				
Continuing operations	\$ (3.99)	\$ 2.52	\$ (1.62)	\$ 1.80
Discontinued operations	—	—	(0.03)	0.01
Total	<u>\$ (3.99)</u>	<u>\$ 2.52</u>	<u>\$ (1.65)</u>	<u>\$ 1.81</u>
 Weighted Average Common Shares				
Diluted	183	199	185	201
Basic	183	198	185	200

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McKESSON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Quarter Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Net Income (Loss)	\$ (677)	\$ 553	\$ (200)	\$ 473
Other Comprehensive Income (Loss), Net of Tax				
Foreign currency translation adjustments	(32)	26	12	(103)
Unrealized gains on cash flow hedges	13	2	25	2
Changes in retirement-related benefit plans	75	4	96	12
Other Comprehensive Income (Loss), Net of Tax	<u>56</u>	<u>32</u>	<u>133</u>	<u>(89)</u>
Comprehensive Income (Loss)				
Comprehensive Income Attributable to Noncontrolling Interests	(35)	(47)	(95)	(68)
Comprehensive Income (Loss) Attributable to McKesson Corporation	<u>\$ (656)</u>	<u>\$ 538</u>	<u>\$ (162)</u>	<u>\$ 316</u>

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McKESSON CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)
(Unaudited)

	September 30, 2019	March 31, 2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,356	\$ 2,981
Receivables, net	18,984	18,246
Inventories, net	16,356	16,709
Prepaid expenses and other	657	529
Total Current Assets	<u>37,353</u>	<u>38,465</u>
Property, Plant and Equipment, Net	2,493	2,548
Operating Lease Right-of-Use Assets	2,002	—
Goodwill	9,408	9,358
Intangible Assets, Net	3,489	3,689
Investment in Change Healthcare Joint Venture	2,167	3,513
Other Noncurrent Assets	2,082	2,099
Total Assets	<u>\$ 58,994</u>	<u>\$ 59,672</u>
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Current Liabilities		
Drafts and accounts payable	\$ 32,560	\$ 33,853
Short-term borrowing	549	—
Current portion of long-term debt	302	330
Current portion of operating lease liabilities	362	—
Other accrued liabilities	3,372	3,443
Total Current Liabilities	<u>37,145</u>	<u>37,626</u>
Long-Term Debt	7,342	7,265
Long-Term Deferred Tax Liabilities	2,718	2,998
Long-Term Operating Lease Liabilities	1,763	—
Other Noncurrent Liabilities	1,950	2,103
Redeemable Noncontrolling Interests	1,384	1,393
McKesson Corporation Stockholders' Equity		
Preferred stock, \$0.01 par value, 100 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 800 shares authorized at September 30, 2019 and March 31, 2019, 272 and 271 shares issued at September 30, 2019 and March 31, 2019	3	3
Additional Paid-in Capital	6,573	6,435
Retained Earnings	11,965	12,409
Accumulated Other Comprehensive Loss	(1,704)	(1,849)
Other	(2)	(2)
Treasury Shares, at Cost, 92 and 81 shares at September 30, 2019 and March 31, 2019	(10,353)	(8,902)
Total McKesson Corporation Stockholders' Equity	<u>6,482</u>	<u>8,094</u>
Noncontrolling Interests	210	193
Total Equity	<u>6,692</u>	<u>8,287</u>
Total Liabilities, Redeemable Noncontrolling Interests and Equity	<u>\$ 58,994</u>	<u>\$ 59,672</u>

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McKESSON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except per share amounts)
(Unaudited)

Three Months Ended September 30, 2019

	Common Stock									Treasury			Noncontrolling Interests	Total Equity
	Shares	Amount	Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Shares	Amount						
Balances, June 30, 2019	271	\$ 3	\$ 6,483	\$ (1)	\$ 12,770	\$ (1,778)	(86)	\$ (9,603)	\$ 194	\$ 8,068				
Issuance of shares under employee plans	1	—	56	—	—	—	—	—	—	—	—	—	56	
Share-based compensation	—	—	34	—	—	—	—	—	—	—	—	—	34	
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	—	(37)	(37)	
Other comprehensive income	—	—	—	—	—	74	—	—	—	—	—	—	74	
Net income (loss)	—	—	—	—	(730)	—	—	—	42	(688)				
Repurchase of common stock	—	—	—	—	—	—	(6)	(750)	—	(750)	—	—	(750)	
Cash dividends declared, \$0.41 per common share	—	—	—	—	(75)	—	—	—	—	—	—	—	(75)	
Other	—	—	—	(1)	—	—	—	—	11	—	—	—	10	
Balances, September 30, 2019	272	\$ 3	\$ 6,573	\$ (2)	\$ 11,965	\$ (1,704)	(92)	\$ (10,353)	\$ 210	\$ 6,692				

Six Months Ended September 30, 2019

	Common Stock									Treasury			Noncontrolling Interests	Total Equity
	Shares	Amount	Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Shares	Amount						
Balances, March 31, 2019	271	\$ 3	\$ 6,435	\$ (2)	\$ 12,409	\$ (1,849)	(81)	\$ (8,902)	\$ 193	\$ 8,287				
Opening Retained Earnings Adjustments: Adoption of New Accounting Standards	—	—	—	—	11	—	—	—	—	—	—	—	11	
Balances, April 1, 2019	271	3	\$ 6,435	(2)	12,420	(1,849)	(81)	\$ (8,902)	193	\$ 8,298				
Issuance of shares under employee plans	1	—	78	—	—	—	—	—	(17)	—	—	61		
Share-based compensation	—	—	60	—	—	—	—	—	—	—	—	—	60	
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	—	—	—	(76)	(76)	
Other comprehensive income	—	—	—	—	—	145	—	—	—	—	—	—	145	
Net income (loss)	—	—	—	—	(307)	—	—	—	85	(222)				
Repurchase of common stock	—	—	—	—	—	—	(11)	(1,434)	—	(1,434)	—	—	(1,434)	
Cash dividends declared, \$0.80 per common share	—	—	—	—	(148)	—	—	—	—	—	—	—	(148)	
Other	—	—	—	—	—	—	—	—	8	—	—	—	8	
Balances, September 30, 2019	272	\$ 3	\$ 6,573	\$ (2)	\$ 11,965	\$ (1,704)	(92)	\$ (10,353)	\$ 210	\$ 6,692				

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McKESSON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2018										
	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury		Noncontrolling Interests	Total Equity	
	Shares	Amount					Common Shares	Amount			
Balances, June 30, 2018	275	\$ 3	\$ 6,372	\$ (1)	\$ 12,932	\$ (1,801)	(76)	\$ (8,098)	\$ 240	\$ 9,647	
Issuance of shares under employee plans	—	—	16	—	—	—	—	—	—	16	
Share-based compensation	—	—	24	—	—	—	—	—	—	24	
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(42)	(42)	
Other comprehensive income	—	—	—	—	—	39	—	—	—	39	
Net income	—	—	—	—	499	—	—	—	43	542	
Repurchase of common stock	—	—	—	—	—	—	(4)	(580)	—	(580)	
Cash dividends declared, \$0.39 per common share	—	—	—	—	(78)	—	—	—	—	(78)	
Other	—	—	(1)	(1)	1	—	—	—	(33)	(34)	
Balances, September 30, 2018	275	\$ 3	\$ 6,411	\$ (2)	\$ 13,354	\$ (1,762)	(80)	\$ (8,678)	\$ 208	\$ 9,534	
	Six Months Ended September 30, 2018										
	Common Stock		Additional Paid-in Capital	Other Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury		Noncontrolling Interests	Total Equity	
	Shares	Amount					Common Shares	Amount			
Balances, March 31, 2018	275	\$ 3	\$ 6,188	\$ (1)	\$ 12,986	\$ (1,717)	(73)	\$ (7,655)	\$ 253	\$ 10,057	
Opening Retained Earnings Adjustments: Adoption of New Accounting Standards	—	—	—	—	154	—	—	—	—	154	
Balances, April 1, 2018	275	3	6,188	(1)	13,140	(1,717)	(73)	(7,655)	253	10,211	
Issuance of shares under employee plans	—	—	38	—	—	—	—	(11)	—	27	
Share-based compensation	—	—	49	—	—	—	—	—	—	49	
Payments to noncontrolling interests	—	—	—	—	—	—	—	—	(106)	(106)	
Other comprehensive loss	—	—	—	—	—	(45)	—	—	—	(45)	
Net income	—	—	—	—	361	—	—	—	89	450	
Repurchase of common stock	—	—	135	—	—	—	(7)	(1,012)	—	(877)	
Cash dividends declared, \$0.73 per common share	—	—	—	—	(147)	—	—	—	—	(147)	
Other	—	—	1	(1)	—	—	—	—	(28)	(28)	
Balances, September 30, 2018	275	\$ 3	\$ 6,411	\$ (2)	\$ 13,354	\$ (1,762)	(80)	\$ (8,678)	\$ 208	\$ 9,534	

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McKESSON CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended September 30,	
	2019	2018
Operating Activities		
Net income (loss)	\$ (200)	\$ 473
Adjustments to reconcile to net cash provided by (used in) operating activities:		
Depreciation and amortization	463	475
Goodwill and other asset impairment charges	12	611
Deferred taxes	(380)	60
Credits associated with last-in, first-out inventory method	(48)	(43)
Equity earnings and charges from investment in Change Healthcare Joint Venture	1,450	112
Non-cash operating lease expense	180	—
Other non-cash items	144	(138)
Changes in assets and liabilities, net of acquisitions:		
Receivables	(866)	(1,705)
Inventories	331	(398)
Drafts and accounts payable	(1,203)	1,197
Taxes	70	(99)
Operating lease liabilities	(189)	—
Other	77	(227)
Net cash provided by (used in) operating activities	(159)	318
Investing Activities		
Payments for property, plant and equipment	(126)	(178)
Capitalized software expenditures	(58)	(70)
Acquisitions, net of cash, cash equivalents and restricted cash acquired	(95)	(840)
Other	(6)	105
Net cash used in investing activities	(285)	(983)
Financing Activities		
Proceeds from short-term borrowings	8,670	19,735
Repayments of short-term borrowings	(8,122)	(18,342)
Common stock transactions:		
Issuances	78	38
Share repurchases, including shares surrendered for tax withholding	(1,452)	(888)
Dividends paid	(148)	(139)
Other	(229)	(206)
Net cash provided by (used in) financing activities	(1,203)	198
Effect of exchange rate changes on cash, cash equivalents and restricted cash	22	(87)
Net decrease in cash, cash equivalents and restricted cash	(1,625)	(554)
Cash, cash equivalents and restricted cash at beginning of period	2,981	2,672
Cash, cash equivalents and restricted cash at end of period	\$ 1,356	\$ 2,118

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McKESSON CORPORATION

FINANCIAL NOTES (UNAUDITED)

1. Significant Accounting Policies

Nature of Operations: McKesson Corporation (“McKesson,” the “Company,” the “Registrant” or “we” and other similar pronouns), currently ranked 7th on the FORTUNE 500, is a global leader in healthcare supply chain management solutions, retail pharmacy, healthcare technology, community oncology and specialty care. McKesson partners with life sciences companies, manufacturers, providers, pharmacies, governments and other healthcare organizations to help provide the right medicines, medical products and healthcare services to the right patients at the right time, safely and cost-effectively. We report our financial results in three reportable segments: U.S. Pharmaceutical and Specialty Solutions, European Pharmaceutical Solutions and Medical-Surgical Solutions. All remaining operating segments and business activities that are not significant enough to require separate reportable segment disclosure are included in Other. Refer to Financial Note 18, “Segments of Business,” for more information.

Basis of Presentation: The condensed consolidated financial statements of McKesson include the financial statements of all wholly-owned subsidiaries and controlled companies. For those consolidated subsidiaries where our ownership is less than 100%, the portion of the net income or loss allocable to the noncontrolling interests is reported as “Net Income Attributable to Noncontrolling Interests” on the condensed consolidated statements of operations. All significant intercompany balances and transactions have been eliminated in consolidation including the intercompany portion of transactions with equity method investees.

We consider ourselves to control an entity if we have voting control over such entity. We also assess control through means other than voting rights (“variable interest entities” or “VIEs”) and determine which business entity is the primary beneficiary of the VIE. We consolidate VIEs when it is determined that we are the primary beneficiary of the VIE. Investments in business entities in which we do not have control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) and, therefore, do not include all information and disclosures normally included in the annual consolidated financial statements.

To prepare the financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of these financial statements and income and expenses during the reporting period. Actual amounts may differ from these estimated amounts. In our opinion, the accompanying unaudited condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods presented.

The results of operations for the quarter ended September 30, 2019 are not necessarily indicative of the results that may be expected for the entire year. These interim financial statements should be read in conjunction with the annual audited financial statements, accounting policies and financial notes included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2019 previously filed with the SEC on May 15, 2019 (“2019 Annual Report”).

The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company’s fiscal year.

Certain prior year amounts have been reclassified to conform to the current year presentation.

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Recently Adopted Accounting Pronouncements

Leases: In the first quarter of 2020, we adopted amended guidance for leases using the modified retrospective method and recorded a cumulative-effect adjustment to the opening retained earnings on the date of adoption. Under the amended guidance, entities are required to recognize operating lease liabilities and operating lease right-of-use (“ROU”) assets on the balance sheet for all leases with terms longer than 12 months and to provide enhanced disclosures on key information of leasing arrangements.

We elected the transition package of practical expedients provided within the amended guidance, which eliminates the requirements to reassess lease identification, lease classification and initial direct costs for leases commenced before April 1, 2019. We also elected not to separate lease from non-lease components for all leases and to exclude short-term leases with an initial term of 12 months or less from our condensed consolidated balance sheets.

Upon adoption of this amended guidance, we recorded \$2.2 billion of operating lease liabilities, \$2.1 billion of operating lease ROU assets and a cumulative-effect adjustment of \$69 million to the opening retained earnings. The adjustment to the opening retained earnings included impairment charges of \$89 million, net of tax to the ROU assets primarily related to previously impaired long-lived assets at the retail pharmacies in our United Kingdom (“U.K.”) and Canadian businesses, partially offset by derecognition of existing deferred gain on our sale-leaseback transaction related to our former corporate headquarters building. The adoption of this amended guidance did not have a material impact on our condensed consolidated statements of operations and cash flows.

Refer to Financial Note 11, “Leases,” for more information.

Derivatives and Hedging: In the first quarter of 2020, we prospectively adopted amended guidance that allows us to include the Secured Overnight Financing Rate Overnight Index Swap Rate as a benchmark interest rate for hedge accounting purposes. The adoption of this amended guidance did not have a material effect on our condensed consolidated financial statements.

Disclosure Update and Simplification: In the first quarter of 2020, we adopted amended guidance that simplifies certain disclosure requirements and expands the disclosure requirements on the analysis of stockholders’ equity for interim financial statements. The adoption of this amended guidance had no effect on our condensed consolidated statements of operations, comprehensive income, balance sheets and cash flows. This amended guidance resulted in a disclosure of the interim condensed consolidated statements of stockholders’ equity.

Accumulated Other Comprehensive Income: In the first quarter of 2020, we adopted amended guidance that allows for a reclassification of only those amounts related to the 2017 Tax Cuts and Jobs Act (the “2017 Tax Act”) to retained earnings thereby eliminating the stranded tax effects. Previous guidance required that deferred tax liabilities and assets be adjusted for a change in tax laws with the effect included in income from continuing operations in the reporting period that includes the enactment date. We have elected not to reclassify the stranded tax effects within accumulated other comprehensive loss to retained earnings. The adoption of this amended guidance did not affect our condensed consolidated financial statements.

Premium Amortization of Purchased Callable Debt Securities: In the first quarter of 2020, we adopted amended guidance on a modified retrospective basis that shortens the amortization period for certain callable debt securities held at a premium. The amended guidance requires the premium of callable debt securities to be amortized to the earliest call date but does not require an accounting change for securities held at a discount as they would still be amortized to maturity. The adoption of this amended guidance did not affect our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

Collaborative Arrangements: In November 2018, amended guidance was issued which clarifies that certain transactions between participants in a collaborative arrangement should be accounted for under revenue recognition guidance when the counterparty is a customer. The amended guidance precludes presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. The amended guidance is effective for us in the first quarter of 2021 on a retrospective basis with a cumulative-effect adjustment to opening retained earnings. We may elect to apply this amended guidance retrospectively either to all contracts or only to contracts that are not completed at the date of initial adoption. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Intangibles - Goodwill and Other - Internal-Use Software: In August 2018, amended guidance was issued for a customer's accounting for implementation and other upfront costs incurred in a cloud computing arrangement that is a service contract. The amended guidance aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs in a cloud computing arrangement that has a software license. The amended guidance is effective for us either on a retrospective or prospective basis commencing in the first quarter of 2021. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

Compensation - Retirement Benefits - Defined Benefit Plans: In August 2018, amended guidance was issued for defined benefit pension or other postretirement plans. The amended guidance requires us to disclose the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates, and an explanation of reasons for significant gains and losses related to changes in the benefit obligation for the period. The amended guidance also requires us to remove disclosures on the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit costs over the next fiscal year. The amended guidance is effective for us on a retrospective basis commencing in the fiscal year ended March 31, 2021. Early adoption is permitted. We do not expect the adoption of this amended guidance to have a material effect on our condensed consolidated statements of operations, comprehensive income, balance sheets or cash flows. This amended guidance will result in changes in disclosures.

Fair Value Measurement: In August 2018, amended guidance was issued to remove, modify and add disclosure requirements on fair value measurements. The amended guidance removes disclosure requirements for transfers between Level 1 and Level 2 measurements and valuation processes for Level 3 measurements but adds new disclosure requirements including changes in unrealized gains or losses in other comprehensive income related to recurring Level 3 measurements. The amended guidance is effective for us commencing in the first quarter of 2021. Certain requirements will be applied prospectively while other changes will be applied retrospectively upon the effective date. Early adoption is permitted. We do not expect the adoption of this amended guidance to have a material effect on our condensed consolidated statements of operations, comprehensive income, balance sheets or cash flows. This amended guidance will result in changes in disclosures.

Financial Instruments - Credit Losses: In June 2016, amended guidance was issued which will change the impairment model for most financial assets and require additional disclosures. The amended guidance requires financial assets that are measured at amortized cost be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of financial assets. The amended guidance also requires us to consider historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount in estimating credit losses. The guidance was further amended in May 2019 to provide an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. The amended guidance becomes effective for us commencing in the first quarter of 2021 and will be applied through a cumulative-effect adjustment to the opening retained earnings in the year of adoption. Early adoption is permitted. We are currently evaluating the impact of this amended guidance on our condensed consolidated financial statements.

2. Investment in Change Healthcare Joint Venture

In the fourth quarter of 2017, we contributed the majority of our McKesson Technology Solutions businesses to form a joint venture, Change Healthcare LLC ("Change Healthcare JV"), under a contribution agreement between McKesson and Change Healthcare Inc. and others, including shareholders of Change Healthcare Inc. In exchange for the contribution, we initially owned approximately 70% of the joint venture with the remaining equity ownership of approximately 30% held by Change Healthcare Inc. The Change Healthcare JV is jointly governed by McKesson and shareholders of Change Healthcare Inc. The initial investment in Change Healthcare JV represented the fair value of our 70% equity interest in the joint venture upon closing of the transaction.

We account for our investment in Change Healthcare JV using the equity method of accounting with a one-month reporting lag. The Company's accounting policy is to disclose any intervening events of the joint venture in the lag period that could materially affect our condensed consolidated financial statements. Effective April 1, 2019, Change Healthcare JV adopted the amended revenue recognition guidance. In the first quarter of 2020, we recorded our proportionate share of the joint venture's adoption impact of the amended revenue recognition guidance of approximately \$80 million, net of tax to the opening retained earnings.

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Initial Public Offering by Change Healthcare Inc.

On June 27, 2019, common stock and certain other securities of Change Healthcare Inc. began trading on the NASDAQ (“IPO”). Change Healthcare Inc. is a holding company and does not own any material assets or have any operations other than through its interest in Change Healthcare JV.

On July 1, 2019, upon the completion of its IPO, Change Healthcare Inc. received net cash proceeds of approximately \$888 million. Change Healthcare Inc. contributed the proceeds from its offering of common stock of \$609 million to Change Healthcare JV in exchange for additional membership interests of Change Healthcare JV (“LLC Units”) at the equivalent of its offering price of \$13 per share. The proceeds from the concurrent offering of other securities of \$279 million were used by Change Healthcare Inc. to acquire certain securities of Change Healthcare JV that substantially mirror the terms of other securities included in the offering by Change Healthcare Inc. Change Healthcare JV, in return, used the majority of the IPO proceeds to repay a portion of the joint venture’s outstanding debt. As a result, McKesson’s equity interest in Change Healthcare JV was diluted from approximately 70% to approximately 58.5% and Change Healthcare Inc. now owns approximately 41.5% of the outstanding LLC Units. Accordingly, in the second quarter of 2020, we recognized a pre-tax dilution loss of \$246 million (\$184 million after-tax) primarily representing the difference between our proportionate share of the IPO proceeds and the dilution effect on our investment’s carrying value. Effective with the second quarter of 2020, we recognized our proportionate share of net income or loss based on our reduced equity interest in Change Healthcare JV, adjusted for the effect of basis differences and other items as applicable. This amount was included within equity earnings and charges from investment in Change Healthcare joint venture in our condensed consolidated statements of operations.

Since the completion of its IPO in July 2019, the fair value from the trading prices of Change Healthcare Inc.’s public common stock has been below the corresponding carrying value of our investment in Change Healthcare JV, triggering an other-than-temporary impairment (“OTTI”) evaluation. As of September 30, 2019, we expect to exit our investment in Change Healthcare JV within the next six to twelve months. In light of our planned exit and the corresponding publicly-traded share price of Change Healthcare Inc., we concluded an OTTI has occurred during our second quarter of 2020 and recorded a pre-tax impairment charge of \$1,157 million (\$864 million after-tax), representing the difference between the carrying value of our investment and the fair value derived from the corresponding closing price of Change Healthcare Inc.’s common stock at September 30, 2019. This charge was included within equity earnings and charges from investment in Change Healthcare joint venture in our condensed consolidated statements of operations.

We recorded our proportionate share of loss from investment in Change Healthcare JV of \$51 million and \$47 million for the second quarter and first six months of 2020, and \$56 million and \$112 million for the second quarter and first six months of 2019. Our proportionate share of income or loss from this investment includes integration expenses incurred by Change Healthcare JV and basis differences between the joint venture and McKesson including amortization of fair value adjustments primarily representing incremental intangible assets. These amounts were included within equity earnings and charges from investment in Change Healthcare joint venture in our condensed consolidated statements of operations.

At September 30, 2019 and March 31, 2019, our carrying value of this investment was \$2,167 million and \$3,513 million. Our carrying value included equity method intangible assets and goodwill which caused our investment basis to exceed our proportionate share of the Change Healthcare JV’s book value of net assets by approximately \$2,090 million and \$4,158 million at September 30, 2019 and March 31, 2019.

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Related Party Transactions

In connection with the formation of Change Healthcare JV, McKesson, Change Healthcare JV and certain shareholders of Change Healthcare Inc. entered into various ancillary agreements, including transition services agreements (“TSA”), a transaction and advisory fee agreement (“Advisory Agreement”), a tax receivable agreement (“TRA”) and certain other agreements. Fees incurred or earned from Advisory Agreement were not material during the second quarters and first six months of 2020 and 2019. Fees incurred or earned from TSA were not material for the second quarter and first six months of 2020 and \$26 million and \$36 million for the second quarter and first six months of 2019. During the second quarter of 2019, we renegotiated the terms of the TRA which resulted in the extinguishment and derecognition of the \$90 million noncurrent liability. In exchange for the shareholders of Change Healthcare Inc. agreeing to extinguish the liability, we agreed to an allocation of certain tax amortization that had the effect of reducing the amount of a distribution from Change Healthcare JV that would otherwise have been required to be made to the shareholders of Change Healthcare Inc. As a result of the renegotiation, McKesson was relieved from any potential future obligations associated with the noncurrent liability and recognized a pre-tax credit of \$90 million (\$66 million after-tax) in operating expenses in the accompanying condensed consolidated statement of operations. At September 30, 2019 and March 31, 2019, we had no outstanding payable balance to the shareholders of Change Healthcare Inc. under the TRA.

Revenues recognized and expenses incurred under these agreements with Change Healthcare JV were not material during the second quarters and first six months of 2020 and 2019. At September 30, 2019 and March 31, 2019, receivables due from the Change Healthcare JV were not material.

Under the agreement executed in the second quarter of 2019 between Change Healthcare JV, McKesson, Change Healthcare Inc., and certain subsidiaries of Change Healthcare JV, McKesson has the ability to adjust the manner in which certain depreciation or amortization deductions are allocated among Change Healthcare Inc. and McKesson. McKesson currently intends to exercise its right under the agreement and allocate certain depreciation and amortization deductions to Change Healthcare Inc. for the tax year ended March 31, 2019. These allocated depreciation and amortization deductions are not expected to have a material effect on our condensed consolidated financial statements.

Concurrent with the IPO, Change Healthcare Inc. appointed two of our current executive officers and our former chief executive officer to its Board of Directors. These appointments had no impact on the equity method of accounting we apply to our investment in Change Healthcare JV. There were no material transactions with Change Healthcare Inc.

3. Restructuring, Impairment and Related Charges

We recorded pre-tax restructuring, impairment and related charges of \$45 million (\$35 million after-tax) and \$68 million (\$52 million after-tax) during the second quarter and first six months of 2020, and \$82 million (\$67 million after-tax) and \$178 million (\$152 million after-tax) during the second quarter and first six months of 2019. These charges are included under the caption, “Restructuring, Impairment and Related Charges” within operating expenses in the accompanying condensed consolidated statements of operations.

Fiscal 2019 Initiatives

On April 25, 2018, the Company announced a strategic growth initiative intended to drive long-term incremental profit growth and to increase operational efficiency. The initiative consists of multiple growth priorities and plans to optimize the Company’s operating models and cost structures primarily through centralization, cost management and outsourcing of certain administrative functions.

As part of the growth initiative, we committed to implement certain actions including a reduction in workforce, facility consolidation and store closures. This set of the initiatives will be substantially completed by the end of 2020. We recorded restructuring, impairment and related charges of \$3 million (pre-tax and after-tax) and \$7 million (\$6 million after-tax) during the second quarter and first six months of 2020. We expect to record total pre-tax charges of approximately \$140 million to \$180 million, of which \$142 million of pre-tax charges were recorded to date. The charges primarily represent employee severance, exit-related costs and asset impairment charges. Estimated remaining charges primarily consist of exit-related costs.

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As previously announced on November 30, 2018, the Company relocated its corporate headquarters, effective April 1, 2019, from San Francisco, California to Irving, Texas to improve efficiency, collaboration and cost competitiveness. We anticipate that the relocation will be completed by January 2021. As a result, we recorded pre-tax charges of \$12 million (\$9 million after-tax) and \$20 million (\$15 million after-tax) during the second quarter and first six months of 2020, primarily representing employee retention expenses, asset impairments and accelerated depreciation. We expect to record total pre-tax charges of approximately \$80 million to \$130 million, of which \$53 million of pre-tax charges were recorded to date. Estimated remaining charges primarily consist of lease and other exit-related costs, and employee-related expenses, including retention.

During the fourth quarter of 2019, the Company committed to additional programs to continue our operating model and cost optimization efforts. We continue to implement centralization of certain functions and outsourcing through the expanded arrangement with a third-party vendor to achieve operational efficiency. The programs also include reorganization and consolidation of our business operations and related headcount reductions as well as the further closures of retail pharmacy stores in Europe and closure of other facilities. We anticipate these additional programs will be substantially completed by the end of 2021. We recorded pre-tax charges of \$28 million (\$22 million after-tax) and \$39 million (\$30 million after-tax) during the second quarter and first six months of 2020, primarily representing project consulting fees. We expect to incur total pre-tax charges of approximately \$300 million to \$350 million for these programs, of which \$202 million of pre-tax charges were recorded to date. Estimated remaining charges primarily consist of facility and other exit costs and employee-related costs.

Restructuring, impairment and related charges for our fiscal 2019 initiatives during the second quarter and first six months of 2020 consisted of the following:

(In millions)	Quarter Ended September 30, 2019						\$ 43
	U.S. Pharmaceutical and Specialty Solutions	European Pharmaceutical Solutions	Medical-Surgical Solutions	Other	Corporate	Total	
Severance and employee-related costs, net	\$ 2	\$ 3	\$ 1	\$ 1	\$ 10	\$ 27	\$ 17
Exit and other-related costs ⁽¹⁾	—	4	2	—	—	13	19
Asset impairments and accelerated depreciation	—	3	—	—	—	4	7
Total	\$ 2	\$ 10	\$ 3	\$ 1	\$ 27	\$ 27	\$ 43

(In millions)	Six Months Ended September 30, 2019						\$ 66
	U.S. Pharmaceutical and Specialty Solutions	European Pharmaceutical Solutions	Medical-Surgical Solutions	Other	Corporate	Total	
Severance and employee-related costs, net	\$ 1	\$ 2	\$ 1	\$ 1	\$ 16	\$ 16	\$ 21
Exit and other-related costs ⁽¹⁾	—	5	4	1	—	23	33
Asset impairments and accelerated depreciation	—	6	1	—	5	5	12
Total	\$ 1	\$ 13	\$ 6	\$ 2	\$ 44	\$ 44	\$ 66

(1) Exit and other-related costs primarily include project consulting fees.

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Restructuring, impairment and related charges for our fiscal 2019 initiatives during the second quarter and first six months of 2019 consisted of the following:

(In millions)	Quarter Ended September 30, 2018						Total
	U.S. Pharmaceutical and Specialty Solutions		Medical-Surgical Solutions		Other	Corporate	
Severance and employee-related costs, net	\$ —	\$ —	\$ 6	\$ 4	\$ 10		
Exit and other-related costs ⁽¹⁾	5	5	35	18	63		
Asset impairments and accelerated depreciation	—	1	1	—	2		
Total	\$ 5	\$ 6	\$ 42	\$ 22	\$ 75		

(In millions)	Six Months Ended September 30, 2018						Total
	U.S. Pharmaceutical and Specialty Solutions		Medical-Surgical Solutions		Other	Corporate	
Severance and employee-related costs, net	\$ 3	\$ 10	\$ 7	\$ 4	\$ 24		
Exit and other-related costs ⁽¹⁾	6	7	56	29	98		
Asset impairments and accelerated depreciation	4	1	17	—	22		
Total	\$ 13	\$ 18	\$ 80	\$ 33	\$ 144		

(1) Exit and other-related costs primarily include lease exit costs associated with closures of retail pharmacy stores within our Canadian business as well as project consulting fees.

The following table summarizes the activity related to the restructuring liabilities associated with our fiscal 2019 initiatives for the first six months of 2020:

(In millions)	U.S. Pharmaceutical and Specialty Solutions	European Pharmaceutical Solutions	Medical- Surgical Solutions	Corporate			Total
				Other	Corporate	Total	
Balance, March 31, 2019 ⁽¹⁾	\$ 31	\$ 38	\$ 15	\$ 29	\$ 37	\$ 150	
Restructuring, impairment and related charges	1	13	6	2	44	66	
Non-cash charges	—	(6)	(1)	—	(5)	(12)	
Cash payments	(3)	(10)	(1)	(14)	(22)	(50)	
Other	—	(1)	—	(7)	(5)	(13)	
Balance, September 30, 2019 ⁽²⁾	\$ 29	\$ 34	\$ 19	\$ 10	\$ 49	\$ 141	

(1) As of March 31, 2019, the total reserve balance was \$150 million of which \$117 million was recorded in other accrued liabilities and \$33 million was recorded in other noncurrent liabilities.

(2) As of September 30, 2019, the total reserve balance was \$141 million of which \$119 million was recorded in other accrued liabilities and \$22 million was recorded in other noncurrent liabilities.

Other Plans

There were no material restructuring, impairment and related charges for other plans recorded during the second quarters and first six months of 2020 and 2019. The restructuring liabilities for other plans as of September 30, 2019 and March 31, 2019 were \$48 million and \$87 million.

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Long-Lived Asset Impairments

During the first quarter of 2019, we performed an interim impairment test of long-lived assets primarily for our U.K. retail business due to the decline in the estimated future cash flows driven by additional U.K. government reimbursement reductions announced on June 29, 2018. As a result, we recognized a non-cash pre-tax charge of \$20 million (\$16 million after-tax) to impair the carrying value of certain intangible assets (primarily pharmacy licenses). We utilized a market approach for estimating the fair value of intangible assets. The fair value of the intangible assets is considered a Level 3 fair value measurement due to the significance of unobservable inputs developed using company specific information.

4. Goodwill Impairment Charges

We evaluate goodwill for impairment on an annual basis as of January 1 each year and at an interim date, if indicators of potential impairment exist. Goodwill impairment testing is conducted at the reporting unit level, which is generally defined as an operating segment or one level below an operating segment (also known as a component), for which discrete financial information is available and segment management regularly reviews the operating results of that reporting unit.

2019 First Quarter

In the first quarter of 2019, we recorded non-cash goodwill impairment charges of \$570 million (pre-tax and after-tax) for our two reporting units in the European Pharmaceutical Solutions segment. These charges were recorded under the caption, “Goodwill Impairment Charges” within operating expenses in the accompanying condensed consolidated statements of operations.

Prior to implementing the new segment reporting structure in the first quarter of 2019, our European operations were considered a single reporting unit. Following the change in reportable segments, our European Pharmaceutical Solutions segment was split into two distinct reporting units, Retail Pharmacy and Pharmaceutical Distribution (formerly known as “Consumer Solutions” and “Pharmacy Solutions”) for purposes of goodwill impairment testing. As a result, we were required to perform a goodwill impairment test for these two new reporting units upon the change in reportable segments. Consequently, we recorded a non-cash goodwill impairment charge of \$238 million (pre-tax and after-tax) in the first quarter of 2019 primarily because the estimated fair value of the Pharmaceutical Distribution reporting unit was determined to be lower than its reassigned carrying value.

During the first quarter of 2019, both reporting units projected a decline in the estimated future cash flows primarily triggered by additional U.K. government actions which were announced on June 29, 2018. Accordingly, we performed an interim goodwill impairment test for these reporting units. As a result, we determined that the carrying values of these reporting units exceeded their estimated fair values and recorded non-cash goodwill impairment charges of \$332 million (pre-tax and after-tax) primarily for our Retail Pharmacy reporting unit. The discount rate and terminal growth rate used for the Retail Pharmacy reporting unit in the first quarter 2019 impairment test were 8.5% and 1.25%. The discount rate and terminal growth rate used for the Pharmaceutical Distribution reporting unit in the first quarter 2019 impairment test were 8.0% and 1.25%. As previously disclosed in our 2019 Annual Report, we had impaired the entire remaining goodwill balances of both reporting units as of March 31, 2019.

Refer to Financial Note 14, “Fair Value Measurements,” for more information on nonrecurring fair value measurements.

5. Business Combinations

2019 Acquisition

Medical Specialties Distributors LLC (“MSD”)

On June 1, 2018, we completed our acquisition of MSD for the net purchase consideration of \$784 million, which was funded from cash on hand. MSD is a leading national distributor of infusion and medical-surgical supplies as well as a provider of biomedical services to alternate site and home health providers. The financial results of MSD have been included in our condensed consolidated statements of operations within our Medical-Surgical Solutions segment since the acquisition date.

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The fair value of assets acquired and liabilities assumed as of the acquisition date were finalized upon completion of the measurement period in the first quarter of 2020. As of June 30, 2019, the final amounts of fair value recognized for the assets acquired and liabilities assumed as of the acquisition date, excluding goodwill and intangibles, were \$239 million and \$169 million. Approximately \$388 million of the final purchase price allocation was assigned to goodwill, which reflects the expected future benefits of certain synergies and intangible assets that do not qualify for separate recognition. The final purchase price allocation included acquired identifiable intangibles of \$326 million primarily representing customer relationships with a weighted average life of eighteen years.

2018 Acquisition

CoverMyMeds LLC (“CMM”)

On April 3, 2017, we completed our acquisition of CMM for the net purchase consideration of \$1.3 billion, which was funded from cash on hand. The fair value of assets acquired and liabilities assumed as of the acquisition date were finalized upon completion of the measurement period in the first quarter of 2019. The financial results of CMM have been included in our condensed consolidated statements of operations within Other since the acquisition date.

Pursuant to the agreement, McKesson paid additional contingent consideration of \$69 million and \$68 million for each of May 2019 and 2018. As of September 30, 2019 and March 31, 2019, the related liability was nil and \$69 million.

2017 Acquisition

Rexall Health

In the third quarter of 2017, we completed our acquisition of Rexall Health which operated approximately 400 retail pharmacies in Canada, particularly in Ontario and Western Canada. The net cash purchase consideration of \$2.9 billion Canadian dollars (approximately \$2.1 billion) was funded from cash on hand. On May 23, 2018, as a result of resolving certain indemnity and other claims related to this acquisition, \$125 million Canadian dollars (approximately \$97 million) was released to us from an escrow account. The receipt of this cash was recorded as a settlement gain within operating expenses in our condensed consolidated statement of operations in the first six months of 2019.

Other Acquisitions

During the second quarters and first six months of 2020 and 2019, we also completed several other small acquisitions within our operating segments. Financial results for our business acquisitions have been included in our condensed consolidated financial statements since their respective acquisition dates. Purchase prices for our business acquisitions have been allocated based on estimated fair values at the date of acquisition.

Goodwill recognized for our business acquisitions is generally not expected to be deductible for tax purposes. However, if we acquire the assets of a company, the goodwill may be deductible for tax purposes.

6. Income Taxes

During the second quarters of 2020 and 2019, we recorded income tax benefit of \$294 million and expense of \$35 million related to continuing operations. During the first six months of 2020 and 2019, we recorded income tax benefit of \$158 million and expense of \$122 million related to continuing operations. During the second quarter of 2020, no tax benefit was recognized for an agreement reached in principle with certain counties in the State of Ohio. Refer to Financial Note 15, “Commitments and Contingent Liabilities,” for more information. Upon finalization of the settlement agreement, the Company will evaluate the tax deductibility of the expected payment. During the first six months of 2019, no tax benefits were recognized for the pre-tax goodwill impairment charges of \$570 million related to our European Pharmaceutical Solutions segment given that these charges are not deductible for income tax purposes. Fluctuations in our reported income tax rates are primarily due to the prior year impact of nondeductible impairment charges as well as changes within our business mix of income and discrete items recognized in the quarters.

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During the second quarter of 2019, we sold software between wholly-owned legal entities within the McKesson group that are based in different tax jurisdictions. The transferor entity recognized a gain on the sale of assets that was not subject to income tax in its local jurisdiction; such gain was eliminated upon consolidation. An entity based in the U.S. was the acquirer of the software and is entitled to amortize the purchase price of the assets for tax purposes. In the second quarter of 2019, in accordance with the recently adopted amended accounting guidance on income taxes, a discrete tax benefit of \$42 million was recognized with a corresponding increase to a deferred tax asset for the future tax amortization.

As of September 30, 2019, we had \$985 million of unrecognized tax benefits, of which \$812 million would reduce income tax expense and the effective tax rate, if recognized. During the second quarter of 2020, the Company signed a settlement agreement with the state of California regarding an outstanding refund claim. We recognized a net discrete tax benefit of \$28 million and a \$91 million decrease in our unrecognized tax benefits associated with the settlement of this matter. During the next twelve months, it is reasonably possible that our unrecognized tax benefits may decrease by as much as approximately \$60 million due to settlements of tax examinations and statute of limitations expirations based on the information currently available. However, this amount may change as we continue to have ongoing negotiations with various taxing authorities throughout the year.

We file income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and various foreign jurisdictions. The IRS is currently examining our U.S. corporation income tax returns for 2013 through 2015. We are generally subject to audit by taxing authorities in various U.S. states and in foreign jurisdictions for fiscal years 2012 through the current fiscal year.

7. Redeemable Noncontrolling Interests and Noncontrolling Interests

Redeemable Noncontrolling Interests

Our redeemable noncontrolling interests primarily relate to our consolidated subsidiary, McKesson Europe AG (“McKesson Europe”). Under the December 2014 domination and profit and loss transfer agreement (the “Domination Agreement”), the noncontrolling shareholders of McKesson Europe are entitled to receive an annual recurring compensation amount of €0.83 per share and a one-time guaranteed dividend for calendar year 2014 of €0.83 per share reduced accordingly for any dividend paid by McKesson Europe in relation to that year. As a result, we recorded a total attribution of net income to the noncontrolling shareholders of McKesson Europe of \$11 million and \$22 million during the second quarter and first six months of 2020 and \$11 million and \$23 million during the second quarter and first six months of 2019. All amounts were recorded within net income attributable to noncontrolling interests in our condensed consolidated statements of operations and the corresponding liability balance was recorded within other accrued liabilities on our condensed consolidated balance sheets.

Under the Domination Agreement, the noncontrolling shareholders of McKesson Europe have a right to put (“Put Right”) their noncontrolling shares at €22.99 per share increased annually for interest in the amount of 5 percentage points above a base rate published by the German Bundesbank semi-annually, less any compensation amount or guaranteed dividend already paid by McKesson with respect to the relevant time period (“Put Amount”). The exercise of the Put Right will reduce the balance of redeemable noncontrolling interests. During the second quarters and first six months of 2020 and 2019, there were no material exercises of the Put Right. The balance of redeemable noncontrolling interests is reported as the greater of its carrying value or its maximum redemption value at each reporting date. The redemption value is the Put Amount adjusted each period for exchange rate fluctuations. At September 30, 2019 and March 31, 2019, the carrying value of redeemable noncontrolling interests of \$1.38 billion and \$1.39 billion exceeded the maximum redemption value of \$1.20 billion and \$1.23 billion. At September 30, 2019 and March 31, 2019, we owned approximately 77% of McKesson Europe’s outstanding common shares.

Noncontrolling Interests

Noncontrolling interests represent third-party equity interests in our consolidated entities primarily related to ClarusONE and Vantage Oncology Holdings, LLC, which were \$210 million and \$193 million at September 30, 2019 and March 31, 2019 on our condensed consolidated balance sheets. We allocated a total of \$42 million and \$85 million of net income to noncontrolling interests during the second quarter and first six months of 2020 and \$43 million and \$89 million during the second quarter and first six months of 2019.

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Changes in redeemable noncontrolling interests and noncontrolling interests for the second quarter and first six months of 2020 were as follows:

(In millions)	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, June 30, 2019	\$ 194	\$ 1,399
Net income attributable to noncontrolling interests	42	11
Other comprehensive loss	—	(18)
Reclassification of recurring compensation to other accrued liabilities	—	(11)
Payments to noncontrolling interests	(37)	—
Other	11	3
Balance, September 30, 2019	\$ 210	\$ 1,384

(In millions)	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, March 31, 2019	\$ 193	\$ 1,393
Net income attributable to noncontrolling interests	85	22
Other comprehensive loss	—	(12)
Reclassification of recurring compensation to other accrued liabilities	—	(22)
Payments to noncontrolling interests	(76)	—
Other	8	3
Balance, September 30, 2019	\$ 210	\$ 1,384

Changes in redeemable noncontrolling interests and noncontrolling interests for the second quarter and first six months of 2019 were as follows:

(In millions)	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, June 30, 2018	\$ 240	\$ 1,422
Net income attributable to noncontrolling interests	43	11
Other comprehensive loss	—	(7)
Reclassification of recurring compensation to other accrued liabilities	—	(11)
Payments to noncontrolling interests	(42)	—
Other	(33)	—
Balance, September 30, 2018	\$ 208	\$ 1,415

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(In millions)	Noncontrolling Interests	Redeemable Noncontrolling Interests
Balance, March 31, 2018	\$ 253	\$ 1,459
Net income attributable to noncontrolling interests	89	23
Other comprehensive loss	—	(44)
Reclassification of recurring compensation to other accrued liabilities	—	(23)
Payments to noncontrolling interests	(106)	—
Other	(28)	—
Balance, September 30, 2018	\$ 208	\$ 1,415

8. Earnings Per Common Share

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share are computed similarly to basic earnings per common share except that the former reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock. Diluted loss per common share for the second quarter and first six months of 2020 was calculated by excluding potentially dilutive securities from the denominator of the share computation due to their anti-dilutive effects.

The computations for basic and diluted earnings or loss per common share are as follows:

(In millions, except per share amounts)	Quarter Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Income (Loss) from continuing operations	\$ (676)	\$ 552	\$ (193)	\$ 471
Net income attributable to noncontrolling interests	(53)	(54)	(107)	(112)
Income (Loss) from continuing operations attributable to McKesson	(729)	498	(300)	359
Income (Loss) from discontinued operations, net of tax	(1)	1	(7)	2
Net income (loss) attributable to McKesson	<u><u>\$ (730)</u></u>	<u><u>\$ 499</u></u>	<u><u>\$ (307)</u></u>	<u><u>\$ 361</u></u>
 Weighted average common shares outstanding:				
Basic	183	198	185	200
Effect of dilutive securities:				
Restricted stock units	—	1	—	1
Diluted	<u><u>183</u></u>	<u><u>199</u></u>	<u><u>185</u></u>	<u><u>201</u></u>
 Earnings (Loss) per common share attributable to McKesson: ⁽¹⁾				
Diluted				
Continuing operations	\$ (3.99)	\$ 2.51	\$ (1.62)	\$ 1.79
Discontinued operations	—	—	(0.03)	0.01
Total	<u><u>\$ (3.99)</u></u>	<u><u>\$ 2.51</u></u>	<u><u>\$ (1.65)</u></u>	<u><u>\$ 1.80</u></u>
Basic				
Continuing operations	\$ (3.99)	\$ 2.52	\$ (1.62)	\$ 1.80
Discontinued operations	—	—	(0.03)	0.01
Total	<u><u>\$ (3.99)</u></u>	<u><u>\$ 2.52</u></u>	<u><u>\$ (1.65)</u></u>	<u><u>\$ 1.81</u></u>

(1) Certain computations may reflect rounding adjustments.

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Potentially dilutive securities include outstanding stock options, restricted stock units, and performance-based and other restricted stock units. Approximately \$2 million potentially dilutive securities were excluded from the computations of diluted net earnings per common share for the second quarter and first six months of 2019, as they were anti-dilutive.

9. Goodwill and Intangible Assets, Net

Changes in the carrying amount of goodwill were as follows:

(In millions)	U.S. Pharmaceutical and Specialty Solutions	European Pharmaceutical Solutions	Medical-Surgical Solutions	Other	Total
Balance, March 31, 2019	\$ 4,078	\$ —	\$ 2,451	\$ 2,829	\$ 9,358
Goodwill acquired	—	54	—	—	54
Acquisition accounting, transfers and other adjustments	—	4	7	—	11
Foreign currency translation adjustments, net	(18)	(1)	—	4	(15)
Balance, September 30, 2019	\$ 4,060	\$ 57	\$ 2,458	\$ 2,833	\$ 9,408

Information regarding intangible assets is as follows:

(Dollars in millions)	September 30, 2019				March 31, 2019			
	Weighted Average Remaining Amortization	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
	Period (Years)							
Customer relationships	11	\$ 3,787	\$ (1,913)	\$ 1,874	\$ 3,818	\$ (1,801)	\$ 2,017	
Service agreements	11	1,019	(461)	558	1,017	(430)	587	
Pharmacy licenses	25	530	(208)	322	513	(209)	304	
Trademarks and trade names	13	852	(251)	601	887	(232)	655	
Technology	4	178	(108)	70	141	(94)	47	
Other	5	275	(211)	64	288	(209)	79	
Total		\$ 6,641	\$ (3,152)	\$ 3,489	\$ 6,664	\$ (2,975)	\$ 3,689	

Amortization expense of intangible assets was \$118 million and \$230 million for the second quarter and first six months of 2020 and \$121 million and \$243 million for the second quarter and first six months of 2019. Estimated amortization expense of these assets is as follows: \$232 million, \$438 million, \$358 million, \$261 million and \$245 million for the remainder of 2020 and each of the succeeding years through 2024 and \$1,955 million thereafter. All intangible assets were subject to amortization as of September 30, 2019 and March 31, 2019.

10. Debt and Financing Activities

Long-Term Debt

Our long-term debt includes both U.S. dollar and foreign currency-denominated borrowings. At September 30, 2019 and March 31, 2019, \$7,644 million and \$7,595 million of total debt were outstanding, of which \$302 million and \$330 million were included under the caption "Current portion of long-term debt" within our condensed consolidated balance sheets.

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Revolving Credit Facilities

During the second quarter of 2020, we entered into a syndicated \$4 billion five-year senior unsecured credit facility (the “2020 Credit Facility”), which has a \$3.6 billion aggregate sublimit of availability in Canadian dollars, British pound sterling and Euro. The 2020 Credit Facility matures in September 2024. The remaining terms and conditions of the 2020 Credit Facility are substantially similar to those previously in place under the \$3.5 billion revolving credit facility which was terminated in September 2019. There were no borrowings under this facility during the second quarter of 2020 and no amounts outstanding under this facility as of September 30, 2019.

Borrowings under the 2020 Credit Facility bear interest based upon the London Interbank Offered Rate (“LIBOR”), Canadian Dealer Offered Rate for credit extensions denominated in Canadian dollars, a prime rate, or alternative overnight rates as applicable, plus agreed margins. The 2020 Credit Facility contains a financial covenant which obligates the Company to maintain a debt to capital ratio of no greater than 65%. If we do not comply with the covenant, our ability to use the 2020 Credit Facility may be suspended and repayment of any outstanding balances under the 2020 Credit Facility may be required. At September 30, 2019, we were in compliance with the covenant.

We had a syndicated \$3.5 billion five-year senior unsecured revolving credit facility (the “Global Facility”), which was scheduled to mature in October 2020. The Global Facility was terminated in connection with the execution of the \$4 billion 2020 Credit Facility, as discussed above. There were no borrowings under this facility during the second quarters and first six months of 2020 and 2019, and no amounts outstanding as of September 30, 2019 and March 31, 2019.

We also maintain bilateral credit facilities primarily denominated in Euro with a committed amount of \$8 million and an uncommitted amount of \$188 million as of September 30, 2019. Borrowings and repayments were not material during the second quarters and first six months of 2020 and 2019 and amounts outstanding under these credit lines were not material as of September 30, 2019 and March 31, 2019.

Commercial Paper

We maintain a commercial paper program to support our working capital requirements and for other general corporate purposes. Under the program, the Company can issue up to \$4 billion in outstanding commercial paper notes. During the first six months of 2020 and 2019, we borrowed \$8.7 billion and \$19.7 billion and repaid \$8.1 billion and \$18.3 billion under the program. At September 30, 2019 there were \$549 million commercial paper notes outstanding with a weighted average interest rate of 2.42%. At March 31, 2019, there were no commercial paper notes outstanding.

11. Leases

Lessee

We lease facilities and equipment primarily under operating leases. We recognize lease expense on a straight-line basis over the term of the lease, taking into account, when applicable, lessor incentives for tenant improvements, periods where no rent payment is required and escalations in rent payments over the term of the lease. Remaining terms for facility leases generally range from one to fifteen years, while remaining terms for equipment leases generally range from one to five years. Most real property leases contain renewal options (typically for five-year increments). Generally, the renewal option periods are not included within the lease term as we are not reasonably certain to exercise that right at lease commencement. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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ROU assets and operating lease liabilities are recognized at the lease commencement date. ROU assets represent our right to use an underlying asset for the lease term and operating lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease liabilities are recognized based on the present value of the future lease payments over the lease term discounted at our incremental borrowing rate as the implicit rate in the lease is not readily determinable for most of our leases. We estimate the discount rate as our incremental borrowing rate based on qualitative factors including Company-specific credit rating, lease term, general economic and the interest rate environment. For existing leases that commenced prior to the adoption of the amended leasing guidance, we determined the discount rate on April 1, 2019 using the full lease term. Operating lease liabilities are recorded under the caption, “Current portion of operating lease liabilities” and “Long-Term Operating Lease Liabilities” and the corresponding lease assets are recorded under the caption, “Operating Lease Right-of-Use Assets,” in our condensed consolidated balance sheet. Finance lease assets are included within property, plant and equipment, net and finance lease liabilities are included within current portion of long-term debt and long-term debt in our condensed consolidated balance sheet.

Supplemental balance sheet information related to leases was as follows:

<i>(In millions, except lease term and discount rate)</i>	September 30, 2019
Operating leases	
Operating Lease Right-of-Use Assets	\$ 2,002
Current portion of operating lease liabilities	\$ 362
Long-Term Operating Lease Liabilities	1,763
Total operating lease liabilities	\$ 2,125
Finance Leases	
Property, Plant and Equipment, net	\$ 154
Current portion of long-term debt	\$ 11
Long-Term Debt	145
Total finance lease liabilities	\$ 156
Weighted Average Remaining Lease Term (Years)	
Operating leases	8.1
Finance leases	12.2
Weighted Average Discount Rate	
Operating leases	3.10%
Finance leases	3.89%

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The components of lease cost were as follows:

<i>(In millions)</i>	Quarter Ended September 30,		Six Months Ended September 30,	
	2019		2019	
Short-term lease cost	\$	7	\$	15
Operating lease cost		113		228
Finance lease cost:				
Amortization of right-of-use assets		3		5
Interest on lease liabilities		1		2
Total finance lease cost		4		7
Variable lease cost ⁽¹⁾		31		62
Sublease income		(6)		(14)
Total lease cost ⁽²⁾	\$	149	\$	298

(1) These amounts include payments for maintenance, taxes, payments affected by the consumer price index and other similar metrics and payments contingent on usage.

(2) These amounts were primarily recorded within operating expenses in the accompanying condensed consolidated statement of operations.

Supplemental cash flow information related to leases was as follows:

<i>(In millions)</i>	Six Months Ended September 30,	
	2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	(189)
Operating cash flows from finance leases		(2)
Financing cash flows from finance leases		(12)
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases ⁽¹⁾	\$	2,331
Finance leases		151

(1) These amounts include the transition adjustment for the adoption of the amended leasing guidance discussed in Financial Note 1, "Significant Accounting Policies."

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Maturities of lease liabilities as of September 30, 2019 were as follows:

<i>(In millions)</i>	Operating Leases	Finance Leases	Total
The remainder of 2020	\$ 206	\$ 8	\$ 214
2021	418	17	435
2022	355	17	372
2023	296	16	312
2024	242	15	257
Thereafter	901	125	1,026
Total lease payments ⁽¹⁾	\$ 2,418	\$ 198	\$ 2,616
Less imputed interest	(293)	(42)	(335)
Present value of lease liabilities	\$ 2,125	\$ 156	\$ 2,281

(1) Total lease payments have not been reduced by minimum sublease income of \$170 million due under future noncancelable subleases.

As of September 30, 2019, we entered into additional leases primarily for facilities that have not yet commenced with future lease payments of \$170 million that are not reflected in the table above. These operating leases will commence between 2020 and 2024 with noncancelable lease terms of 5 to 15 years.

As previously disclosed in our 2019 Annual Report and under the previous lease accounting, the minimum lease payments required under operating leases were as follows as of March 31, 2019:

<i>(In millions)</i>	Noncancelable Operating Leases
2020	\$ 454
2021	397
2022	343
2023	290
2024	236
Thereafter	936
Total minimum lease payments ⁽¹⁾⁽²⁾	\$ 2,656

(1) Amount includes future minimum lease payments for the sale-leaseback transaction of \$49 million.

(2) Total minimum lease payments have not been reduced by minimum sublease income of \$133 million due under future noncancelable subleases.

Lessor

We lease primarily certain owned equipment to the physician practices that are classified as direct financing or sales-type leases. As of September 30, 2019, the total lease receivable was \$270 million with a weighted average remaining lease term of approximately seven years. Interest income from these leases recorded was not material during the second quarter and first six months of 2020.

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12. Pension Benefits

The net periodic expense for our defined benefit pension plans was \$111 million and \$135 million for the second quarter and first six months of 2020 and \$9 million and \$14 million for the second quarter and first six months of 2019.

Cash contributions to these plans were \$7 million and \$13 million for the second quarter and first six months of 2020 and \$43 million and \$47 million for the second quarter and first six months of 2019. The projected unit credit method is utilized in measuring net periodic pension expense over the employees' service life for the pension plans. Unrecognized actuarial losses exceeding 10% of the greater of the projected benefit obligation or the market value of assets are amortized straight-line over the average remaining future service periods and expected life expectancy.

On May 23, 2018, the Company's Board of Directors approved the termination of our frozen U.S. defined benefit pension plan ("Plan"). During the first quarter of 2020, we offered the option of receiving a lump sum payment to certain participants with vested qualified Plan benefits in lieu of receiving monthly annuity payments. Approximately 1,300 participants elected to receive the settlement, and lump sum payments of approximately \$49 million were made from plan assets to these participants in June 2019. The benefit obligation settled approximated payments to plan participants and a pre-tax settlement charge of \$17 million (\$12 million after-tax) was recorded during the first quarter of 2020. During the second quarter of 2020, we transferred the remainder of the Plan's pension obligation to a third-party insurance provider by purchasing annuity contracts for approximately \$280 million which was fully funded directly by plan assets. The third-party insurance provider will assume the obligation to pay future pension benefits and provide administrative services commencing on November 1, 2019. As a result, the remaining previously recorded unrecognized losses in accumulated other comprehensive loss for this Plan were recognized as expense and a pre-tax settlement charge of approximately \$105 million (\$78 million after-tax) were recorded within other income (expense), net, in our condensed consolidated statements of operations during the second quarter of 2020. As of March 31, 2019, this Plan had an accumulated other comprehensive loss of approximately \$121 million.

13. Hedging Activities

In the normal course of business, we are exposed to interest rate and foreign currency exchange rate fluctuations. At times, we limit these risks through the use of derivatives such as cross-currency swaps, foreign currency forward contracts and interest rate swaps. In accordance with our policy, derivatives are only used for hedging purposes. We do not use derivatives for trading or speculative purposes.

Foreign Currency Exchange Risk

We conduct our business worldwide in U.S. dollars and the functional currencies of our foreign subsidiaries, including Euro, British pound sterling and Canadian dollars. Changes in foreign currency exchange rates could have a material adverse impact on our financial results that are reported in U.S. dollars. We are also exposed to foreign currency exchange rate risk related to our foreign subsidiaries, including intercompany loans denominated in non-functional currencies. We have certain foreign currency exchange rate risk programs that use foreign currency forward contracts and cross-currency swaps. These forward contracts and cross-currency swaps are generally used to offset the potential income statement effects from intercompany loans denominated in non-functional currencies. These programs reduce but do not entirely eliminate foreign currency exchange rate risk.

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Non-Derivative Instruments Designated as Hedges

At September 30, 2019 and March 31, 2019, we had €1.95 billion Euro-denominated notes designated as non-derivative net investment hedges. At March 31, 2019, we also had £450 million British pound sterling-denominated notes designated as non-derivative net investment hedges. These hedges are utilized to hedge portions of our net investments in non-U.S. subsidiaries against the effect of exchange rate fluctuations on the translation of foreign currency balances to the U.S. dollar. For all notes that are designated as net investment hedges and meet effectiveness requirements, the changes in carrying value of the notes attributable to the change in spot rates are recorded in foreign currency translation adjustments within accumulated other comprehensive loss in the condensed consolidated statement of stockholders' equity where they offset foreign currency translation gains and losses recorded on our net investments. To the extent foreign currency denominated notes designated as net investment hedges are ineffective, changes in carrying value attributable to the change in spot rates are recorded in earnings. On September 30, 2019, we de-designated our £450 million British pound sterling-denominated notes prospectively from net investment hedges as the hedging relationship ceased to be effective. Gains or losses from net investment hedges recorded within other comprehensive income were gains of \$91 million and \$67 million during the second quarter and first six months of 2020 and gains of \$23 million and \$184 million during the second quarter and first six months of 2019. Ineffectiveness on our non-derivative net investment hedges during the second quarter and first six months of 2020 resulted in gains of \$20 million and \$30 million which were recorded in earnings within other income (expense), net. There was no ineffectiveness in our non-derivative net investment hedges during the second quarter and first six months of 2019.

Derivatives Designated as Hedges

On September 30, 2019, we entered into a number of cross-currency swaps designated as fair value hedges with total notional amounts of £450 million British pound sterling. Under the terms of the cross-currency swap contracts, we agree with third parties to exchange fixed interest payments in British pound sterling for floating interest payments in U.S. dollars based on three-month LIBOR plus a spread. These swaps are utilized to hedge the changes in the fair value of the underlying £450 million British pound sterling notes resulting from changes in benchmark interest rates and foreign exchange rates. The changes in the fair value of these derivatives designated as fair value hedges and the offsetting changes in the fair value of the hedged notes are recorded in earnings. Gains or losses from these fair value hedges recorded in earnings were not material during the second quarter and first six months of 2020. The swaps will mature in February 2023.

At September 30, 2019 and March 31, 2019, we had cross-currency swaps designated as net investment hedges with total gross notional amounts of \$1,499 million Canadian dollars. At March 31, 2019, we also had cross-currency swaps designated as net investment hedges with total gross notional amounts of £932 million British pound sterling.

Under the terms of the cross-currency swap contracts, we agree with third parties to exchange fixed interest payments in one currency for fixed interest payments in another currency at specified intervals and to exchange principal in one currency for principal in another currency, calculated by reference to agreed-upon notional amounts. These swaps are utilized to hedge portions of our net investments denominated in British pound sterling and Canadian dollars against the effect of exchange rate fluctuations on the translation of foreign currency balances to the U.S. dollar. The changes in the fair value of these derivatives attributable to the changes in spot currency exchange rates and differences between spot and forward interest rates are recorded within accumulated other comprehensive loss in the condensed consolidated statement of stockholders' equity where they offset foreign currency translation gains and losses recorded on our net investments denominated in British pound sterling and Canadian dollars. To the extent foreign currency denominated notes designated as hedges are ineffective, changes in carrying value attributable to the change in spot rates are recorded in earnings. Gains or losses from these net investment hedges recorded within other comprehensive income were gains of \$20 million and \$9 million during the second quarter and first six months of 2020 and gains of \$5 million and \$39 million during the second quarter and first six months of 2019. During the first quarter of 2020, we terminated cross-currency swaps with total gross notional amounts of £932 million British pound sterling due to ineffectiveness in our hedges within our British pound sterling hedging program that arose due to 2019 impairments of goodwill and certain long-lived assets in our U.K. businesses. Proceeds from the termination of these swaps totaled \$84 million and resulted in a settlement gain of \$34 million for the first six months of 2020, recorded in earnings within other income (expense), net. There was no ineffectiveness in our hedges for the second quarter and first six months of 2019. The remaining cross-currency swaps will mature between November 2020 and November 2024.

At September 30, 2019 and March 31, 2019, we had forward contracts to hedge the U.S. dollar against cash flows denominated in Canadian dollars with total gross notional amounts of \$81 million, which were designated as cash flow hedges. The remaining contract will mature in March 2020.

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From time to time, we also enter into cross-currency swaps to hedge intercompany loans denominated in non-functional currencies. These cross-currency swaps are designed to reduce the income statement effects arising from fluctuations in foreign exchange rates and have been designated as cash flow hedges. At September 30, 2019 and March 31, 2019, we had cross-currency swaps with total gross notional amounts of approximately \$2,908 million, which are designated as cash flow hedges. These swaps will mature between April 2020 and January 2024.

For forward contracts and cross-currency swaps that are designated as cash flow hedges, the effective portion of changes in the fair value of the hedges is recorded within accumulated other comprehensive income and reclassified into earnings in the same period in which the hedged transaction affects earnings. Changes in fair values representing hedge ineffectiveness are recognized in current earnings. Gains or losses from cash flow hedges recorded within other comprehensive income were gains of \$17 million and \$35 million during the second quarter and first six months of 2020 and not material during the second quarter and first six months of 2019. Gains or losses reclassified from accumulated other comprehensive income and recorded in operating expenses in the condensed consolidated statements of operations were not material in the second quarters and first six months of 2020 and 2019. There was no ineffectiveness in our cash flow hedges for the second quarters and first six months of 2020 and 2019.

Derivatives Not Designated as Hedges

Derivative instruments not designated as hedges are marked-to-market at the end of each accounting period with the change in fair value included in earnings.

We have a number of forward contracts to hedge the Euro against cash flows denominated in British pound sterling and other European currencies. At September 30, 2019 and March 31, 2019, the total gross notional amounts of these contracts were \$44 million and \$28 million. These contracts will mature through October 2020 and none of these contracts were designated for hedge accounting. Changes in the fair values for contracts not designated as hedges are recorded directly in earnings within operating expenses. Changes in the fair values were not material in the second quarters and first six months of 2020 and 2019. Gains or losses from these contracts are largely offset by changes in the value of the underlying intercompany foreign currency loans.

During the second quarter and first six months of 2020, we also entered a number of forward contracts to offset a portion of the earnings impacts from the ineffectiveness of net investment hedges discussed above. These contracts matured in September 2019 and none of these contracts were designated for hedge accounting. Changes in the fair values for contracts not designated as hedges are recorded directly in earnings. During the second quarter and first six months of 2020, losses of \$20 million and \$39 million were recorded in earnings within other income (expense), net.

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Information regarding the fair value of derivatives on a gross basis is as follows:

(In millions)	Balance Sheet Caption	September 30, 2019			March 31, 2019		
		Fair Value of Derivative		U.S. Dollar Notional	Fair Value of Derivative		U.S. Dollar Notional
		Asset	Liability		Asset	Liability	
Derivatives designated for hedge accounting							
Foreign exchange contracts (current)	Prepaid expenses and other	\$ 17	\$ —	\$ 81	\$ 17	\$ —	\$ 81
Cross-currency swaps (current)	Prepaid expenses and other/Other accrued liabilities	49	12	355	—	18	—
Cross-currency swaps (non-current)	Other Noncurrent Assets/Liabilities	68	5	4,237	91	33	5,283
Total		\$ 134	\$ 17		\$ 108	\$ 51	
Derivatives not designated for hedge accounting							
Foreign exchange contracts (current)	Prepaid expenses and other	\$ —	\$ —	\$ 21	\$ —	\$ —	\$ 14
Foreign exchange contracts (current)	Other accrued liabilities	—	—	23	—	—	14
Total		\$ —	\$ —		\$ —	\$ —	

Refer to Financial Note 14, "Fair Value Measurements," for more information on these recurring fair value measurements.

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14. Fair Value Measurements

At September 30, 2019 and March 31, 2019, the carrying amounts of cash, certain cash equivalents, restricted cash, marketable securities, receivables, drafts and accounts payable, short-term borrowings and other current liabilities approximated their estimated fair values because of the short maturity of these financial instruments.

The fair value of our commercial paper was determined using quoted prices in active markets for identical liabilities, which are considered Level 1 inputs.

Our long-term debt is carried at amortized cost. The carrying amounts and estimated fair values of these liabilities were \$7.6 billion and \$8.3 billion at September 30, 2019, and \$7.6 billion and \$7.9 billion at March 31, 2019. The estimated fair value of our long-term debt was determined using quoted market prices in a less active market and other observable inputs from available market information, which are considered to be Level 2 inputs, and may not be representative of actual values that could have been realized or that will be realized in the future.

Assets Measured at Fair Value on a Recurring Basis

Cash and cash equivalents at September 30, 2019 and March 31, 2019 included investments in money market funds of \$199 million and \$1,205 million, which are reported at fair value. The fair value of money market funds was determined by using quoted prices for identical investments in active markets, which are considered to be Level 1 inputs under the fair value measurements and disclosure guidance. The carrying value of all other cash equivalents approximates their fair value due to their relatively short-term nature.

Fair values of our foreign currency forward contracts were determined using observable inputs from available market information. Fair values of our cross-currency swaps were determined using quoted foreign currency exchange rates and other observable inputs from available market information. These inputs are considered Level 2 under the fair value measurements and disclosure guidance, and may not be representative of actual values that could have been realized or that will be realized in the future. Refer to Financial Note 13, "Hedging Activities," for fair value and other information on our foreign currency derivatives including foreign currency forward contracts and cross-currency swaps.

There were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy during the second quarters and first six months of 2020 and 2019.

Assets Measured at Fair Value on a Nonrecurring Basis

At September 30, 2019, assets measured at fair value on a nonrecurring basis consisted of our investment in Change Healthcare JV. Since the completion of its IPO in July 2019, the fair value from the trading prices of Change Healthcare Inc.'s public common stock has been below the corresponding carrying value of our investment in Change Healthcare JV, triggering an OTTI evaluation. As a result, for the second quarter of 2020, we concluded an OTTI has occurred and recorded a pre-tax impairment charge of \$1,157 million (\$864 million after-tax) associated with our investment in Change Healthcare JV which is considered a Level 2 fair value measurement. Refer to Financial Note 2, "Investment in Change Healthcare Joint Venture," for more information.

At March 31, 2019, assets measured at fair value on a nonrecurring basis primarily consisted of goodwill and long-lived assets for our European Pharmaceutical Solutions segment.

Goodwill

Fair value assessments of the reporting unit and the reporting unit's net assets, which are performed for goodwill impairment tests, are considered a Level 3 measurement due to the significance of unobservable inputs developed using company-specific information. We considered a market approach as well as an income approach using the discounted cash flow ("DCF") model to determine the fair value of the reporting unit.

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Long-lived Assets

We utilize multiple approaches including the DCF model and market approaches for estimating the fair value of intangible assets. The future cash flows used in the analysis are based on internal cash flow projections based on our long-range plans and include significant assumptions by management. Accordingly, the fair value assessment of the long-lived assets is considered a Level 3 fair value measurement.

We measure certain intangible and other long-lived assets at fair value on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. An impairment charge is recorded when the cost of the asset exceeds its fair value and this condition is determined to be other-than-temporary.

There were no liabilities measured at fair value on a nonrecurring basis at September 30, 2019 and March 31, 2019.

15. Commitments and Contingent Liabilities

In addition to commitments and obligations incurred in our business, we are subject to a variety of claims and legal proceedings incidental to the normal conduct of our business, including claims from customers and vendors, pending and potential legal actions for damages, governmental investigations and other matters. The Company and its affiliates are parties to the legal claims and proceedings described below and in [Financial Note 24 to our 2019 Annual Report on Form 10-K](#) as it was updated by [Financial Note 15 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019](#), which disclosure is incorporated in this footnote by this reference. The Company is vigorously defending itself against those claims and in those proceedings. Significant developments in those matters are described below. If we are unsuccessful in defending, or if we determine to settle, any of these matters, we may be required to pay substantial sums, be subject to injunction and/or be forced to change how we operate our business, which could have a material adverse impact on our financial position or results of operations.

Unless otherwise stated, we are unable to reasonably estimate the loss or a range of possible loss for the matters described below. Often, it is not reasonably possible for us to determine that a loss is probable for a claim, or to reasonably estimate the amount of loss or a range of loss, because of the limited information available and the potential effects of future events and decisions by third parties, such as courts and regulators, that will determine the ultimate resolution of the claim. Many of the matters described are at preliminary stages, raise novel theories of liability or seek an indeterminate amount of damages. It is not uncommon for claims to be resolved over many years. We review loss contingencies at least quarterly, to determine whether the loss probability has changed and whether we can make a reasonable estimate of the possible loss or range of loss. When we determine that a loss from a claim is probable and reasonably estimable, we record a liability in the amount of our estimate for the ultimate loss. We also provide disclosure when it is reasonably possible that a loss may be incurred or when it is reasonably possible that the amount of a loss will exceed our recorded liability.

I. Litigation and Claims Involving Distribution of Controlled Substances

The Company is a defendant in many cases asserting claims related to distribution of controlled substances. We are named as defendants along with other pharmaceutical wholesale distributors, pharmaceutical manufacturers and retail pharmacy chains. The plaintiffs in these actions include state attorneys general, county and municipal governments, hospitals, Indian tribes, pension funds, third-party payors and individuals. These actions have been filed in state and federal courts throughout the United States, and in Puerto Rico and Canada. They seek monetary damages and other forms of relief based on a variety of causes of action, including negligence, public nuisance, unjust enrichment, civil conspiracy, as well as alleging violations of the Racketeer Influenced and Corrupt Organizations Act (“RICO”), state and federal controlled substances laws and other statutes.

Since December 5, 2017, nearly all such cases pending in federal district courts have been transferred for consolidated pre-trial proceedings to a multi-district litigation (“MDL”) in the United States District Court for the Northern District of Ohio captioned *In re: National Prescription Opiate Litigation*, Case No. 17-md-28-04. At present, there are approximately 2,300 cases under the jurisdiction of the MDL court. In the suits filed against the Company by Cuyahoga County, Ohio in October 2017 and Summit County, Ohio in December 2017, the parties reached an agreement in principle on October 21, 2019 to settle all claims against the Company. *County of Cuyahoga v. Purdue Pharma L.P., et al.*, Case No. 1:17-op-45004-DAP (N.D. Ohio); *County of Summit, Ohio et al. v. Purdue Pharma L.P., et. al.*, Case No. 1:18-op-45090-DAP (N.D. Ohio). The Company does not admit liability and expressly denies wrongdoing. As a result, the Company recorded a pre-tax charge of \$82 million related to two Ohio counties within operating expenses for the second quarter of 2020.

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McKESSON CORPORATION FINANCIAL NOTES (CONTINUED) (UNAUDITED)

We are a party to discussions with the objective of achieving broad resolution of the remaining claims. Because of the large number of parties involved, together with the novelty and complexity of the issues, for which there may be different considerations among the parties, we cannot predict the successful resolution through a negotiated settlement. We believe we have valid defenses to the litigation and claims pending against us, and therefore if we are not able to achieve broad resolution, we will vigorously defend against all such claims. At this time, a loss associated with these claims, whether through settlement or litigation, is not probable and a reasonably possible range of loss is not estimable. An adverse judgment or negotiated resolution in any of these matters could have a material adverse impact on our financial position, cash flows or liquidity, or results of operations.

The Company is also named in approximately 370 similar state court cases pending in 37 states plus Puerto Rico. These include actions filed by nineteen state attorneys general, and some by or on behalf of individuals, including wrongful death lawsuits and putative class action lawsuits brought on behalf of children with Neonatal Abstinence Syndrome due to alleged exposure to opioids in utero. Trial dates have been set in several of these state cases.

On April 3, 2017, Eli Inzlicht, a purported shareholder, filed a shareholder derivative complaint in the United States District Court for the Northern District of California against certain officers and directors of the Company and the Company as a nominal defendant, alleging violations of fiduciary duties relating to the Company's previously disclosed agreement with the Drug Enforcement Administration ("DEA") and the Department of Justice and various United States Attorneys' offices to settle all potential administrative and civil claims relating to investigations about the Company's suspicious order reporting practices for controlled substances, and seeking restitution and disgorgement of all profits, benefits and other compensation obtained by the defendants from the Company and attorneys' fees, *Inzlicht v. McKesson Corporation, et.al.*, No. 5:17-cv-01850. On July 26, 2017, Vladimir Gusinsky, as trustee for the Vladimir Gusinsky Living Trust, a purported shareholder, filed a shareholder derivative complaint in the same court based on similar allegations, *Vladimir Gusinsky, as Trustee for the Vladimir Gusinsky Living Trust v. McKesson Corporation, et.al.*, No. 5:17-cv-4248. On October 9, 2017, the court consolidated the two matters, *In re McKesson Corporation Derivative Litigation*, No. 4:17-cv-1850.

On October 17, 2017, Chaile Steinberg, a purported shareholder, filed a shareholder derivative complaint in the Delaware Court of Chancery against certain officers and directors of the Company and the Company as a nominal defendant, alleging violations of fiduciary duties relating to the Company's previously disclosed agreement with the DEA and the Department of Justice and various United States Attorneys' offices to settle all potential administrative and civil claims relating to investigations about the Company's suspicious order reporting practices for controlled substances, and seeking damages and disgorgement of all profits, benefits and other compensation obtained by the defendants from the Company and attorneys' fees, *Steinberg v. McKesson Corporation, et.al.*, No. 2017-0736. Three similar suits were thereafter filed by purported shareholders in the Court of Chancery of the State of Delaware, including *Police & Fire Ret. Sys. of the City of Detroit v. McKesson Corporation, et al.*, No. 2017-0803, *Amalgamated Bank v. McKesson Corporation, et al.*, No. 2017-0881, and *Greene v. McKesson Corporation, et al.*, No. 2018-0042. The court ordered that all four actions be consolidated. The consolidated matter is captioned *In re McKesson Corporation Stockholder Derivative Litigation*, No. 2017-0736.

Subject to definitive documentation and court approval, the parties reached an agreement in principle to resolve the shareholder derivative lawsuits. The settlement does not include any admission of liability, and McKesson expressly denies wrongdoing.

II. Other Litigation and Claims

On May 17, 2013, the Company was served with a complaint filed in the United States District Court for the Northern District of California by True Health Chiropractic Inc., alleging that McKesson sent unsolicited marketing faxes in violation of the Telephone Consumer Protection Act of 1991 ("TCPA"), as amended by the Junk Fax Protection Act of 2005 or JFPA, *True Health Chiropractic Inc., et al. v. McKesson Corporation, et al.*, No. CV-13-02219 (HG). Plaintiffs seek statutory damages from \$500 to \$1,500 per violation plus injunctive relief. True Health Chiropractic later amended its complaint, adding McLaughlin Chiropractic Associates as an additional named plaintiff and McKesson Technologies Inc. as a defendant. Both plaintiffs alleged that the Company violated the TCPA by sending faxes that did not contain notices regarding how to opt out of receiving the faxes. On July 16, 2015, plaintiffs filed a motion for class certification and on August 22, 2016, the court denied this motion, based, in part, on the grounds that identifying solicited faxes would require individualized inquiries as to consent. On August 13, 2019, the court denied defendants' motion for summary judgment on the issue of whether the provision of fax numbers through product registration and the End User License Agreement constituted prior express invitation or permission to receive the disputed faxes. Also on August 13, 2019, the court granted plaintiffs' renewed motion for class certification. The court has set a trial date of August 30, 2020.

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On December 30, 2017, four investment funds, which had allegedly entered into swap transactions regarding shares in Celesio AG that would have enabled them to decide whether to accept McKesson Europe Holdings's (formerly known as "Dragonfly GmbH & Co KGaA") takeover offer in its acquisition of Celesio AG, filed a complaint, *Davidson Kempner International (BVI) Ltd. et al. v. McKesson Europe Holdings GmbH & Co. KGaA, No. 16 O 475/17*, claiming that the public tender offer document published by McKesson Europe incorrectly stated that McKesson Europe's acquisition of convertible bonds would not be treated as a relevant acquisition of shares for the purposes of triggering minimum pricing considerations under the German Takeover Offer Ordinance. On March 15, 2019, the lower court dismissed the case. Plaintiffs appealed this ruling and, on October 9, 2019, the Higher Regional Court (*Oberlandesgericht*) of Stuttgart confirmed the full dismissal of this matter.

On March 5, 2018, the Company's subsidiary, Rx C Acquisition Company (d/b/a RxCrossroads), was served with a *qui tam* complaint filed in July 2017 in the United States District Court for the Southern District of Illinois by a relator against Rx C Acquisition Company, among others, alleging that UCB, Inc., provided illegal "kickbacks" to providers, including nurse educator services and reimbursement assistance services provided through Rx C Acquisition Company, in violation of the Anti-Kickback Statute, the False Claims Act, and various state false claims statutes. *United States ex rel. CIMZNHCA, LLC v. UCB, Inc., et al.*, No. 17-cv-00765. The complaint seeks treble damages, civil penalties, and further relief. The United States and the states named in the complaint have declined to intervene in the suit. On December 17, 2018, the United States filed a motion to dismiss the complaint in its entirety; this motion was denied on April 15, 2019. On June 7, 2019, the court denied the United States' motion for reconsideration. On July 8, 2019, the United States appealed to the United States Court of Appeals for the Seventh Circuit seeking interlocutory review of the denial of its motion for reconsideration of the denial of the motion to dismiss the complaint. On September 3, 2019, the United States District Court for the Southern District of Illinois stayed the district court proceedings pending the appeal. The court has set a trial date of April 5, 2021.

On January 24, 2019, the Company was served with a *qui tam* complaint that had previously been unsealed in the United States District Court for the Eastern District of Texas, alleging that the Company and its subsidiary, U.S. Oncology, Inc., among others, received payments for unnecessary medical services in violation of the False Claims Act and the Texas Medicaid Fraud Prevention Act. *United States ex rel. Nguyen v. McKesson Corp., et al.*, No. 4:15-00814. Previously, the United States and Texas declined to intervene in the case. On October 7, 2019, the Court dismissed the case with no finding of any violation or liability of the Company or its affiliate.

On May 21, 2019, Jean E. Henry, a purported Company shareholder, filed a shareholder derivative complaint in the Superior Court of San Francisco, California against certain current and former officers and directors of the Company, and the Company as a nominal defendant, alleging violations of fiduciary duties and waste of corporate assets with respect to an alleged conspiracy to fix the prices of generic drugs, *Henry v. Tyler, et al.*, CGC-19-576119. On May 23, 2019, the Company removed the case to the United States District Court for the Northern District of California, Case No. 19-cv-02869. On August 26, 2019, plaintiff filed an amended complaint, removing all claims except for an alleged breach of fiduciary duty by the named current and former officers and directors of the Company.

In October 2019, the Company's subsidiary RelayHealth Corporation ("RelayHealth") was served with three purported class action complaints filed in the United States District Court for the Northern District of Illinois by six pharmacies. The complaints allege that RelayHealth violated the Sherman Act by entering into an agreement with co-defendant Surescripts, LLC not to compete in the electronic prescription routing market, and by conspiring with Surescripts, LLC to monopolize that market, *Powell Prescription Center, et al. v. Surescripts, LLC, et al.*, No. 1:19-cv-06627; *Intergrated Pharmaceutical Solutions LLC v. Surescripts, LLC, et al.*, 1:19-cv-06778; *Falconer Pharmacy, Inc. v. Surescripts LLC, et al.*, No. 1:19-cv-06627. The complaints seek treble damages and attorney fees and costs.

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

III. Government Subpoenas and Investigations

From time to time, the Company receives subpoenas or requests for information from various government agencies. The Company generally responds to such subpoenas and requests in a cooperative, thorough and timely manner. These responses sometimes require time and effort and can result in considerable costs being incurred by the Company. Such subpoenas and requests also can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Company and other members of the health care industry, as well as to settlements. In April and June 2019, the United States Attorney's Office for the Eastern District of New York served grand jury subpoenas seeking documents related to the Company's anti-diversion policies and procedures and its distribution of Schedule II controlled substances. The Company believes the subpoenas are part of a broader investigation by that office into pharmaceutical manufacturers' and distributors' compliance with the Controlled Substances Act and related statutes. In July 2019, the Drug Enforcement Administration served an administrative inspection warrant on the Company's distribution center in West Sacramento, California seeking information about the Company's compliance with the Controlled Substances Act and related statutes.

16. Stockholders' Equity

Each share of the Company's outstanding common stock is permitted one vote on proposals presented to stockholders and is entitled to share equally in any dividends declared by the Company's Board of Directors (the "Board").

In July 2019, the Company's quarterly dividend was raised from \$0.39 to \$0.41 per common share for dividends declared on or after such date by the Board. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

Share Repurchase Plans

Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase ("ASR") programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

In May 2019, we entered into an ASR program with a third-party financial institution to repurchase \$600 million of the Company's common stock. We repurchased a total of 4.7 million shares at an average price per share of \$127.68 during the first quarter of 2020.

During the first quarter of 2020, we repurchased 0.7 million of the Company's shares for \$84 million through open market transactions at an average price per share of \$128.64. During the second quarter of 2020, we repurchased 5.2 million of the Company's shares for \$750 million through open market transactions at an average price per share of \$144.28.

The total authorization outstanding for repurchases of the Company's common stock was \$2.0 billion at September 30, 2019.

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Other Comprehensive Income (Loss)

Information regarding other comprehensive income (loss) including noncontrolling interests and redeemable noncontrolling interests, net of tax, by component is as follows:

(In millions)	Quarter Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Foreign currency translation adjustments ⁽¹⁾				
Foreign currency translation adjustments arising during period, net of income tax benefit of nil, nil, nil and nil ⁽²⁾⁽³⁾	\$ (114)	\$ 5	\$ (44)	\$ (268)
Reclassified to income statement, net of income tax expense of nil, nil, nil and nil	—	—	—	—
	(114)	5	(44)	(268)
Unrealized gains on net investment hedges arising during period, net of income tax expense of \$29, \$7, \$20 and \$58 ⁽⁴⁾				
Unrealized gains on net investment hedges arising during period, net of income tax expense of nil, nil, nil and nil	82	21	56	165
Reclassified to income statement, net of income tax expense of nil, nil, nil and nil	—	—	—	—
	82	21	56	165
Unrealized gains on cash flow hedges				
Unrealized gains on cash flow hedges arising during period, net of income tax expense of \$4, nil, \$10 and nil	13	2	25	2
Reclassified to income statement, net of income tax expense of nil, nil, nil and nil	—	—	—	—
	13	2	25	2
Changes in retirement-related benefit plans ⁽⁵⁾				
Net actuarial gain and prior service cost arising during the period, net of income tax benefit of \$2, nil, \$1 and nil	(9)	—	(3)	—
Amortization of actuarial loss, prior service cost and transition obligation, net of income tax expense of nil, \$2, nil and \$2 ⁽⁶⁾	1	3	2	4
Foreign currency translation adjustments and other, net of income tax expense of nil, nil, nil and nil	5	1	7	8
Reclassified to income statement, net of income tax expense of \$27, nil, \$32 and nil ⁽⁷⁾	78	—	90	—
	75	4	96	12
Other comprehensive income (loss), net of tax				
	\$ 56	\$ 32	\$ 133	\$ (89)

- (1) Foreign currency translation adjustments primarily result from the conversion of non-U.S. dollar financial statements of our foreign subsidiary, McKesson Europe, into the Company's reporting currency, U.S. dollars, during the second quarters and first six months of 2020 and 2019.
- (2) During the second quarter and first six months of 2020, the net foreign currency translation losses were primarily due to the weakening of the Euro and British pound sterling against the U.S. dollar from April 1, 2019 to September 30, 2019. During the first six months of 2019, the net foreign currency translation losses were primarily due to the weakening of the Euro and British pound sterling against the U.S. dollar from April 1, 2018 to September 30, 2018.
- (3) The second quarter and first six months of 2020 includes net foreign currency translation losses of \$19 million and \$13 million and the second quarter and first six months of 2019 includes net foreign currency translation losses of \$7 million and \$46 million attributable to redeemable noncontrolling interests.
- (4) The second quarter and first six months of 2020 include foreign currency gains of \$91 million and \$67 million on the net investment hedges from the €1.95 billion Euro-denominated notes and £450 million British pound sterling-denominated notes and gain of \$20 million and \$9 million on the net investment hedges from the cross-currency swaps. The second quarter and first six months of 2019 include foreign currency gains of \$23 million and \$184 million on the net investment hedges from the €1.95 billion Euro-denominated notes and £450 million British pound sterling-denominated notes and gains of \$5 million and \$39 million on the net investment hedges from cross-currency swaps.
- (5) The second quarter and first six months of 2020 include net actuarial gains of \$1 million and the second quarter and first six months of 2019 include net actuarial gains of nil and 2 million which are attributable to redeemable noncontrolling interests.
- (6) Pre-tax amount reclassified into cost of sales and operating expenses in our condensed consolidated statements of operations. The related tax expense was reclassified into income tax expense in our condensed consolidated statements of operations.
- (7) The second quarter and first six months of 2020 reflect a reclassification of losses upon the termination of the Plan from accumulated other comprehensive loss to other income (expense), net in our condensed consolidated statement of operations.

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Accumulated Other Comprehensive Income (Loss)

Information regarding changes in our accumulated other comprehensive income (loss), net of tax, by component, for the second quarter and first six months of 2020 are as follows:

Foreign Currency Translation Adjustments						Unrealized Net Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Income (Loss)
(In millions)	Foreign Currency Translation Adjustments, Net of Tax	Unrealized Gains on Net Investment Hedges, Net of Tax	Unrealized Gains (Losses) on Cash Flow Hedges, Net of Tax	Unrealized Net Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Income (Loss)		
Balance at June 30, 2019	\$ (1,564)	\$ 27	\$ (25)	\$ (216)	\$ (1,778)		
Other comprehensive income (loss) before reclassifications	(114)	82	13	(4)	(23)		
Amounts reclassified to earnings and other	—	—	—	79	79		
Other comprehensive income (loss)	(114)	82	13	75	56		
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	(19)	—	—	1	(18)		
Other comprehensive income (loss) attributable to McKesson	(95)	82	13	74	74		
Balance at September 30, 2019	\$ (1,659)	\$ 109	\$ (12)	\$ (142)	\$ (1,704)		
Foreign Currency Translation Adjustments						Unrealized Net Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Income (Loss)
(In millions)	Foreign Currency Translation Adjustments, Net of Tax	Unrealized Gains on Net Investment Hedges, Net of Tax	Unrealized Gains (Losses) on Cash Flow Hedges, Net of Tax	Unrealized Net Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Income (Loss)		
Balance at March 31, 2019	\$ (1,628)	\$ 53	\$ (37)	\$ (237)	\$ (1,849)		
Other comprehensive income (loss) before reclassifications	(44)	56	25	4	41		
Amounts reclassified to earnings and other	—	—	—	92	92		
Other comprehensive income (loss)	(44)	56	25	96	133		
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	(13)	—	—	1	(12)		
Other comprehensive income (loss) attributable to McKesson	(31)	56	25	95	145		
Balance at September 30, 2019	\$ (1,659)	\$ 109	\$ (12)	\$ (142)	\$ (1,704)		

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

Information regarding changes in our accumulated other comprehensive income (loss), net of tax, by component for the second quarter and first six months of 2019 are as follows:

Foreign Currency Translation Adjustments						(In millions)
Foreign Currency Translation Adjustments, Net of Tax	Unrealized Gains (Losses) on Net Investment Hedges, Net of Tax	Unrealized Gains (Losses) on Cash Flow Hedges, Net of Tax	Unrealized Net Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Income (Loss)		
Balance at June 30, 2018	\$ (1,492)	\$ (44)	\$ (61)	\$ (204)	\$ (1,801)	
Other comprehensive income before reclassifications	5	21	2	1	29	
Amounts reclassified to earnings and other	—	—	—	3	3	
Other comprehensive income	5	21	2	4	32	
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	(7)	—	—	—	(7)	
Other comprehensive income attributable to McKesson	12	21	2	4	39	
Balance at September 30, 2018	\$ (1,480)	\$ (23)	\$ (59)	\$ (200)	\$ (1,762)	
Foreign Currency Translation Adjustments						
Foreign Currency Translation Adjustments, Net of Tax	Unrealized Gains (Losses) on Net Investment Hedges, Net of Tax	Unrealized Gains (Losses) on Cash Flow Hedges, Net of Tax	Unrealized Net Gains (Losses) and Other Components of Benefit Plans, Net of Tax	Total Accumulated Other Comprehensive Income (Loss)		
Balance at March 31, 2018	\$ (1,258)	\$ (188)	\$ (61)	\$ (210)	\$ (1,717)	
Other comprehensive income (loss) before reclassifications	(268)	165	2	8	(93)	
Amounts reclassified to earnings and other	—	—	—	4	4	
Other comprehensive income (loss)	(268)	165	2	12	(89)	
Less: amounts attributable to noncontrolling and redeemable noncontrolling interests	(46)	—	—	2	(44)	
Other comprehensive income (loss) attributable to McKesson	(222)	165	2	10	(45)	
Balance at September 30, 2018	\$ (1,480)	\$ (23)	\$ (59)	\$ (200)	\$ (1,762)	

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McKESSON CORPORATION
FINANCIAL NOTES (CONTINUED)
(UNAUDITED)

17. Related Party Balances and Transactions

During the fourth quarter of 2018, a public benefit California foundation (“Foundation”) was established to provide opioid education to patients, caregivers, and providers, address policy issues, and increase patient access to life-saving treatments. Certain officers of the Company also serve as directors and officers of the Foundation. The Company had a pledge payable balance of \$100 million (\$64 million after-tax) to the Foundation as of March 31, 2018, which was paid in the first quarter of 2019.

Refer to Financial Note 2, “Investment in Change Healthcare Joint Venture,” for information regarding related party balances and transactions with Change Healthcare Inc.

18. Segments of Business

We report our financial results in three reportable segments: U.S. Pharmaceutical and Specialty Solutions, European Pharmaceutical Solutions and Medical-Surgical Solutions. All remaining operating segments and business activities that are not significant enough to require separate reportable segment disclosure are included in Other. The factors for determining the reportable segments included the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities. We evaluate the performance of our operating segments on a number of measures, including revenues and operating profit before interest expense and income taxes. Assets by operating segment are not reviewed by management for the purpose of assessing performance or allocating resources.

Our U.S. Pharmaceutical and Specialty Solutions segment distributes pharmaceutical and other healthcare-related products and also provides pharmaceutical solutions to life sciences companies in the United States.

Our European Pharmaceutical Solutions segment provides distribution and services to wholesale, institutional and retail customers and serves patients and consumers in 13 European countries through our own pharmacies and participating pharmacies that operate under brand partnership and franchise arrangements.

Our Medical-Surgical Solutions segment distributes medical-surgical supplies and provides logistics and other services to healthcare providers in the United States.

Other primarily consists of the following:

- McKesson Canada which distributes pharmaceutical and medical products and operates Rexall Health retail pharmacies;
- McKesson Prescription Technology Solutions which provides innovative technologies that support retail pharmacies; and
- Our investment in Change Healthcare JV

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McKESSON CORPORATION
FINANCIAL NOTES (CONCLUDED)
(UNAUDITED)

Financial information relating to our reportable operating segments and reconciliations to the condensed consolidated totals is as follows:

(In millions)	Quarter Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Revenues				
U.S. Pharmaceutical and Specialty Solutions ⁽¹⁾	\$ 45,979	\$ 41,610	\$ 90,144	\$ 82,587
European Pharmaceutical Solutions ⁽¹⁾	6,598	6,639	13,308	13,574
Medical-Surgical Solutions ⁽¹⁾	2,056	1,948	3,959	3,651
Other	2,983	2,878	5,933	5,870
Total Revenues	<u>\$ 57,616</u>	<u>\$ 53,075</u>	<u>\$ 113,344</u>	<u>\$ 105,682</u>
Operating profit (loss) ⁽²⁾				
U.S. Pharmaceutical and Specialty Solutions ⁽³⁾	\$ 639	\$ 610	\$ 1,218	\$ 1,153
European Pharmaceutical Solutions ⁽⁴⁾	1	10	6	(550)
Medical-Surgical Solutions	129	105	254	198
Other ⁽⁵⁾⁽⁶⁾	(1,311)	95	(1,170)	209
Total	<u>(542)</u>	<u>820</u>	<u>308</u>	<u>1,010</u>
Corporate Expenses, Net ⁽⁷⁾	(364)	(167)	(539)	(290)
Interest Expense	(64)	(66)	(120)	(127)
Income (Loss) from Continuing Operations Before Income Taxes	<u>\$ (970)</u>	<u>\$ 587</u>	<u>\$ (351)</u>	<u>\$ 593</u>
Revenues, net by geographic area				
United States	\$ 48,292	\$ 43,774	\$ 94,614	\$ 86,664
Foreign	9,324	9,301	18,730	19,018
Total Revenues	<u>\$ 57,616</u>	<u>\$ 53,075</u>	<u>\$ 113,344</u>	<u>\$ 105,682</u>

(1) Revenues derived from services represent less than 1% of our U.S. Pharmaceutical and Specialty Solutions segment's total revenues, less than 10% of our European Pharmaceutical Solutions segment's total revenues and less than 2% of our Medical-Surgical Solutions segment's total revenues.

(2) Segment operating profit (loss) includes gross profit, net of operating expenses, as well as other income (expense), net, for our operating segments.

(3) Our U.S. Pharmaceutical and Specialty Solutions segment's operating profit for the second quarter and first six months of 2020 includes \$33 million and \$48 million, and for the second quarter and first six months of 2019 includes \$22 million and \$43 million pre-tax credits related to our last-in, first-out ("LIFO") method of accounting for inventories. Operating profit for the first six months of 2019 also includes \$35 million of cash receipts for our share of antitrust legal settlements.

(4) European Pharmaceutical Solutions segment's operating profit for the first six months of 2019 includes non-cash goodwill impairment charges of \$570 million (pre-tax and after-tax).

(5) Operating profit (loss) for Other for the second quarter and first six months of 2019 includes pre-tax restructuring, impairment and related charges of \$42 million and \$80 million primarily associated with the closure of retail pharmacy stores within our Canadian business. The first six months of 2019 include escrow settlement gain of \$97 million (pre-tax and after-tax) representing certain indemnity and other claims related to our 2017 third quarter acquisition of Rexall Health.

(6) Operating profit (loss) for Other for the second quarter and first six months of 2020 includes pre-tax impairment charge of \$1,157 million and a pre-tax dilution loss of \$246 million associated with our investment in Change Healthcare JV. Operating profit (loss) for Other for the second quarter and first six months of 2019 includes a pre-tax credit of \$90 million representing the derecognition of the TRA liability payable to the shareholders of Change Healthcare Inc. Operating profit (loss) for Other also includes our proportionate share of loss from Change Healthcare JV of \$51 million and \$47 million for the second quarter and first six months of 2020 and \$56 million and \$112 million for the second quarter and first six months of 2019.

(7) Corporate expenses, net, for the second quarter and first six months of 2020 include pre-tax settlement charges of \$105 million and \$122 million from the termination of our defined benefit pension plan and a settlement charge of \$82 million (pre-tax and after-tax) related to opioid claims. The second quarter and first six months of 2020 includes \$36 million and \$72 million, and for the second quarter and first six months of 2019 includes \$43 million and \$59 million pre-tax charges of opioid-related costs, primarily litigation expenses.

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McKESSON CORPORATION

FINANCIAL REVIEW (UNAUDITED)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL

Management's discussion and analysis of financial condition and results of operations, referred to as the Financial Review, is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations and financial position of the Company together with its subsidiaries. This discussion and analysis should be read in conjunction with the condensed consolidated financial statements and accompanying financial notes in Item 1 of Part I of this Quarterly Report on Form 10-Q and in Item 8 of Part II of our Annual Report on Form 10-K for the fiscal year ended March 31, 2019 previously filed with the SEC on May 15, 2019 ("2019 Annual Report").

The Company's fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, all references to a particular year shall mean the Company's fiscal year.

Certain statements in this report constitute forward-looking statements. See "Cautionary Notice About Forward-Looking Statements" included in this Quarterly Report on Form 10-Q.

Operating Segments

We report our financial results in three reportable segments: U.S. Pharmaceutical and Specialty Solutions, European Pharmaceutical Solutions and Medical-Surgical Solutions. All remaining operating segments and business activities that are not significant enough to require separate reportable segment disclosure are included in Other. The factors for determining the reportable segments included the manner in which management evaluates the performance of the Company combined with the nature of the individual business activities. We evaluate the performance of our operating segments on a number of measures, including revenues and operating profit before interest expense and income taxes. Refer to Financial Note 18, "Segments of Business," to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

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McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

RESULTS OF OPERATIONS

Overview of Consolidated Results:

(Dollars in millions, except per share data)	Quarter Ended September 30,			Six Months Ended September 30,			Change
	2019	2018	Change	2019	2018	Change	
Revenues	\$ 57,616	\$ 53,075	9 %	\$ 113,344	\$ 105,682	7 %	
Gross Profit	\$ 2,867	\$ 2,804	2	\$ 5,654	\$ 5,583	1	
<i>Gross Profit Margin</i>	<i>4.98 %</i>	<i>5.28 %</i>	<i>(30) bp</i>	<i>4.99 %</i>	<i>5.28 %</i>	<i>(29) bp</i>	
Operating Expenses:							
Operating Expenses	\$ (2,196)	\$ (2,033)	8 %	\$ (4,326)	\$ (4,063)	6 %	
Goodwill Impairment Charges	—	—	—	—	(570)	(100)	
Restructuring, Impairment and Related Charges	(45)	(82)	(45)	(68)	(178)	(62)	
Total Operating Expenses	\$ (2,241)	\$ (2,115)	6 %	\$ (4,394)	\$ (4,811)	(9) %	
<i>Operating Expenses as a Percentage of Revenues</i>	<i>3.89 %</i>	<i>3.98 %</i>	<i>(9) bp</i>	<i>3.88 %</i>	<i>4.55 %</i>	<i>(67) bp</i>	
Other Income (Expense), Net	\$ (78)	\$ 20	(490) %	\$ (41)	\$ 60	(168) %	
Equity Earnings and Charges from Investment in Change Healthcare Joint Venture	(1,454)	(56)	NM	(1,450)	(112)	NM	
Interest Expense	(64)	(66)	(3)	(120)	(127)	(6)	
Income (Loss) from Continuing Operations Before Income Taxes	(970)	587	(265)	(351)	593	(159)	
Income Tax Benefit (Expense)	294	(35)	(940)	158	(122)	(230)	
Income (Loss) from Continuing Operations	(676)	552	(222)	(193)	471	(141)	
Income (Loss) from Discontinued Operations, Net of Tax	(1)	1	(200)	(7)	2	(450)	
Net Income (Loss)	(677)	553	(222)	(200)	473	(142)	
Net Income Attributable to Noncontrolling Interests	(53)	(54)	(2)	(107)	(112)	(4)	
Net Income (Loss) Attributable to McKesson Corporation	\$ (730)	\$ 499	(246) %	\$ (307)	\$ 361	(185) %	
Diluted Earnings (Loss) Per Common Share Attributable to McKesson Corporation							
Continuing Operations	\$ (3.99)	\$ 2.51	(259) %	\$ (1.62)	\$ 1.79	(191) %	
Discontinued Operations	—	—	—	(0.03)	0.01	(400)	
Total	\$ (3.99)	\$ 2.51	(259) %	\$ (1.65)	\$ 1.80	(192) %	
Weighted Average Diluted Common Shares	183	199	(8) %	185	201	(8) %	

bp - basis points
NM - not meaningful

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Revenues

Revenues increased in the second quarter and first half of 2020 compared to the same periods a year ago primarily due to market growth, including expanded business with existing customers. Market growth includes growing drug utilization, price increases and newly launched products, partially offset by price deflation associated with brand to generic drug conversion.

Gross Profit

Gross profit increased in the second quarter and first half of 2020 primarily due to market growth, partially offset by unfavorable effects of foreign currency exchange fluctuations. Gross profit in the first half of 2020 was also favorably impacted by an acquisition. Gross profit margin decreased in 2020 due to our mix of businesses.

Additionally, gross profit in the second quarter and first half of 2020 was favorably affected by higher last-in, first-out (“LIFO”) credits, and gross profit in the first half of 2019 included \$35 million of net cash proceeds representing our share of antitrust legal settlements.

LIFO inventory credits were \$33 million and \$22 million in the second quarters of 2020 and 2019 and \$48 million and \$43 million in the first half of 2020 and 2019. Our U.S. Pharmaceutical business uses the LIFO method of accounting for the majority of its inventories, which results in cost of sales that more closely reflects replacement cost than under other accounting methods. The business’ practice is to pass on to customers published price changes from suppliers. Manufacturers generally provide us with price protection, which limits price related inventory losses. A LIFO expense is recognized when the net effect of price increases on pharmaceutical and non-pharmaceutical products held in inventory exceeds the impact of price declines, including the effect of branded pharmaceutical products that have lost market exclusivity. A LIFO credit is recognized when the net effect of price declines exceeds the impact of price increases on pharmaceutical and non-pharmaceutical products held in inventory. Our quarterly LIFO credit is based on our estimates of annual LIFO credit which are impacted by expected changes in year-end inventory quantities, product mix and manufacturer pricing practices, which may be influenced by market and other external influences. Changes to any of the above factors could have a material impact to our annual LIFO credit. The actual valuation of inventory under the LIFO method is calculated at the end of the fiscal year.

Operating Expenses

Operating expenses increased for the second quarter of 2020 and decreased for the first half of 2020 compared to the same periods a year ago. Operating expenses as a percentage of revenues decreased for the second quarter and first half of 2020 compared to the same periods a year ago. Operating expenses included the following significant items:

- 2019 first quarter goodwill impairment charges of \$570 million (pre-tax and after-tax) for our European Pharmaceutical Solutions segment. Refer to Financial Note 4, “Goodwill Impairment Charges,” to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q for more information;
- 2019 first quarter gain from an escrow settlement of \$97 million (pre-tax and after-tax) representing certain indemnity and other claims related to our third quarter 2017 acquisition of Rexall Health;
- 2019 second quarter pre-tax credit of \$90 million related to the derecognition of a payable to the shareholders of Change Healthcare, Inc.;
- 2020 second quarter charge of \$82 million (pre-tax and after-tax) in connection with an agreement reached in principle to settle all opioid-related claims filed by two Ohio counties, as further discussed below;
- Opioid-related pre-tax expenses of \$36 million and \$34 million in the second quarters of 2020 and 2019, and \$72 million and \$76 million in the first half of 2020 and 2019, primarily related to litigation expenses; and
- Lower restructuring, impairment and related charges and favorable effects of foreign currency exchange fluctuations for the second quarter and first half of 2020

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Opioid-Related Litigation and Claims

The Company is a defendant in over 2,500 cases asserting claims related to distribution of controlled substances (opioids). Nearly all such cases pending in federal district courts were transferred to a multi-district litigation (“MDL”) in the United States District Court for the Northern District of Ohio, while other cases are proceeding in state and other courts. We regularly are named as a defendant in similar, new cases. We are a party to discussions with the objective of achieving broad resolution of the remaining claims. Because of the large number of parties involved, together with the novelty and complexity of the issues, for which there may be different considerations among the parties, we cannot predict the successful resolution through a negotiated settlement. On October 21, 2019, we disclosed a settlement with two Ohio counties in the first track of the MDL cases, for which we recorded a pre-tax charge of \$82 million within operating expense for the second quarter of 2020. An adverse judgment or negotiated resolution in any of these matters could have a material adverse impact on our financial position, cash flows or liquidity, or results of operations. Refer to Financial Note 15, “Commitments and Contingent Liabilities,” to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q for more information.

Restructuring Initiatives

During 2019, we committed to various restructuring initiatives intended to drive long-term incremental profit growth and increase operational efficiency. The initiatives consist of the optimization of the Company’s operating models and cost structures primarily through centralization and outsourcing of certain administrative functions and cost management. The initiatives also consist of implementing certain actions including a reduction in workforce, reorganization and consolidation of our business operations and related headcount reductions, the closures of retail pharmacy stores in Europe as well as other facility closures. This set of initiatives are expected to be completed by the end of 2021. Additionally, we committed to certain actions in connection with the previously announced relocation of our corporate headquarters from San Francisco, California to Irving, Texas, which became effective April 1, 2019. We anticipate that the relocation will be completed by January 2021. In connection with these initiatives, we expect to record total pre-tax charges of approximately \$520 million to \$660 million, of which \$397 million of pre-tax charges were recorded to date primarily representing employee severance, exit-related costs, asset impairment charges and accelerated depreciation. Estimated remaining charges primarily consist of facility and other exit costs and employee-related costs. Refer to Financial Note 3, “Restructuring, Impairment and Related Charges,” to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q for more information on various initiatives.

Goodwill Impairment

As previously disclosed in our 2019 Annual Report on Form 10-K, the estimated fair value of our McKesson Canada reporting unit exceeded the carrying value as part of our 2019 annual goodwill impairment test. However, other risks, expenses and future developments, such as additional government actions and material changes in key market assumptions that we were unable to anticipate as of the 2019 testing date may require us to revise the projected cash flows, which could adversely affect the fair value of our McKesson Canada reporting unit in Other in future periods.

State Opioid Statutes

Legislative, regulatory or industry measures to address the misuse of prescription opioid medications could affect the Company’s business in ways that we may not be able to predict. In April 2018, the State of New York adopted the Opioid Stewardship Act (the “OSA”) which required the imposition of an annual surcharge on all manufacturers and distributors licensed to sell or distribute opioids in New York. On December 19, 2018, the U.S. District Court for the Southern District of New York found the law unconstitutional and issued an injunction preventing the State of New York from enforcing the law. The State of New York appealed to the U.S. Court of Appeals to the Second Circuit but did not seek a stay of the district court’s ruling. During the third quarter of 2019, we reversed the previously accrued estimated liability under the New York State OSA. The State of New York has subsequently adopted an excise tax on sales of opioids in the State, which became effective July 1, 2019. The excise tax would apply only to the first sale occurring in New York, and thus may not apply to sales from the Company’s distribution centers in New York to New York customers. In addition, certain states have now passed legislation that could require us to pay taxes or assessments on the distribution of opioid medications in those states. Other states are also considering similar legislation. These proposed and passed bills vary in the amounts and the means of calculation. Liabilities for taxes or assessments under any such laws could have an adverse impact on our results of operations, unless we are able to mitigate them through operational changes or commercial arrangements where permitted. Taxes or assessments incurred under state opioid statutes were not material during the second quarter and first six months of 2020 and 2019.

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Other Income (Expense), Net: Other income, net, decreased for the second quarter and first half of 2020 compared to the same periods a year ago primarily due to pension settlement charges, as further described below. In addition, other income, net for the first half of 2020 was unfavorably impacted by the 2019 higher gains recognized from the sale of investments, partially offset by higher settlement gains from our net investment hedges and forward contracts.

Other income, net, for the second quarter and first half of 2020 includes pre-tax settlement charges of \$105 million and \$122 million related to the Company's previously approved termination of its frozen U.S. defined benefit pension plan. In connection with the plan termination, we purchased annuity contracts from an insurer that will pay and administer the future pension benefits of the remaining participants.

Equity Earnings and Charges from Investment in Change Healthcare Joint Venture: Our investment in Change Healthcare LLC ("Change Healthcare JV") is accounted for using the equity method of accounting. Our proportionate share of loss from investment in Change Healthcare JV was \$51 million and \$56 million for the second quarters of 2020 and 2019, and \$47 million and \$112 million for the first half of 2020 and 2019. During the first quarter of 2020 and the second quarter and first half of 2019, we owned approximately 70% of this joint venture.

On June 27, 2019, common stock and certain other securities of Change Healthcare Inc. began trading on the NASDAQ ("IPO"). On July 1, 2019, upon the completion of its IPO, Change Healthcare Inc. contributed net cash proceeds it received from its offering of common stock to Change Healthcare JV in exchange for additional membership interests of Change Healthcare JV ("LLC Units") at the equivalent of its offering price of \$13 per share. The proceeds from the concurrent offering of other securities were also used by Change Healthcare Inc. to acquire certain securities of Change Healthcare JV. As a result, McKesson's equity interest in Change Healthcare JV was reduced to approximately 58.5%, which was used to recognize our proportionate share in net loss from Change Healthcare JV, commencing the second quarter of 2020. As a result of the ownership dilution to 58.5% from 70%, we recognized a pre-tax dilution loss of approximately \$246 million in the second quarter of 2020. Additionally, our proportionate share of income or loss from this investment is expected to be further reduced as settlements of other securities may occur in the future reporting periods.

Since the completion of its IPO in July 2019, the fair value from the trading prices of Change Healthcare Inc.'s public common stock has been below the corresponding carrying value of our investment in Change Healthcare JV, triggering an other-than-temporary impairment ("OTTI") evaluation. As of September 30, 2019, we expect to exit our investment in Change Healthcare JV within the next six to twelve months. In light of our planned exit and the corresponding publicly-traded share price of Change Healthcare Inc., we concluded an OTTI has occurred during our second quarter of 2020 and recorded a pre-tax impairment charge of \$1,157 million, representing the difference between the carrying value of our investment and the fair value derived from the corresponding closing price of Change Healthcare Inc.'s common stock at September 30, 2019.

We expect to complete a tax-efficient exit from our investment in Change Healthcare JV through a distribution of the shares of a subsidiary holding all of our interests in the Change Healthcare JV to our shareholders, followed by a merger of such subsidiary with and into Change Healthcare Inc. in exchange for shares of common stock in Change Healthcare Inc. ("Qualified McKesson Exit"). If the Qualified McKesson Exit does not qualify as a tax-efficient transaction, Change Healthcare Inc. has agreed to pay us 85% of related cash tax savings realized subsequent to the spin-off or split-off and, in certain circumstances, if the failure of the Qualified McKesson Exit to qualify as a tax efficient transaction is due to Change Healthcare Inc.'s failure to comply with a tax matters agreement, to indemnify us for certain tax-related losses. In the event of a partial exit, Change Healthcare Inc. will be required to pay us 85% of the net cash tax savings realized from the exchange of a portion of our interest in Change Healthcare JV for shares of common stock in Change Healthcare Inc.

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Transaction-Related Expenses and Adjustments

Transaction-related expenses and adjustments generally included transaction and integration expenses as well as gains and losses that are directly related to acquisitions and divestitures. These expenses were \$282 million and \$63 million for the second quarters of 2020 and 2019 and \$326 million and \$115 million for the first half of 2020 and 2019.

Transaction-related expenses and adjustments were as follows:

(Dollars in millions)	Quarter Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Operating Expenses				
Integration related expenses	\$ 16	\$ 35	\$ 33	\$ 51
Restructuring, severance and relocation	—	1	—	4
Transaction closing expenses	—	1	—	2
Other Expenses ⁽¹⁾	266	26	293	58
Transaction-Related Expenses and Adjustments	\$ 282	\$ 63	\$ 326	\$ 115

(1) Includes our proportionate share of transaction and integration expenses incurred by Change Healthcare JV, excluding certain fair value adjustments, which were recorded within equity earnings and charges from investment in Change Healthcare joint venture. The second quarter and first half of 2020 includes a pre-tax dilution loss of \$246 million as a result of the Change Healthcare JV investment ownership dilution from approximately 70% to approximately 58.5%.

Amortization Expenses of Acquired Intangible Assets

Amortization expenses of intangible assets directly related to business acquisitions and our investment in Change Healthcare JV were \$181 million and \$198 million for the second quarters of 2020 and 2019 and \$370 million and \$397 million for the first half of 2020 and 2019. The amounts are primarily recorded in operating expenses and equity earnings and charges from investment in Change Healthcare joint venture.

Income Taxes: During the second quarters of 2020 and 2019, we recorded income tax benefit of \$294 million and expense of \$35 million related to continuing operations. During the first half of 2020 and 2019, we recorded income tax benefit of \$158 million and expense of \$122 million related to continuing operations. During the second quarter of 2020, no tax benefit was recognized for an agreement reached in principle with certain counties in the State of Ohio. Refer to Financial Note 15, “Commitments and Contingent Liabilities,” to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q for more information. Upon finalization of the settlement agreement, the Company will evaluate the tax deductibility of the expected payment. During the first half of 2019, no tax benefit was recognized for the pre-tax goodwill impairment charge of \$570 million related to our European Pharmaceutical Solutions segment given that this charge is not deductible for income tax purposes. Fluctuations in our reported income tax rates are primarily due to the prior year impact of nondeductible impairment charges as well as changes within our business mix of income and discrete items recognized.

Net Income Attributable to Noncontrolling Interests: Net income attributable to noncontrolling interests for the second quarters and first half of 2020 and 2019, primarily represents ClarusONE, Vantage Oncology Holdings, LLC and the accrual of the annual recurring compensation amount of €0.83 per McKesson Europe AG (“McKesson Europe”) share that McKesson is obligated to pay to the noncontrolling shareholders of McKesson Europe under a domination and profit and loss transfer agreement (the “Domination Agreement”). Refer to Financial Note 7, “Redeemable Noncontrolling Interests and Noncontrolling Interests,” to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q for more information.

Net Income (Loss) Attributable to McKesson Corporation: Net income (loss) attributable to McKesson Corporation was a net loss of \$730 million and \$307 million for the second quarter and first half of 2020 and net income of \$499 million and \$361 million for the second quarter and first half of 2019. Diluted loss per common share attributable to McKesson Corporation was \$3.99 and \$1.65 in the second quarter and first half of 2020. Diluted earnings per common share attributable to McKesson Corporation was \$2.51 and \$1.80 in the second quarter and first half of 2019. The second quarter and first half of 2020 were calculated by excluding dilutive securities from the denominator due to their anti-dilutive effects. Additionally, our 2020 and 2019 diluted earnings per share reflect the cumulative effects of share repurchases.

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Weighted Average Diluted Common Shares Outstanding: Diluted earnings (loss) per common share was calculated based on a weighted average number of shares outstanding of 183 million and 199 million for the second quarters of 2020 and 2019 and 185 million and 201 million for the first half of 2020 and 2019. Weighted average diluted shares for 2020 decreased from 2019 primarily reflecting common stock repurchases.

Segment Results:**Revenues:**

(Dollars in millions)	Quarter Ended September 30,		Change	Six Months Ended September 30,		Change
	2019	2018		2019	2018	
U.S. Pharmaceutical and Specialty Solutions	\$ 45,979	\$ 41,610	10 %	\$ 90,144	\$ 82,587	9 %
European Pharmaceutical Solutions	6,598	6,639	(1)	13,308	13,574	(2)
Medical-Surgical Solutions	2,056	1,948	6	3,959	3,651	8
Other	2,983	2,878	4	5,933	5,870	1
Total Revenues	\$ 57,616	\$ 53,075	9 %	\$ 113,344	\$ 105,682	7 %

U.S. Pharmaceutical and Specialty Solutions

U.S. Pharmaceutical and Specialty Solutions revenues for the second quarter and first half of 2020 compared to the same periods a year ago increased 10% and 9% primarily due to market growth, including expanded business with existing customers, and growth of specialty pharmaceuticals. Market growth includes growing drug utilization, price increases and newly launched products, partially offset by price deflation associated with brand to generic drug conversions.

European Pharmaceutical Solutions

European Pharmaceutical Solutions revenues decreased 1% and 2% for the second quarter and first half of 2020 compared to the same periods a year ago primarily due to unfavorable effects of foreign currency exchange fluctuations of 5% and 6%, partially offset by market growth in our distribution businesses.

Medical-Surgical Solutions

Medical-Surgical Solutions revenues for the second quarter and first half of 2020 increased 6% and 8% compared to the same periods a year ago primarily due to market growth. Our 2019 first quarter acquisition of Medical Specialties Distributors LLC (“MSD”) also favorably impacted revenues for the first half of 2020.

Other

Revenues in Other for the second quarter and first half of 2020 increased 4% and 1% compared to the same periods a year ago primarily due to growth in our Canadian and McKesson Prescription Technology Solutions (“MRxTS”) businesses, partially offset by the unfavorable effects of foreign currency exchange fluctuations of 1% and 2%.

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Segment Operating Profit (Loss), Corporate Expenses, Net and Interest Expense:

(Dollars in millions)	Quarter Ended September 30,			Change	Six Months Ended September 30,			Change
	2019	2018			2019	2018		
Segment Operating Profit (Loss) ⁽¹⁾								
U.S. Pharmaceutical and Specialty Solutions	\$ 639	\$ 610	5 %	\$ 1,218	\$ 1,153	6 %		
European Pharmaceutical Solutions ⁽²⁾	1	10	(90)	6	(550)	101		
Medical-Surgical Solutions	129	105	23	254	198	28		
Other ⁽³⁾	<u>(1,311)</u>	<u>95</u>	NM	<u>(1,170)</u>	<u>209</u>	(660)		
Subtotal	(542)	820	(166)	308	1,010	(70)		
Corporate Expenses, Net ⁽⁴⁾	(364)	(167)	118	(539)	(290)	86		
Interest Expense	(64)	(66)	(3)	(120)	(127)	(6)		
Income (Loss) from Continuing Operations Before Income Taxes	<u>\$ (970)</u>	<u>\$ 587</u>	(265) %	<u>\$ (351)</u>	<u>\$ 593</u>	(159) %		
Segment Operating Profit (Loss) Margin								
U.S. Pharmaceutical and Specialty Solutions	1.39 %	1.47 %	(8) bp	1.35 %	1.40 %	(5) bp		
European Pharmaceutical Solutions	0.02	0.15	(13)	0.05	(4.05)	410		
Medical-Surgical Solutions	6.27	5.39	88	6.42	5.42	100		

bp - basis points

NM - not meaningful

(1) Segment operating profit (loss) includes gross profit, net of operating expenses, as well as other income (expenses), net, for our operating segments.

(2) Operating loss of our European Pharmaceutical Solutions segment for the first half of 2019 includes a goodwill impairment charge of \$570 million.

(3) Operating loss for Other in the second quarter and first half of 2020 includes an impairment charge of \$1,157 million and a dilution loss of \$246 million related to our investment in Change Healthcare JV.

(4) Corporate expenses, net for the second quarter and first half of 2020 includes pension settlement charges of \$105 million and \$122 million and a settlement charge of \$82 million related to opioid claims.

Segment Operating Profit (Loss)

U.S. Pharmaceutical and Specialty Solutions: Operating profit increased for this segment for the second quarter and first half of 2020 compared to the same periods a year ago. Operating profit in 2020 benefited from market growth including growth in our specialty business. Operating profit and operating profit margin for the second quarter and first half of 2020 were favorably affected by higher LIFO credits, partially offset by our mix of business. Additionally, the first half of 2020 was favorably impacted from lower opioid-related costs, partially offset by the 2019 net cash proceeds representing our share of antitrust legal settlements.

European Pharmaceutical Solutions: Operating profit and operating profit margin for the second quarter of 2020 decreased primarily due to store closures and higher operating expenses for UK retail pharmacy. Operating profit and operating profit margin for the first half of 2020 increased primarily due to the 2019 goodwill impairment charges of \$570 million and lower restructuring charges. Operating profit margin for the second quarter and first half of 2020 was unfavorable affected by our mix of business.

Medical-Surgical Solutions: Operating profit and operating profit margin for this segment increased for the second quarter and first half of 2020 compared to the same periods a year ago primarily due to market growth, lower restructuring charges and lower bad debt expenses.

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Other: Operating profit for Other decreased for the second quarter and first half of 2020 compared to the same period a year ago primarily due to the impairment charge of \$1,157 million and the dilution loss of \$246 million related to our investment in Change Healthcare JV. The increase is partially offset by lower restructuring charges related to our Canada business and growth in our MRxTS business. Operating profit for the second quarter of 2019 included a credit of \$90 million resulting from the derecognition of a TRA liability payable to the shareholders of Change Healthcare Inc. Operating profit for Other for the first half of 2019 included the 2019 first quarter gain from an escrow settlement of \$97 million related to our 2017 acquisition of Rexall Health.

Corporate: Corporate expenses, net, increased for the second quarter and first half of 2020 compared to the same periods a year ago primarily due to pension settlement charges, opioid claim settlement charge and higher costs for technology initiatives. Corporate expenses, net, also increased for the first half of 2020 due to the 2019 first quarter gains recognized from the sale of investments, partially offset by net settlement gains from our net investment hedges and forward contracts.

Interest Expense: Interest expense for the second quarter and first half of 2020 compared to the same periods a year ago decreased primarily due to a decrease in the issuance of commercial paper. Interest expense fluctuates based on timing, amounts and interest rates of term debt repaid and new term debt issued, as well as amounts incurred associated with financing fees.

Business Combinations

Refer to Financial Note 5, "Business Combinations," to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

New Accounting Pronouncements

New accounting pronouncements that we have recently adopted as well as those that have been recently issued but not yet adopted by us are included in Financial Note 1, "Significant Accounting Policies," to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the "Critical Accounting Policies and Estimates" disclosed in Part II, Item 7 of our 2019 Annual Report on Form 10-K, as updated in "Critical Accounting Policies and Estimates" section in Item 2 of Part I of our report on Form 10-Q for the quarter ended June 30, 2019.

Financial Condition, Liquidity and Capital Resources

We expect our available cash generated from operations, together with our existing sources of liquidity from our credit facilities and commercial paper program will be sufficient to fund our long-term and short-term capital expenditures, working capital and other cash requirements. In addition, from time to time, we may access the long-term debt capital markets to discharge our other liabilities.

Operating activities utilized cash of \$159 million and generated cash of \$318 million during the first half of 2020 and 2019. Operating activities for the first half of 2020 were affected by decreases in draft and accounts payable and inventories primarily associated with timing and an increase in receivables primarily due to revenue growth, and for the first half of 2019 were affected by increases in receivables, inventory and draft and accounts payable primarily associated with revenue growth. Cash flows from operations can be significantly impacted by factors such as timing of receipts from customers, inventory receipts and payments to vendors. Additionally, working capital is primarily a function of sale and purchase volumes, inventory requirements and vendor payment terms. Operating activities for the first half of 2020 also includes a non-cash pension settlement charge of \$122 million and for the first half of 2019 includes a non-cash derecognition of the TRA liability of \$90 million.

Investing activities utilized cash of \$285 million and \$983 million during the first half of 2020 and 2019. Investing activities for 2020 and 2019 include \$184 million and \$248 million in capital expenditures for property, plant and equipment, and capitalized software. Investing activities for the first half of 2019 included \$840 million of net cash payments for acquisitions, including \$784 million for our acquisition of MSD. Investing activities for 2019 also included \$97 million cash received as a result of resolving certain indemnity and other claims related to our 2017 acquisition of Rexall Health.

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Financing activities utilized cash of \$1,203 million during the first half of 2020 and provided cash of \$198 million during the first half of 2019. Financing activities for the first half of 2020 included cash receipts of \$8,670 million and payments of \$8,122 million for short-term borrowings, primarily commercial paper. Financing activities for the first half of 2019 included cash receipts of \$19,735 million and payments of \$18,342 million for short-term borrowings. Financing activities for the first half of 2020 and 2019 include \$1,452 million and \$888 million of cash paid for stock repurchases, including shares surrendered for tax withholding. Additionally, financing activities for first half of 2020 and 2019 also include \$148 million and \$139 million of cash paid for dividends.

The Company's Board has authorized the repurchase of McKesson's common stock from time-to-time in open market transactions, privately negotiated transactions, accelerated share repurchase ("ASR") programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

In May 2019, we entered into an ASR program with a third-party financial institution to repurchase \$600 million of the Company's common stock. We repurchased a total of 4.7 million shares at an average price per share of \$127.68 during the first quarter of 2020.

During the first quarter of 2020, we repurchased 0.7 million of the Company's shares for \$84 million through open market transactions at an average price per share of \$128.64. During the second quarter of 2020, we repurchased 5.2 million of the Company's shares for \$750 million through open market transactions at an average price per share of \$144.28.

The total authorization outstanding for repurchases of the Company's common stock was \$2.0 billion at September 30, 2019.

We believe that our operating cash flow, financial assets and current access to capital and credit markets, including our existing credit facilities, will give us the ability to meet our financing needs for the foreseeable future. However, there can be no assurance that future volatility and disruption in the global capital and credit markets will not impair our liquidity or increase our costs of borrowing.

As previously discussed in this financial review, we are a party to discussions with the objective of achieving broad resolution of the remaining opioid-related litigation and claims. Although we are not able to predict the outcome or estimate a range of reasonably possible losses in these matters, an adverse judgment or negotiated resolution in any of these matters could have a material adverse impact on our financial position, cash flows or liquidity.

Selected Measures of Liquidity and Capital Resources

(Dollars in millions)	September 30, 2019	March 31, 2019
Cash, cash equivalents and restricted cash	\$ 1,356	\$ 2,981
Working capital	208	839
Debt to capital ratio ⁽¹⁾	50.0 %	43.3 %
Return on McKesson stockholders' equity ⁽²⁾	(7.7)	0.4

(1) Ratio is computed as total debt divided by the sum of total debt and McKesson stockholders' equity, which excludes noncontrolling and redeemable noncontrolling interests and accumulated other comprehensive income (loss).

(2) Ratio is computed as net income (loss) attributable to McKesson Corporation for the last four quarters, divided by a five-quarter average of McKesson stockholders' equity, which excludes noncontrolling and redeemable noncontrolling interests.

Cash equivalents, which are available-for-sale, are carried at fair value. Cash equivalents are primarily invested in AAA rated prime and U.S. government money market funds denominated in U.S. dollars, overnight repurchase agreements collateralized by U.S. government securities, Canadian government securities and/or securities that are guaranteed or sponsored by the U.S. government and an AAA rated prime money market fund denominated in British pound sterling.

The remaining cash and cash equivalents are deposited with several financial institutions. We mitigate the risk of our short-term investment portfolio by depositing funds with reputable financial institutions and monitoring risk profiles and investment strategies of money market funds.

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FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

Our cash and cash equivalents balance as of September 30, 2019 included approximately \$979 million of cash held by our subsidiaries outside of the United States. Our primary intent is to utilize this cash for foreign operations for an indefinite period of time. Although the vast majority of cash held outside the United States is available for repatriation, doing so could subject us to foreign withholding taxes and state income taxes. Following enactment of the 2017 Tax Cuts and Jobs Act, the repatriation of cash to the United States is generally no longer taxable for federal income tax purposes.

Working capital primarily includes cash and cash equivalents, receivables and inventories net of drafts and accounts payable, short-term borrowings, current portion of long-term debt and other current liabilities. We require a substantial investment in working capital that is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity and other requirements.

Our debt to capital ratio increased in the first half of 2020 primarily due to a decrease in stockholders' equity driven by share repurchases and higher short-term borrowings.

In July 2019, the Company's quarterly dividend was raised from \$0.39 to \$0.41 per common share for dividends declared on or after such date by the Board. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Board and will depend upon the Company's future earnings, financial condition, capital requirements and other factors.

The carrying value of redeemable noncontrolling interests related to McKesson Europe was \$1.38 billion at September 30, 2019, which exceeded the maximum redemption value of \$1.20 billion. The balance of redeemable noncontrolling interests is reported at the greater of its carrying value or its maximum redemption value at each reporting date. Upon the effectiveness of the Domination Agreement on December 2, 2014, the noncontrolling shareholders of McKesson Europe received a put right that enables them to put their McKesson Europe shares to McKesson at €22.99 per share, which price is increased annually for interest in the amount of 5 percentage points above a base rate published semiannually by the German Bundesbank, less any compensation amount or guaranteed dividend already paid ("Put Amount"). The redemption value is the Put Amount adjusted for exchange rate fluctuations each period. The ultimate amount and timing of any future cash payments related to the Put Amount are uncertain. Additionally, we are obligated to pay an annual recurring compensation of €0.83 per McKesson Europe share (the "Compensation Amount") to the noncontrolling shareholders of McKesson Europe under the Domination Agreement. The Compensation Amount is recognized ratably during the applicable annual period. The Domination Agreement does not have an expiration date and can be terminated by McKesson without cause in writing no earlier than March 31, 2020.

Refer to Financial Note 7, "Redeemable Noncontrolling Interests and Noncontrolling Interests," to the condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

Credit Resources

We fund our working capital requirements primarily with cash and cash equivalents as well as short-term borrowings from our credit facilities and commercial paper issuances. Funds necessary for future debt maturities and our other cash requirements are expected to be met by existing cash balances, cash flow from operations, existing credit sources and other capital market transactions. Detailed information regarding our debt and financing activities is included in Financial Note 10, "Debt and Financing Activities," to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q.

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McKESSON CORPORATION
FINANCIAL REVIEW (CONTINUED)
(UNAUDITED)

CAUTIONARY NOTICE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I of this report, 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. Some of these statements can be identified by the use of terminology such as “believes,” “expects,” “anticipates,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates,” or the negative of these words and other comparable terminology. The discussion of financial trends, strategy, plans or intentions may also include forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date such statements were first made. We undertake no obligation to publicly release any updates or revisions to 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, they include the following factors, which are described in more detail in the Risk Factors discussion in Item 1A of Part I of our most recent Annual Report on Form 10-K, as updated in Item 1A of Part II of our report on Form 10-Q for the quarter ended June 30, 2019 and of this report. The reader should not consider this list to be a complete statement of all potential risks and uncertainties:

- Changes in the U.S. and European healthcare industry and regulatory environments could have a material adverse impact on our results of operations.
- Our foreign operations subject us to a number of operating, economic, political and regulatory risks that may have a material adverse impact on our financial position and results of operations.
- Changes in the Canadian healthcare industry and regulatory environment could have a material adverse impact on our results of operations.
- General European economic conditions together with austerity measures taken by certain European governments could have a material adverse impact on our results of operations.
- Changes in the European regulatory environment with respect to privacy and data protection regulations could have a material adverse impact on our results of operations.
- Our results of operations, which are stated in U.S. dollars, could be adversely impacted by fluctuations in foreign currency exchange rates.
- Our business could be hindered if we are unable to complete and integrate acquisitions successfully.
- Our results of operations are impacted by our investment in Change Healthcare JV.
- Our business and results of operations could be impacted if we fail to manage and complete divestitures and distributions.
- We are subject to legal and regulatory proceedings that could have a material adverse impact on our financial position and results of operations.
- Competition and industry consolidation may erode our profit.
- A material reduction in purchases or the loss of a large customer or group purchasing organization, as well as substantial defaults in payments by a large customer or group purchasing organization, could have a material adverse impact on our financial position and results of operations.
- Contracts with foreign and domestic government entities and their agencies pose additional risks relating to future funding and compliance.
- Our future results could be materially affected by public health issues whether occurring in the United States or abroad.
- We rely on sophisticated computer systems to perform our business operations and elements of those systems are from time to time subject to cybersecurity incidents, such as malware and ransomware attacks, unauthorized access, system failures, user errors and disruptions. Although we, our customers, our strategic partners and our external service providers use a variety of security measures to protect our and their computer systems, a failure or compromise of our, our customers’, our strategic partners’ or our external service providers’ computer systems from a cyberattack, disaster, or malfunction may result in material adverse operational and financial consequences.
- We could experience losses or liability not covered by insurance.
- Proprietary protections may not be adequate, and products may be found to infringe the rights of third parties.
- System errors or failures of our products or services to conform to specifications cause unforeseen liabilities or injury, harm our reputation and have a material adverse impact on our results of operations.
- Various risks could interrupt customers’ access to their data residing in our service centers, exposing us to significant costs.
- We may be required to record a significant charge to earnings if our goodwill, intangible and other long-lived assets, or investments become further impaired.
- Tax legislation initiatives or challenges to our tax positions could have a material adverse impact on our results of operations.

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McKESSON CORPORATION
FINANCIAL REVIEW (CONCLUDED)
(UNAUDITED)

- Volatility and disruption to the global capital and credit markets may adversely affect our ability to access credit, our cost of credit and the financial soundness of our customers and suppliers.
- Changes in accounting standards issued by the Financial Accounting Standards Board (“FASB”) or other standard-setting bodies may adversely affect our consolidated financial statements.
- We could face significant liability if we withdraw from participation in one or more multiemployer pension plans in which we participate, or if one or more multiemployer plans in which we participate is underfunded.
- We may not realize the expected benefits from our restructuring and business process initiatives.
- We may experience difficulties with outsourcing and similar third-party relationships.
- We may face risks associated with our retail expansion.
- We may be unable to keep existing retail store locations or open new retail locations in desirable places, which could materially adversely affect our results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We believe there has been no material change in our exposure to risks associated with fluctuations in interest and foreign currency exchange rates as disclosed in our 2019 Annual Report on Form 10-K.

Item 4. Controls and Procedures.

Our Chief Executive Officer and our Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of the end of the period covered by this quarterly report, and our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

There were no changes in our "internal control over financial reporting" (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 and 15d-15 that occurred during our second quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION**Item 1. Legal Proceedings.**

The information set forth in Financial Note 15, "Commitments and Contingent Liabilities," to the accompanying condensed consolidated financial statements appearing in this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors.

Except as noted below, there have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the risk factors disclosed in Part I, Item 1A, of our 2019 Annual Report on Form 10-K, as updated in Item 1A of Part II of our report on Form 10-Q for the quarter ended June 30, 2019.

We are subject to legal and regulatory proceedings that could have a material adverse impact on our financial position and results of operations.

From time to time and in the ordinary course of our business, the Company is named as a defendant in legal and regulatory proceedings, which may include asserted class actions. Regulatory proceedings can involve allegations such as false claims, healthcare fraud and abuse, and antitrust violations. Civil litigation proceedings may involve commercial, employment, environmental, intellectual property, tort and other claims. For example, the Company is a defendant in over 2,500 cases alleging claims related to the distribution of controlled substances (opioids). We regularly are named as a defendant in similar, new cases. The plaintiffs in those cases include governmental entities (such as states, counties and municipalities) as well as businesses, groups and individuals. The cases allege violations of controlled substance laws and other laws, and they make common law claims such as negligence and public nuisance. Many of these cases raise novel theories of liability. Any proceedings can have unexpected outcomes that are not justified by evidence or existing law. All proceedings involve significant expense, management time and distraction, and risk of loss that can be difficult to predict or quantify. It is not uncommon for claims to be resolved over many years. Proceedings can result in monetary damages, penalties and fines, and injunctive or other relief. Even when the Company has valid defenses and is vigorously defending itself, it may seek a negotiated outcome to resolve the proceedings. The outcome of any legal proceeding can materially and adversely affect our business operations and can have a material adverse impact on our financial position or results of operations.

Table of Contents**McKESSON CORPORATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

Stock repurchases may be made from time-to-time in open market transactions, privately negotiated transactions, through accelerated share repurchase (“ASR”) programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations and other market and economic conditions.

In May 2019, we entered into an ASR program with a third-party financial institution to repurchase \$600 million of the Company’s common stock. We repurchased a total of 4.7 million shares at an average price per share of \$127.68 during the first quarter of 2020.

During the first quarter of 2020, we repurchased 0.7 million of the Company’s shares for \$84 million through open market transactions at an average price per share of \$128.64. During the second quarter of 2020, we repurchased 5.2 million of the Company’s shares for \$750 million through open market transactions at an average price per share of \$144.28.

The total authorization outstanding for repurchases of the Company’s common stock was \$2.0 billion at September 30, 2019.

The following table provides information on the Company’s share repurchases during the second quarter of 2020.

<i>(In millions, except price per share)</i>	Share Repurchases ⁽¹⁾			
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
July 1, 2019 – July 31, 2019	—	\$ —	—	\$ 2,785
August 1, 2019 – August 31, 2019	5.2	144.28	5.2	2,035
September 1, 2019 – September 30, 2019	—	—	—	2,035
Total	5.2		5.2	

(1) This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not Applicable

Item 5. Other Information.

Not Applicable

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McKESSON CORPORATION

Item 6. Exhibits.

Exhibits identified in parentheses below are on file with the SEC and are incorporated by reference as exhibits hereto.

Exhibit Number

Description

10.01	Credit Agreement dated as of September 25, 2019, among the Company and certain subsidiaries, as borrowers, Bank of America, N.A., as administrative agent, Barclays Bank PLC, Citibank, N.A., Wells Fargo Bank, National Association, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., and HSBC Securities (USA) Inc., as co-syndication agents, the lenders party thereto, the letter of credit issuers party thereto. (Exhibit 10.01 to the Company's Current Report on Form 8-K, filed with the SEC on September 27, 2019, File No. 1-13252).
10.1†	McKesson Corporation Deferred Compensation Administration Plan III, as amended and restated effective July 30, 2019.
10.2†	McKesson Corporation Supplemental Retirement Savings Plan, as amended and restated effective July 30, 2019.
31.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32††	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the McKesson Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Condensed Consolidated Statements of Operations, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) related Financial Notes.

† Management contract or compensation plan or arrangement in which directors and/or executive officers are eligible to participate.
†† Furnished herewith.

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McKESSON CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MCKESSON CORPORATION

Date: October 30, 2019

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

MCKESSON CORPORATION

Date: October 30, 2019

/s/ Sundeep G. Reddy

Sundeep G. Reddy

Senior Vice President and Controller

**McKESSON CORPORATION
DEFERRED COMPENSATION ADMINISTRATION PLAN III (“DCAP III”)**

Amended and Restated effective July 30, 2019

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**McKESSON CORPORATION
DEFERRED COMPENSATION ADMINISTRATION PLAN III**

Amended and Restated effective July 30, 2019

A. PURPOSE

1. This Plan was established to enhance McKesson's ability to attract and retain executive personnel and members of the Board who are not otherwise employees of McKesson.
2. This Plan is the successor plan to the Deferred Compensation Administration Plan II, as amended through October 28, 2004 (the "Prior Plan"). Effective December 31, 2004, the Prior Plan was frozen and no new allocations or deferrals are to be made to it; provided, however, that any vested allocations and deferrals made under the Prior Plan before January 1, 2005 shall continue to be governed by the terms and conditions of the Prior Plan as in effect on December 31, 2004.
3. Any allocations and deferrals made under the Prior Plan after December 31, 2004 and any allocations that were unvested on December 31, 2004 shall be deemed to have been made under this Plan and all such contributions, accruals and deferrals shall be governed by the terms and conditions of this Plan as it may be amended from time to time.
4. This Plan is intended to comply with the requirements of Section 409A of the Code.
5. Capitalized terms used in this Plan shall have the meaning set forth in Section K hereof.

B. ERISA PLAN

This Plan is an unfunded deferred compensation program intended primarily for a select group of management or highly compensated employees of the Company and members of the Board who are not employees of the Company. The Plan, therefore, is covered by Title I of ERISA except that it is exempt from Parts 2, 3 and 4 of Title I of ERISA.

C. PARTICIPATION

1. Eligibility to Participate.

- a. **Eligible Executives.** The Administrator may, at its discretion, and at any time, and from time to time, select executives of the Company who may elect to participate in this Plan ("Eligible Executives"). Selection of Eligible Executives may be evidenced by the terms of the executive's employment contract with the Company, or by inclusion among the persons or classes of persons specified by the Administrator.

The Administrator may, at his or her discretion, and at any time, and from time to time, designate additional Eligible Executives and/or provide that executives previously designated are no longer Eligible Executives. If the Administrator determines that an executive is no longer an Eligible Executive, he or she shall remain a Participant in the Plan until all amounts credited to his or her Account prior to such determination are paid out under the terms of the Plan (or until death, if earlier).

b. Eligible Directors. Each individual who is a member of the Board of McKesson and who is not a Company employee may participate in this Plan ("Eligible Directors").

2. Election to Participate. An Eligible Executive or an Eligible Director may become a Participant in the Plan by electing to defer compensation, or by the Company crediting a Discretionary Contribution to an Account on behalf of an Eligible Executive, in accordance with the terms of this Plan. An election to defer shall be in writing and shall be made at the time and in the form specified by the Administrator. On electing to defer compensation (or by accepting a Discretionary Contribution credited by the Company to an Account on behalf of an Eligible Executive) under this Plan, the Eligible Executive or Eligible Director shall be deemed to accept all of the terms and conditions of this Plan. All elections to defer amounts under this Plan shall be made pursuant to an election executed and filed with the Administrator before the amounts so deferred are earned.

a. Annual Election. Subject to the provisions of Sections 2.b and 2.c below, an election to defer compensation must be made and become irrevocable at the time that the Administrator prescribes, but in no event later than the last day of the Year preceding the Year in which the compensation being deferred is earned. A Participant's election to defer compensation shall be suspended during the Year only if such Participant is faced with an Unforeseeable Emergency. Such suspension shall continue through the end of the Year in which the Participant is faced with an Unforeseeable Emergency and the Participant must submit a new election to defer compensation, effective the Year after the Year in which the Unforeseeable Emergency occurs, to resume participation in the Plan.

b. Initial Election. A newly Eligible Executive or a newly Eligible Director may be permitted by the Administrator to elect to participate in the Plan by submitting an election to defer compensation in a form and by a time as McKesson prescribes; provided that such election is made and becomes irrevocable not later than 30 days following the date such newly Eligible Executive or Eligible Director first becomes eligible to participate in the Plan and provided further that such election to defer compensation applies only to compensation earned after the date the deferral election becomes irrevocable or at such later time that the Administrator prescribes. In compliance with this Section 2.b, only a prorated portion of an Eligible Executive's bonus (other than a bonus that is performance-based compensation as defined in Section 2.c below) may be deferred if the Eligible Executive's initial deferral election is made after the performance period applicable to the bonus has begun.

c. Election to Defer Performance-Based Compensation. To the extent that compensation paid under the Management Incentive Plan, the Long-Term Incentive Plan or any other Company-sponsored incentive plan is “performance-based compensation” as defined in Treasury Regulation section 1.409A-1(e), an election to defer payments made pursuant to the Management Incentive Plan, Long-Term Incentive Plan or other Company-sponsored bonus plan may be made not later than six months prior to the end of the applicable performance period or such earlier time as the Administrator may prescribe; provided, however, that such election shall be made prior to the date that compensation paid under the Management Incentive Plan compensation, Long-Term Incentive Plan or other Company-sponsored incentive plan, whichever is applicable, is substantially certain to be paid or readily ascertainable.

d. Election to Defer Other Compensation. The Administrator, in its sole discretion, may permit other types of compensation to be deferred under the Plan; provided, however, the Administrator terms and conditions of such deferrals shall be included in the applicable deferral election form and in accordance with Code Section 409A and the regulations promulgated and guidance issued thereunder.

3. Company Discretionary Contributions. The Compensation Committee shall have the sole discretion to determine an amount credited to a Participant’s Account as a “Discretionary Contribution.” A Discretionary Contribution may be subject to such terms or conditions, including but not limited to vesting, as the Compensation Committee may specify in its discretion at the time the Discretionary Contribution is credited to a Participant’s Account. Except with respect to the Company’s executive officers, the Compensation Committee may delegate its authority under this Section C.3 to the Administrator.

4. Notification of Participants. The Administrator shall annually notify each Eligible Executive and each Eligible Director that he or she may participate in the Plan for the next Year. Such notice shall also set forth the Declared Rate for the next Year.

5. Relation to Other Plans.

a. Participation in Other Plans. An Eligible Executive or an Eligible Director may participate in this Plan and may also participate in any other benefit plan of the Company in effect from time to time for which he or she is eligible, unless the other plan may otherwise exclude participation on the basis of eligibility for, or participation in, this Plan. No amounts may be deferred under this Plan which have been deferred under any other plan of the Company and the Administrator may modify or render invalid a Participant’s election prior to such election becoming irrevocable to accommodate deferrals made under other plan(s). Deferrals under this Plan may result in a reduction of benefits payable under the Social Security Act, the Retirement Plan and the 401(k) Plan.

b. Automatic Deferral. An Eligible Executive's base salary deferrals and annual bonus award deferrals (but not DCAP housing deferrals, sign-on and retention bonus deferrals and Long-Term Incentive Plan award deferrals) shall be credited, in a separate Account under the Plan with an amount calculated to be the Matching Employer Contribution percentage that would have been credited to the Eligible Executive's 401(k) Plan account if five percent (5%) of such deferrals under DCAP III had been made under the 401(k) Plan. For these purposes, Matching Employer Contribution shall have the meaning defined in the 401(k) Plan.

D. AMOUNTS OF DEFERRAL

1. Minimum Deferral. The minimum amount that an Eligible Executive may defer under this Plan for any Year is \$5,000 of base salary, or \$5,000 of any annual bonus award(s) and \$5,000 of any Long-Term Incentive Plan award. The minimum amount of compensation that an Eligible Director may defer for any Year is \$5,000.

2. Maximum Deferral for Eligible Executives. The maximum amount of compensation which an Eligible Executive may defer under this Plan for any Year is (i) 75% of the amount of such Eligible Executive's base salary for such Year, and (ii) 90% of any annual bonus award and/or any Long-Term Incentive Plan award determined and payable to him or her in such Year. Additionally, the Administrator may change the maximum amount (expressed as a percentage limit) of base salary that Eligible Executives as a group may defer under the Plan for any Year. Notwithstanding these limits, deferrals may be reduced by the Company as permitted under Treasury Regulation section 1.409A-3(j)(4).

3. Maximum Deferral for Eligible Directors. The maximum amount of compensation which an Eligible Director may defer under this Plan for any Year is the amount of any annual retainer [(other than the portion of the annual retainer subject to Mandatory Deferral under and as defined in the 1997 Non-Employee Directors' Equity Compensation and Deferral Plan)] and other fees from McKesson earned by him or her in any such Year.

E. PAYMENT OF DEFERRED COMPENSATION

1. Book Account and Interest Credit. Compensation deferred by a Participant and any vested Discretionary Contributions under the Plan shall be credited to a separate bookkeeping account for such Participant (the “Account”). (Sub-Accounts may be established for each Year for which the Participant elects to defer compensation.) Interest or earnings shall be credited to each Account for each Year at a rate (i) determined by reference to the return choice(s) selected by the Participant from among the alternatives that are selected and made available by the Administrator from time to time (the “Investment Alternatives”), which alternatives will consist of all or a subset of the investment alternatives available under the 401(k) Plan from time to time, excluding the 401(k) Plan’s brokerage window or (ii) if no such Investment Alternative has been chosen, the default rate of 120% of the long-term applicable federal rate, compounding monthly, applicable for the end of the immediately preceding year ((i) or (ii) as applicable, the “Declared Rate”). Notwithstanding the foregoing, if a Change in Control occurs, for the two calendar years immediately following the year in which the Change in Control occurs, Participants shall continue to be able to select from among the Investment Alternatives, or other return choices, in each case, that are substantially similar to the Investment Alternatives in effect immediately prior to the Change in Control. Interest or earnings on each Account balance shall be compounded daily on each business day within the Year to yield the Declared Rate for the Year. In the case of installment payments as provided in Section E.3 below, interest shall be credited on all amounts remaining in a Participant’s Account until all amounts are paid out. Interest shall be credited to each Account as of the end of each business day.

2. Length of Deferral. An Eligible Executive or Eligible Director shall elect in writing, and file with the Administrator, at the same time as such Eligible Executive or Eligible Director makes any election to defer compensation, the period of deferral with respect to such election, subject to the minimum required period of deferral and the maximum permissible period of deferral. The minimum required period of deferral is five years after the end of the Year for which compensation is deferred. Notwithstanding the foregoing, the five-year minimum deferral period shall not apply to payments made as a result of death, Disability, Retirement, Separation from Service, a Change in Control or Unforeseeable Emergency. Payment must commence no later than the end of the maximum period of deferral, which is the January following the year in which the Eligible Executive reaches age 72 or, in the case of an Eligible Director, the January after McKesson’s annual meeting of stockholders next following the Eligible Director’s 75th birthday; provided, however, no payment shall be paid or commence which will cause an impermissible acceleration of such payment under Treasury Regulation section 1.409A-(3)(j).

3. Election of Form and Time of Payment. A Participant shall elect in writing, and file with the Administrator, at the same time as any election to defer compensation, a form and time of payment of benefits under this Plan from the following:

a. Form.

i. Payment of the amount credited to the Participant's Account in a single sum.

ii. Payment of amounts credited to the Participant's Account in any specified number of approximately equal annual installments (not in excess of ten). For purposes of this Plan, installment payments shall be treated as a single distribution under Section 409A of the Code.

b. Time.

i. The lump sum or first installment to be paid in the earlier of the first January or June that is at least six months following the Year of Participant's Retirement, Disability or death.

ii. Subject to Section E.2, the lump sum or first installment to be paid in January of the year designated by the Participant; provided, however, Participant shall elect a payment date, or payment commence date, which is no later than the end of the Maximum Period of Deferral and if Participant elects a distribution date which is subsequent to the Maximum Period of Deferral, the election as to the time of distribution shall be deemed void immediately prior to the time such election is irrevocable and distributions shall be made under paragraph i. above.

iii. Subject to Section E.2, the lump sum or first installment to be paid in two or more Januaries designated by the Participant following the Year of Participant's Retirement, Disability or death.

The Participant may elect a different time and/or form of distribution for Retirement, Disability or death.

c. Discretionary Contributions. If the Compensation Committee designates a Participant as eligible to receive a Discretionary Contribution, then the Participant may elect the time and form of payment with respect to such Discretionary Contribution prior to the first day of the calendar year in which the earlier of (i) the Discretionary Contribution is first credited (whether vested or unvested), or (ii) the Discretionary Contribution is earned, and otherwise in accordance with Section E.3.a and E.3.b. If a Participant does not or may not make an election with respect to the time and form of payment of a Discretionary Contribution, then such Discretionary Contribution will be distributed in the same time and form as provided in Participant's election for other deferred compensation under this Plan for the year in which the Discretionary Contribution was first credited (whether vested or unvested) to Participant's Account. In the absence of an applicable election, the Discretionary Contribution will be distributed in accordance with Section E.5.

4. Modification of Elections. Once such an election has been made, the Eligible Executive or Eligible Director may modify the time and/or form of distributions made under the Plan, provided that:

a. such alteration is made at least one year prior to the earliest date the Participant could have received distribution of the amounts credited to his or her Account under the earlier election, and

b. such alteration does not provide for the receipt of such amounts earlier than five years from the originally scheduled distribution date. A change to the time and form of a distribution may be modified or revoked until 12 months prior to the time a distribution is originally scheduled to be made, at which time such change shall become irrevocable. The last valid election accepted by the Administrator shall govern the payout; provided, however, if a modification under this Section E.4 is determined immediately prior to such modification becoming irrevocable to cause a payment date to be, or payment commence date begin, after later than the end of the Maximum Period of Deferral such modification shall be deemed to be revoked immediately prior to the time such modification become irrevocable and distributions shall be made as if Participant had not modified his or her election.

5. Default Form of Distribution. If no valid election is made with respect to Section E.3, then payment of the amount credited to the Participant's Account shall be made in a single sum to be paid in the earlier of the first January or June that is at least six months following the earlier of the Participant's Retirement, Disability or death.

6. Payments on Separation from Service. If a Participant Separates from Service for any reason other than Retirement, Disability or death, then, notwithstanding the election made by the Participant pursuant to Section E.3 above, the entire undistributed amount credited to his or her Account shall be paid in the form of a lump sum in the earlier of the first January or June that is at least six months following the date the Participant Separates from Service.

7. Delayed Distribution to Specified Employees. Notwithstanding any other provision of this Section E to the contrary, a distribution scheduled to be made upon Separation from Service to a Participant who is identified as a Specified Employee as of the date he or she Separates from Service shall not be paid within the time that is six months following the Participant's Separation from Service. Any payment that otherwise would have been made pursuant to this Section E during such six-month period, if any, shall be made in the seventh month following the month in which Participant's Separation from Service occurs. The identification of a Participant as a Specified Employee shall be made by the Administrator in its sole discretion in accordance with Section K.27 of the Plan and Sections 416(i) and 409A of the Code and the regulations promulgated thereunder.

8. Payments on Death. An election made as to the payment of the Participant's Account pursuant to Participant's death shall be paid to his or her Beneficiary if such Participant has not yet received or begun receiving a distribution under the Plan. If, however, a Participant is in-pay status at the time of death, distribution of the Account, or portion of the Account, that is in-pay shall continue to be distributed to the Beneficiary as Participant elected to receive such distribution. The Beneficiary shall have the right to elect a different time or form of payment of distributions made under the Plan.

9. Deminimis Cashout. Notwithstanding the Participant's election, the Administrator in its sole discretion may distribute an Account to a Participant or a Beneficiary in a single payment if the value of the Account, and any other plan or arrangement with respect to which deferrals of compensation are treated as having been deferred under a single nonqualified deferred compensation plan under Treasury Regulation section 1.409A-1(c)(2), is less than the Code Section 402(g)(1)(B) limit.

10. Designation of Beneficiary. A Participant may designate any person(s) or any entity as his or her Beneficiary. Designation shall be in writing and shall become effective only when filed with the Administrator. Such filing must occur before the Participant's death. A Participant may change the Beneficiary, from time to time, by filing a new written designation with the Administrator. If the Participant fails to effectively designate a Beneficiary in accordance with the Administrator's procedures or the person designated by the Participant is not living at the time the distribution is to be made, then the Participant's Beneficiary shall be the Participant's surviving spouse, if any, or, if there is no surviving spouse, the Participant's surviving children, if any, in equal shares, or if there are no surviving children, the Participant's estate.

11. Payments Due to an Unforeseeable Emergency. The Administrator may, in its sole discretion, cancel Participant's deferral election and direct payment to a Participant of all or of any portion of the Participant's Account balance, if necessary, notwithstanding an election under Section E.3 above, at any time that the Administrator determines that such Participant has suffered an Unforeseeable Emergency and requires action to be taken under this Section E.11.

12. Prohibition on Acceleration. Notwithstanding any other provision of the Plan to the contrary, no distribution will be made from the Plan that would constitute an impermissible acceleration of payment as defined in Section 409A(a)(3) of the Code and the regulations promulgated thereunder.

F. SOURCE OF PAYMENT

Amounts paid under this Plan shall be paid from the general funds of McKesson, and each Participant and his or her Beneficiaries shall be no more than unsecured general creditors of McKesson with no special or prior right to any assets of the Company for payment of any obligations hereunder. Nothing contained in this Plan shall be deemed to create a trust of any kind for the benefit of any Participant or Beneficiary, or create any fiduciary relationship between the Company and any Participant or Beneficiary with respect to any assets of the Company.

G. MISCELLANEOUS

1. Withholding. Each Participant and Beneficiary shall make appropriate arrangements with McKesson for the satisfaction of any federal, state or local income tax withholding requirements and Social Security or other employment tax requirements applicable to the payment of benefits under this Plan. If no other arrangements are made, McKesson may provide, at its discretion, for such withholding and tax payments as may be required.

2. No Assignment.

a. Other than as provided in Section G.2.b below, the benefits provided under this Plan may not be alienated, assigned, transferred, pledged or hypothecated by any person, at any time or to any person whatsoever. These benefits shall be exempt from the claims of creditors or other claimants and from all orders, decrees, levies, garnishments or executions to the fullest extent allowed by law.

b. If a court of competent jurisdiction determines pursuant to a judgment, order or approval of a marital settlement agreement that all or any portion of the benefits payable hereunder to a Participant constitute community property of the Participant and his or her spouse or former spouse (hereafter, the "Alternate Payee") or property which is otherwise subject to division by the Participant and the Alternate Payee, a division of such property shall not constitute a violation of Section G.2.a, and any portion of such property may be paid or set aside for payment to the Alternate Payee. The preceding sentence of this Section G.2.b, however, shall not create any additional rights and privileges for the Alternate Payee (or the Participant) not already provided under the Plan; in this regard, the Administrator shall have the right to refuse to recognize any judgment, order or approval of a marital settlement agreement that provides for any additional rights and privileges not already provided under the Plan, including without limitation, with respect to form and time of payment.

3. Applicable Law and Severability. The Plan hereby created shall be construed, administered and governed in all respects in accordance with ERISA and the laws of the State of Texas to the extent that the latter are not preempted by ERISA. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereunder shall continue to be effective.

H. ADMINISTRATION OF THE PLAN

1. In General. The Administrator of the Plan shall be the Company's Employee Benefits Management Committee. If any of the members of the Employee Benefits Management Committee is a Participant, any discretionary action taken as Administrator which directly affects such member of the Employee Benefits Management Committee as a Participant shall be specifically approved by the Compensation Committee; provided that the Administrator shall at all times have the authority to specify the Investment Alternatives from time to time. The Administrator shall have the authority and responsibility to interpret this Plan and shall adopt such rules and regulations for carrying out this Plan as it may deem necessary or appropriate. Decisions of the Administrator shall be final and binding on all parties who have or claim any interest in this Plan.

2. Elections and Notices. All elections and notices made under this Plan shall be filed with the Administrator at the time and in the manner specified by him or her. All elections to defer compensation under this Plan shall be irrevocable.

I. AMENDMENT OR TERMINATION OF THE PLAN

1. Amendment. The Compensation Committee may at any time amend this Plan; provided that the Administrator may also amend the Plan for any administrative or any other change that would be required under applicable law and that does not affect benefits under the Plan. Such action shall be prospective only and shall not adversely affect the rights of any Participant or Beneficiary to any benefit previously earned under this Plan. The foregoing notwithstanding, no amendment adopted following the occurrence of a Change in Control shall be effective if it (a) would reduce the Declared Rate for the balance of the calendar year in which the Change in Control occurs or for the two calendar years immediately following the year in which the Change in Control occurs to a rate lower than the Declared Rate as in effect on the day before the Change in Control occurred or (b) modify the provisions of (a) above.

2. Termination. The Board in its discretion may at any time terminate the Plan in accordance with Treasury Regulation section 1.409A-3(j)(4)(ix).

J. CLAIMS AND APPEALS

1. Informal Resolution of Questions. Any Participant or Beneficiary who has questions or concerns about his or her benefits under the Plan is encouraged to communicate with the Human Resources Department of McKesson. If this discussion does not give the Participant or Beneficiary satisfactory results, a formal claim for benefits may be made in accordance with the procedures of this Section J.

2. Formal Benefits Claim – Review by Executive Vice President, Chief Human Resources Officer. A Participant or Beneficiary may make a written request for review of any matter concerning his or her benefits under this Plan. The claim must be addressed to the Executive Vice President, Chief Human Resources Officer, McKesson Corporation, 6555 State Hwy 161, Irving, Texas, 75039. The Executive Vice President, Chief Human Resources Officer or his or her delegate (“CHRO”) shall decide the action to be taken with respect to any such request and may require additional information if necessary to process the request. The CHRO shall review the request and shall issue his or her decision, in writing, no later than 90 days after the date the request is received, unless the circumstances require an extension of time. If such an extension is required, written notice of the extension shall be furnished to the person making the request within the initial 90-day period, and the notice shall state the circumstances requiring the extension and the date by which the CHRO expects to reach a decision on the request. In no event shall the extension exceed a period of 90 days from the end of the initial period.

3. Notice of Denied Request. If the CHRO denies a request in whole or in part, he or she shall provide the person making the request with written notice of the denial within the period specified in Section J.2. The notice shall set forth the specific reason for the denial, reference to the specific Plan provisions upon which the denial is based, a description of any additional material or information necessary to perfect the request, an explanation of why such information is required, and an explanation of the Plan’s appeal procedures and the time limits applicable to such procedures, including a statement of the claimant’s right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

4. Appeal to CHRO.

a. A person whose request has been denied in whole or in part (or such person’s authorized representative) may file an appeal of the decision in writing with the CHRO within 60 days of receipt of the notification of denial. The appeal must be addressed to: Executive Vice President, Chief Human Resources Officer, McKesson Corporation, 6555 State Hwy 161, Irving, Texas, 75039. The CHRO, for good cause shown, may extend the period during which the appeal may be filed for another 60 days. The appellant and/or his or her authorized representative shall be permitted to submit written comments, documents, records and other information relating to the claim for benefits. Upon request and free of charge, the applicant should be provided reasonable access to and copies of, all documents, records or other information relevant to the appellant’s claim.

b. The CHRO’s review shall take into account all comments, documents, records and other information submitted by the appellant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The CHRO shall not be restricted in his or her review to those provisions of the Plan cited in the original denial of the claim.

c. The CHRO shall issue a written decision within a reasonable period of time but not later than 60 days after receipt of the appeal, unless special circumstances require an extension of time for processing, in which case the written decision shall be issued as soon as possible, but not later than 120 days after receipt of an appeal. If such an extension is required, written notice shall be furnished to the appellant within the initial 60-day period. This notice shall state the circumstances requiring the extension and the date by which the CHRO expects to reach a decision on the appeal.

d. If the decision on the appeal denies the claim in whole or in part written notice shall be furnished to the appellant. Such notice shall state the reason(s) for the denial, including references to specific Plan provisions upon which the denial was based. The notice shall state that the appellant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for benefits. The notice shall describe any voluntary appeal procedures offered by the Plan and the appellant's right to obtain the information about such procedures. The notice shall also include a statement of the appellant's right to bring an action under Section 502(a) of ERISA.

e. The decision of the CHRO on the appeal shall be final, conclusive and binding upon all persons and shall be given the maximum possible deference allowed by law.

5. **Exhaustion of Remedies**. No legal or equitable action for benefits under the Plan shall be brought unless and until the claimant has submitted a written claim for benefits in accordance with Section J.2, has been notified that the claim is denied in accordance with Section J.3, has filed a written request for a review of the claim in accordance with Section J.4, and has been notified in writing that the CHRO has affirmed the denial of the claim in accordance with Section J.4.

K. **DEFINITIONS**

For purposes of this Plan, the following terms shall have the meanings indicated:

1. “**401(k) Plan**” shall mean the McKesson Corporation 401(k) Retirement Savings Plan.
2. “**Account**” means the Account specified in Section E.1.
3. “**Administrator**” shall mean the person specified in Section H.
4. “**Beneficiary**” shall mean the person or entity described in Section E.10.
5. “**Board**” shall mean the Board of Directors of McKesson.

6. “**Change in Control**” shall mean the occurrence of any change in ownership of McKesson, change in effective control of McKesson, or change in the ownership of a substantial portion of the assets of McKesson, as defined in Treasury Regulation section 1.409A-3(i)(5), the regulations thereunder, and any other published interpretive authority, as issued or amended from time to time.

7. “**Code**” shall mean the Internal Revenue Code of 1986, as amended.

8. “**Company**” shall mean McKesson and any affiliate that would be considered a service recipient for purposes of Treasury Regulation section 1.409A-1(g).

9. “**Compensation Committee**” shall mean the Compensation Committee of the Board.

10. “**Declared Rate**” shall have the meaning described in Section E.1.

11. “**Disabled**” or “**Disability**” shall mean that an individual is determined by the Social Security Administration to be totally disabled.

12. “**Discretionary Contribution**” shall mean a contribution made to a Participant’s Account in the Compensation Committee’s discretion pursuant to Section C.3.

13. “**Eligible Director**” shall mean a member of the Board described by Section C.1.b.

14. “**Eligible Executive**” shall mean an employee of the Company selected as being eligible to participate in this Plan under Section C.1.a.

15. “**Employer**” shall mean McKesson and any other affiliate that would be considered a service recipient or employer for purposes of Treasury Regulation section 1.409A-1(h)(3).

16. “**ERISA**” shall mean the Employee Retirement Income Security Act of 1974, as amended.

17. “**Identification Date**” shall mean each December 31.

18. “**Maximum Period of Deferral**” shall mean the January following the year in which the Eligible Executive reaches age 72 or, in the case of an Eligible Director, the January after McKesson’s annual meeting of stockholders next following the Eligible Director’s 75th birthday.

19. “**McKesson**” shall mean McKesson Corporation, a Delaware corporation.

20. “**Participant**” shall be any executive of the Company or member of the Board for whom amounts are credited to an Account under this Plan. Upon the Participant’s death, the Participant’s Beneficiary shall be a Participant until all amounts are paid out of the Participant’s Account.

21. “**Plan**” shall mean the McKesson Corporation Deferred Compensation Administration Plan III (“DCAP III”).

22. “**Prior Plan**” shall mean the McKesson Corporation Deferred Compensation Administration Plan II (“DCAP II”).

23. “**Retirement**” shall mean Separation from Service after the date in which the Participant attains age 50 and has at least five Years of Service with the Company. Notwithstanding the foregoing, for purposes of this Plan, Retirement for an Eligible Director shall mean cessation of service as a member of the Board on or after the completion of at least six successive years as a member of the Board.

24. “**Retirement Plan**” shall mean the McKesson Corporation Retirement Plan.

25. “**Separation from Service**” or “**Separates from Service**” shall mean termination of employment with the Employer, except in the event of death or Disability, as provided under Treasury Regulation section 1.409A-1(h)(1)(ii). A Participant shall be deemed to have had a Separation from Service if the Participant’s service with the Employer is reduced to an annual rate that is equal to or less than twenty percent of the services rendered, on average, during the immediately preceding three years of service with the Employer (or if providing service to the Employer less than three years, such lesser period).

26. “**Service**” shall mean an Eligible Executive’s employment with the Company, commencing with the first day of such employment and ending on the day the Eligible Executive has a Separation from Service.

27. “**Specified Employee**” shall mean a Participant who, on an Identification Date, is:

a. An officer of the Company having annual compensation greater than the compensation limit in Section 416(i)(1)(A)(i) of the Code, provided that no more than fifty officers of the Company shall be determined to be Specified Employees as of any Identification Date;

b. A five percent owner of the Company; or

c. A one percent owner of the Company having annual compensation from the Company of more than \$150,000.

For purposes of determining whether a Participant is a Specified Employee, Treasury Regulation section 1.415(c)-2(d) shall be used to calculate compensation. If a Participant is identified as a Specified Employee on an Identification Date, then such Participant shall be considered a Specified Employee for purposes of the Plan during the period beginning on the first April 1 following the Identification Date and ending on the next March 31.

28. “**Unforeseeable Emergency**” shall have the same meaning as provided in Section 409A(a)(2)(B)(ii) of the Code.

29. “**Year**” shall mean the calendar year.

30. “**Year of Service**” shall mean a period of 365 aggregate days of Service (including holidays, weekends and other non-working days).

L. SUCCESSORS

This Plan shall be binding on McKesson and any successors or assigns thereto.

M. EXECUTION

To record the adoption of the amended and restated Plan by the Compensation Committee of the Board of Directors of McKesson Corporation at a meeting held on July 30, 2019, effective as of such date.

McKESSON CORPORATION

By: /s/ Jorge L. Figueredo

Name: Jorge L. Figueredo

Title: Executive Vice President, Human Resources

**McKESSON CORPORATION
Supplemental Retirement Savings Plan**

Amended and Restated July 30, 2019

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APPENDIX A EXAMPLE OF DEFERRALS UNDER PLAN

A-1

McKESSON CORPORATION
Supplemental Retirement Savings Plan
Amended and Restated July 30, 2019

A. PURPOSE

1. This Plan is established to allow certain executives of the Company to elect to defer compensation which cannot be deferred under the McKesson Corporation 401(k) Retirement Savings Plan (“401(k) Plan”) because of limitations of tax laws and to provide for a Monthly Company Match and an Additional Company Match on those deferrals at a rate equivalent to the 401(k) Plan’s “Matching Employer Contribution” and “Additional Matching Employer Contribution.”
2. This Plan is the successor plan to the Supplemental PSIP, as in effect on December 31, 2004 (the “Prior Plan”). Effective December 31, 2004, the Prior Plan was frozen and no new deferrals shall be made to it nor shall any matching contributions be allocated or vested under it after such date; provided, however, that any deferrals that were made to the Prior Plan or matching contributions that were allocated and vested under the Prior Plan before January 1, 2005 shall continue to be governed by the terms and conditions of the Prior Plan as in effect on December 31, 2004.
3. Any deferrals made to or matching contributions that were allocated or vested under the Prior Plan after December 31, 2004 are deemed to have been made or allocated under this Plan and all such deferrals and matching contributions shall be governed by the terms and conditions of this Plan as it may be amended from time to time.
4. This Plan is intended to comply with the requirements of Code Section 409A.
5. Capitalized terms used in this Plan shall have the meaning set forth in Section M hereof.

B. ERISA PLAN

This Plan is an unfunded deferred compensation program for a select group of management or highly compensated employees of the Company. The Plan, therefore, is covered by Title I of ERISA except that it is exempt from Parts 2, 3, and 4 of Title I of ERISA.

C. PARTICIPATION

1. Eligibility to Participate. The Administrator may, at his or her discretion, and at any time, and from time to time, select executives of an Employer who may elect to participate in this Plan ("Eligible Executives"). Selection of Eligible Executives may be evidenced by the terms of the executive's employment contract with the Company, or by inclusion among the persons specified in writing by the Administrator. The Administrator may, at its discretion, and at any time, and from time to time, provide that executives previously designated as Eligible Executives are no longer Eligible Executives. If the Administrator determines that an executive is no longer an Eligible Executive, he or she shall remain a Participant in the Plan until all amounts credited to his or her Account prior to such determination are paid out under the terms of the Plan (or until death, if earlier).
2. Election to Participate by Eligible Executives and Deferral Election. Each Eligible Executive may become a Participant in the Plan by electing to defer Compensation, or by the Company crediting a Discretionary Contribution to an Account on behalf of an Eligible Executive, in accordance with the terms of this Plan. An election to defer shall be in writing and shall be made at the time and in the form specified by the Administrator. On electing to defer Compensation (or by accepting a Discretionary Contribution credited by the Company to an Account on behalf of an Eligible Executive) under this Plan, the Eligible Executive shall be deemed to accept all other terms and conditions of this Plan.
 - (a) Timing of Elections. All elections to defer amounts under this Plan shall be irrevocable and shall be made pursuant to an election executed and filed with the Administrator before the amounts so deferred are earned. An election to defer Compensation shall be made prior to the beginning of the Plan Year in which it is earned and shall become irrevocable on the December 31 preceding such Plan Year.
 - (b) Newly Eligible Executive Elections. However, if an executive becomes an Eligible Executive after the beginning of a Plan Year, he or she may make an election to defer Compensation for that Plan Year no later than 30 days after the date he or she becomes an Eligible Executive, which election shall become irrevocable at the end of the 30-day period or an earlier date that the Administrator prescribed; provided, however, such election shall apply only to Compensation earned after the election becomes irrevocable or at such later time the Administrator prescribes.

- (c) **Modification of Elections.** An election filed in accordance with the provisions of the preceding paragraphs (a) and (b) shall be applicable to the Plan Year with respect to which it is made and shall continue for subsequent Plan Years until suspended or modified in a writing delivered by the Participant to the Administrator, as described in this paragraph (c). An election to suspend further deferrals or to increase or decrease the amount deferred under the Plan shall apply only to Compensation otherwise payable to the Participant after the end of the Plan Year in which the election is delivered to the Administrator and such election shall become irrevocable on the date that the Administrator prescribes, but in no event later than December 31 of the Plan Year in which such election is made.

3. **Relation to Other Plans.**

- (a) **Other Plans.** An Eligible Executive may participate in this Plan and may also participate in DCAP III or any successor plan. No amounts may be deferred under this Plan which have been deferred under any other plan of the Company and the Administrator may modify or render invalid a Participant's election prior to such election becoming irrevocable to accommodate deferrals made under other plan(s).
- (b) **Effect on Other Plans.** For all other benefit programs maintained by the Company, amounts deferred by an Eligible Executive under this Plan may result in a reduction of benefits payable under the Social Security Act, the McKesson Corporation Retirement Plan, the 401(k) Plan and the McKesson Corporation Executive Benefit Retirement Plan.

D. AMOUNTS OF DEFERRAL

1. **401(k) Plan Supplement.** This Plan allows an Eligible Executive to defer Compensation, and receive credit for a Monthly Company Match and Additional Company Match, to the extent that such deferrals (and corresponding Monthly Company Match and Additional Company Match) cannot be made under the 401(k) Plan because of the limitations in Code Section 401(a)(17) (limiting the amount of annual compensation to be taken into account under the 401(k) Plan to \$280,000 in 2019, as adjusted from time to time under the Code).
2. **Amount of Deferrals.** As illustrated in Appendix A, an Eligible Executive may elect to defer under this Plan up to an amount equal to (a) minus (b), where:
- (a) is the maximum rate of deferral for "Basic Contributions" under the 401(k) Plan multiplied by the Eligible Executive's Compensation, and
- (b) is the maximum amount that the Eligible Executive is able to defer as a "Basic Contribution" under the 401(k) Plan, taking into account the limits of Code Section 401(a)(17).

E. COMPANY CONTRIBUTIONS

1. Company Match.

(a) Eligibility.

- (i) Monthly Company Match. A Monthly Company Match shall be credited, with respect to each calendar month, to the Accounts of Eligible Executives who actually defer Compensation under this Plan for such calendar month.
- (ii) Additional Company Match. An Additional Company Match may be credited, with respect to each 401(k) Plan plan year, to the Accounts of Eligible Executives who actually defer Compensation under this Plan.

(b) Amount of Match.

- (i) Monthly Company Match. The amount of the Monthly Company Match to be credited to the Account of an Eligible Executive for any calendar month shall be a percentage of the Eligible Executive's deferrals under this Plan for the calendar month. This percentage shall be the same percentage as the "Matching Employer Contribution" (as defined in the 401(k) Plan) percentage that would have been credited to the Eligible Executive's 401(k) Plan account if the Eligible Executive's deferrals under this Plan had been made under the 401(k) Plan. In determining this amount, the Administrator shall take into account the different "Matching Employer Contribution" rates that may apply.
- (ii) Additional Company Match. The amount of the Additional Company Match to be credited to the Account of an Eligible Executive for any 401(k) Plan plan year shall be a percentage of the Eligible Executive's deferrals under this Plan for the 401(k) Plan plan year. This percentage shall be the same percentage as the "Additional Matching Employer Contribution" (as defined in the 401(k) Plan) percentage that would have been credited to the Eligible Executive's 401(k) Plan account if the Eligible Executive's deferrals under this Plan had been made under the 401(k) Plan. In determining this amount, the Administrator shall take into account the different "Additional Matching Employer Contribution" rates that may apply.

2. **Discretionary Contribution.** The Compensation Committee shall have the sole discretion to determine an amount credited to an Eligible Executive's Account as a "Discretionary Contribution." A Discretionary Contribution may be subject to such terms or conditions, including but not limited to vesting, as the Compensation Committee may specify in its discretion at the time the Discretionary Contribution is credited to a Participant's Account. Except with respect to the Company's executive officers, the Compensation Committee may delegate its authority under this Section E.2 to the Administrator.

F. PAYMENT OF DEFERRED COMPENSATION

1. **Book Account and Interest Credit.** Both Compensation deferred by a Participant and any Monthly Company Match, Additional Company Match or vested Discretionary Contribution for the benefit of a Participant shall be credited to a separate bookkeeping account maintained for such Participant (the "Account"). Interest or earnings shall be credited to each Account for each Plan Year at a rate (i) determined by reference to the return choice(s) selected by the Participant from among the alternatives that are selected and made available by the Plan Administrator from time to time (the "Investment Alternatives"), which alternatives will consist of all or a subset of the investment alternatives available under the 401(k) Plan from time to time, excluding the 401(k) Plan's brokerage window or (ii) if no such Investment Alternative has been chosen, the default rate of 120% of the long-term applicable federal rate, compounding monthly, applicable for the end of the immediately preceding year ((i) or (ii) as applicable, the "Declared Rate"). Notwithstanding the foregoing, if a Change in Control occurs, for the two calendar years immediately following the year in which the Change in Control occurs, Participants shall continue to be able to select from among the Investment Alternatives, or other return choices, in each case, that are substantially similar to the Investment Alternatives in effect immediately prior to the Change in Control. Interest or earnings on each Account balance shall be compounded daily on each business day within the Plan Year to yield the Declared Rate for the Plan Year. Interest or earnings shall be credited to each Account as of the end of each business day.
2. **Vesting.**
 - (a) A Participant shall be 100% vested at all times in the value of the Participant's elective deferrals and earnings thereon credited to the Participant's Account.

- (b) A Participant shall vest in the amounts of Monthly Company Match and the Additional Company Match and earnings thereon credited to the Participant's Account at the same time and in the same manner as if these amounts were "Matching Employer Contributions" or "Additional Matching Employer Contributions" under the 401(k) Plan and as if the rules of the 401(k) Plan concerning vesting applied to such amounts. For this purpose, any Monthly Company Match shall be deemed to be credited to an Account as of the last day of the calendar month with respect to which such Monthly Company Match is determined and any Additional Company Match shall be deemed to be credited to an Account as of the March 31 with respect to which such Company Match is determined. Any amounts that would be forfeited under the rules of the 401(k) Plan applicable to "Matching Employer Contributions" or "Additional Matching Employer Contributions" under the 401(k) Plan shall be forfeited hereunder. Any forfeiture under this Plan of any portion of the Monthly Company Match or the Additional Company Match credited to a Participant's Account shall eliminate any obligation of the Company to pay the forfeited amount hereunder.
 - (c) Unless the Compensation Committee determines otherwise, a Participant's Discretionary Contribution will be forfeited at the time of Participant's Separation from Service for any reason, if such Participant has not satisfied the applicable terms and conditions, including vesting requirements, that the Compensation Committee imposed on the Discretionary Contribution under Section E.2. Any forfeiture under this Plan of any portion of the Discretionary Contribution credited to a Participant's Account shall eliminate any obligation of the Company to pay the forfeited amount hereunder.
3. Election of Methods of Payment. A Participant shall elect in writing, and file with the Administrator, a method of payment of benefits under this Plan from the following methods based upon the nature of the Payment Event. This election must be made no later than the later of (i) December 31, 2007 or (ii) 30 days after the date the Participant first becomes an Eligible Executive.

- (a) Retirement or Disability. If the Payment Event is due to the Participant's Retirement or Disability, the Participant may choose one of the following payment methods:
- (i) Payment of the vested amounts credited to the Participant's Account in any specified number of approximately equal annual installments, not in excess of the number of whole years remaining of the Participant's life expectancy, determined as of his or her Retirement or Disability and based upon the mortality tables then in use under the McKesson Corporation Retirement Plan, the first installment to be paid at a designated interval following the Payment Event. For purposes of the Plan, installment payments shall be treated as a single distribution under Code Section 409A.
 - (ii) Payment of the vested amounts credited to the Participant's Account in a single lump sum upon the occurrence of the Retirement or Disability.
 - (iii) If a Participant does not make any election with respect to the payment of the Participant's Account, then such benefit shall be payable in a lump sum upon the occurrence of Participant's Retirement or Disability, whichever is applicable.

Payment under this paragraph (a) pursuant to Participant's Retirement, is subject to Section 5.

- (b) Death. Each Participant shall make an election of the manner in which any amount remaining in the Participant's Account at the time of the Participant's death shall be paid to his or her Beneficiary if such Participant has not yet received or begun receiving a distribution under the Plan. At the election of the Participant, benefits shall be paid in a lump sum or in up to ten annual installments; provided, however, if a Participant is in-pay status at the time of death, distribution of the Account, or portion of the Account, that is in-pay shall continue to be distributed to the Beneficiary as Participant elected to receive such distribution. A Beneficiary may not elect to accelerate, change the form of the payments pursuant to the Participant's election, or further defer the payment of the Participant's Account as described in Section F.4.
- (c) Separation from Service Not Due to Retirement or Death. If the Payment Event occurs as a result of the Participant's Separation from Service, and such separation is not due to the Participant's death or Retirement, payment of the vested amounts credited to the Participant's Account shall be made in a single lump sum upon the occurrence of the Participant's Separation from Service, subject to Section 5.

(If any Monthly Company Match or Additional Company Match is payable under Section E hereunder, that amount or first installment amount, whichever is applicable, may be paid separately and at a later date as provided in such section but not later than the end of the calendar year in which the Monthly Company Match or Additional Company Match is credited to the Participant's Account.)

4. **Subsequent Change in Form of Payment.** Once an election is made as to the form of payment upon a Payment Event, a Participant may alter the form of payment of amounts deferred under the Plan by a writing filed with the Administrator; provided that such alteration is made at least one year prior to the earliest Payment Event and does not provide for the receipt of such amounts earlier than five years from the previously scheduled Payment Event. A change to the form of a distribution may be modified or revoked until one year prior to the time a distribution is originally scheduled to be made, at which time such change shall become irrevocable. The last valid election accepted by the Administrator shall govern the payout. A change to the form of distribution may be modified or revoked until 12 months prior to the earliest scheduled Payment Event, at which time any such modification or revocation shall become irrevocable. The last valid election accepted by the Administrator shall govern the form of payment.
5. **Deminimis Cashout.** Notwithstanding the Participant's election, the Administrator in its sole discretion may distribute an Account to a Participant or a Beneficiary in a single payment if the value of the Account, and any other plan or arrangement with respect to which deferrals of compensation are treated as having been deferred under a single nonqualified deferred compensation plan under Treasury Regulation section 1.409A-1(c)(2), is less than the Code Section 402(g)(1)(B) limit.
6. **Special Distribution Election on or before December 31, 2006.** Participants who are identified by the Compensation Committee, in its sole discretion, may make a special distribution election to receive a distribution of their Account in calendar year 2007 or later; provided that the distribution election is made at least twelve months in advance of the newly elected distribution date (and the previously scheduled distribution date, if any) and the election is made no later than December 31, 2006. An election made pursuant to this Section F.6 shall be subject to any special administrative rules imposed by the Compensation Committee including rules intended to comply with Code Section 409A. No election under this Section F.6 shall (i) change the payment date of any distribution otherwise scheduled to be paid in 2006 or cause a payment to be paid in 2006, or (ii) be permitted after December 31, 2006.

7. **Date Payment Occurs**. Payment shall be made or commence not later than ninety (90) days following the date the earliest Payment Event occurs. Notwithstanding the foregoing, a distribution scheduled to be made upon Separation from Service to a Participant who is identified as a Specified Employee as of the date he or she Separates from Service shall be delayed for a minimum of six months following the Participant's Separation from Service. Any payment that otherwise would have been made pursuant to this Section F during such six-month period, if any, shall be paid on the first day of the seventh month following the Participant's Separation from Service. The identification of a Participant as a Specified Employee shall be made by the Administrator in his or her sole discretion in accordance with Section M.28 of the Plan and Code Sections 416(i) and 409A and the regulations promulgated thereunder.
8. **Prohibition on Acceleration**. Notwithstanding any other provision of the Plan to the contrary, no distribution will be made from the Plan that would constitute an impermissible acceleration of payment as defined in Code Section 409A(a)(3) and the regulations promulgated thereunder.

G. BENEFICIARY DESIGNATION

A Participant may designate any person or entity as his or her Beneficiary, but may not designate more than one person or any person that is not a natural person without the approval of the Administrator. Designation shall be in writing and shall become effective only when filed with McKesson. Such filing must occur before the Participant's death. A Participant may change the Beneficiary, from time to time, by filing a completed beneficiary designation with McKesson in the manner prescribed by McKesson in its sole discretion. If the Participant fails to effectively designate a Beneficiary in accordance with the Administrator's procedures or the person designated by the Participant is not living at the time the distribution is to be made, then his or her Beneficiary shall be his or her beneficiary under the 401(k) Plan.

H. SOURCE OF PAYMENT

Amounts paid under this Plan shall be paid from the general funds of McKesson, and each Participant and his or her Beneficiaries shall be no more than unsecured general creditors of McKesson with no special or prior right to any assets of the Company for payment of any obligations hereunder. Nothing contained in this Plan shall be deemed to create a trust of any kind for the benefit of any Participant or Beneficiary or create any fiduciary relationship between an Employer and any Participant or Beneficiary with respect to any assets of the Company.

I. MISCELLANEOUS

1. **Withholding.** Each Participant and Beneficiary shall make appropriate arrangements with McKesson for the satisfaction of any federal, state, or local income tax withholding requirements and Social Security or other employment tax requirements applicable to the payment of benefits under this Plan. If no other arrangements are made, McKesson may provide, at its discretion, for such withholding and tax payments as may be required.
2. **No Assignment.** Except as otherwise provided in this Section I.2 or by applicable law, the benefits provided under this Plan may not be alienated, assigned, transferred, pledged, or hypothecated by any person, at any time. These benefits shall be exempt from the claims of creditors or other claimants and from all orders, decrees, levies, garnishments or executions.

If a court of competent jurisdiction determines pursuant to a judgment, order or approval of a marital settlement agreement that all or any portion of the benefits payable hereunder to a Participant constitute community property of the Participant and his or her spouse or former spouse (hereafter, the "Alternate Payee") or property which is otherwise subject to division by the Participant and the Alternative Payee, a division of such property shall not constitute a violation of this Section I.2, and any portion of such property may be paid or set aside for payment to the Alternate Payee. The preceding sentence, however, shall not create any additional rights and privileges for the Alternate Payee (or the Participant) not already provided under the Plan; in this regard, the Administrator shall have the right to refuse to recognize any judgment, order or approval of a martial settlement agreement that provides for any additional rights and privileges already not already provided under the Plan, including without limitation with respect to form and time of payment.

3. **Applicable Law; Severability.** The Plan hereby created shall be construed, administered, and governed in all respects in accordance with ERISA and the laws of the State of Texas to the extent that the latter are not preempted by ERISA. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereunder shall continue to be effective.
4. **No Right to Continued Employment, Etc.** Neither the establishment or maintenance of the Plan nor the crediting of any amount to any Participant's Account, nor the designation of an executive as an Eligible Executive, shall confer upon any individual any right to be continued as an employee of an Employer or shall affect the right of an Employer to terminate any executive's employment or change any terms of any executive's employment at any time.

J. ADMINISTRATION OF THE PLAN

1. In General. The Plan Administrator shall be the Company's Employee Benefits Management Committee. If any of the members of the Employee Benefits Management Committee is a Participant, any discretionary action taken as Plan Administrator which directly affects such member of the Employee Benefits Management Committee as a Participant shall be specifically approved by the Compensation Committee; provided that the Plan Administrator shall at all times have the authority to specify the Investment Alternatives from time to time. The Plan Administrator shall have the authority and responsibility to interpret the Plan and shall adopt such rules and regulations for carrying out the Plan as it may deem necessary or appropriate. Decisions of the Plan Administrator or Compensation Committee shall be final and binding on all parties who have or claim any interest in the Plan. The Plan Administrator or Compensation Committee shall have the authority to delegate its authority under the Plan to an officer or group of officers of McKesson.
2. Elections and Notices. All elections and notices made under this Plan shall be in writing and filed with the Administrator at the time and in the manner specified by him or her.

K. AMENDMENT OR TERMINATION OF THE PLAN

1. Amendment. The Compensation Committee may at any time, and from time to time, amend the Plan; provided that the Plan Administrator may also amend the Plan for any administrative or any other change that would be required under applicable law and that does not affect benefits under the Plan. Unless otherwise specified, such action shall be prospective only and shall not adversely affect the rights of any Participant or Beneficiary to any benefit previously earned under the Plan.
2. Termination. The Board in its discretion may at any time terminate the Plan in accordance with Treasury Regulation section 1.409A-3(j)(4)(ix).

L. CLAIMS AND APPEALS

1. Informal Resolution of Questions. Any Participant or Beneficiary who has questions or concerns about his or her benefits under the Plan is encouraged to communicate with the Human Resources Department of McKesson. If this discussion does not give the Participant or Beneficiary satisfactory results, a formal claim for benefits may be made in accordance with the procedures of this Section L.

2. Formal Benefits Claim – Review by Executive Vice President, Chief Human Resources Officer. A Participant or Beneficiary may make a written request for review of any matter concerning his or her benefits under this Plan. The claim must be addressed to the Executive Vice President, Chief Human Resources Officer, McKesson Corporation, 6555 State Hwy 161, Irving, Texas, 75039. The Executive Vice President, Chief Human Resources Officer or his or her delegate (“CHRO”) shall decide the action to be taken with respect to any such request and may require additional information if necessary to process the request. The CHRO shall review the request and shall issue his or her decision, in writing, no later than 90 days after the date the request is received, unless the circumstances require an extension of time. If such an extension is required, written notice of the extension shall be furnished to the person making the request within the initial 90-day period, and the notice shall state the circumstances requiring the extension and the date by which the CHRO expects to reach a decision on the request. In no event shall the extension exceed a period of 90 days from the end of the initial period.
3. Notice of Denied Request. If the CHRO denies a request in whole or in part, he or she shall provide the person making the request with written notice of the denial within the period specified in Section L.2. The notice shall set forth the specific reason for the denial, reference to the specific Plan provisions upon which the denial is based, a description of any additional material or information necessary to perfect the request, an explanation of why such information is required, and an explanation of the Plan's appeal procedures and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.
4. Appeal to CHRO.
 - (a) A person whose request has been denied in whole or in part (or such person's authorized representative) may file an appeal of the decision in writing with the CHRO within 60 days of receipt of the notification of denial. The appeal must be addressed to: Executive Vice President, Chief Human Resources Officer, McKesson Corporation, 6555 State Hwy 161, Irving, Texas, 75039. The CHRO, for good cause shown, may extend the period during which the appeal may be filed for another 60 days. The appellant and/or his or her authorized representative shall be permitted to submit written comments, documents, records and other information relating to the claim for benefits. Upon request and free of charge, the applicant should be provided reasonable access to and copies of, all documents, records or other information relevant to the appellant's claim.

- (b) The CHRO's review shall take into account all comments, documents, records and other information submitted by the appellant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The CHRO shall not be restricted in his or her review to those provisions of the Plan cited in the original denial of the claim.
 - (c) The CHRO shall issue a written decision within a reasonable period of time but not later than 60 days after receipt of the appeal, unless special circumstances require an extension of time for processing, in which case the written decision shall be issued as soon as possible, but not later than 120 days after receipt of an appeal. If such an extension is required, written notice shall be furnished to the appellant within the initial 60-day period. This notice shall state the circumstances requiring the extension and the date by which the CHRO expects to reach a decision on the appeal.
 - (d) If the decision on the appeal denies the claim in whole or in part, written notice shall be furnished to the appellant. Such notice shall state the reason(s) for the denial, including references to specific Plan provisions upon which the denial was based. The notice shall state that the appellant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for benefits. The notice shall describe any voluntary appeal procedures offered by the Plan and the appellant's right to obtain the information about such procedures. The notice shall also include a statement of the appellant's right to bring an action under Section 502(a) of ERISA.
 - (e) The decision of the CHRO on the appeal shall be final, conclusive and binding upon all persons and shall be given the maximum possible deference allowed by law.
5. **Exhaustion of Remedies**. No legal or equitable action for benefits under the Plan shall be brought unless and until the claimant has submitted a written claim for benefits in accordance with Section L.2, has been notified that the claim is denied in accordance with Section L.3, has filed a written request for a review of the claim in accordance with Section L.4, and has been notified in writing that the CHRO has affirmed the denial of the claim in accordance with Section L.4.

M. DEFINITIONS

For purposes of the Plan, the following terms shall have the meanings indicated:

1. “401(k) Plan” shall mean the McKesson Corporation 401(k) Retirement Savings Plan.
2. “Account” shall mean the “Account” specified in Section F.1.

3. “Additional Company Match” shall mean, with respect to any Plan Year, the amount credited to the Account of an Eligible Executive in accordance with Section E.1(a)(ii).
4. “Administrator” shall mean the person specified in Section J.1.
5. “Beneficiary” shall mean the person or entity described by Section G.
6. “Board” shall mean the Board of Directors of McKesson.
7. “Code” shall mean the Internal Revenue Code of 1986, as amended.
8. “Company” shall mean McKesson and any affiliate that would be considered a service recipient for purposes of Treasury Regulation section 1.409A-1(g).
9. “Compensation” shall mean “Compensation” as defined in Section 15.17 of the 401(k) Plan; provided, however, that Compensation for purposes of this Plan shall be determined without regard to the limit of Code Section 401(a)(17).
10. “Compensation Committee” shall mean the Compensation Committee of the Board.
11. “DCAP III” shall mean the McKesson Corporation Deferred Compensation Administration Plan III and predecessor or successor plans, if applicable.
12. “Disability” shall mean that an individual is determined to be totally disabled by the Social Security Administration.
13. “Discretionary Contribution” shall mean a Company contribution to a Participant’s Account made in the Compensation Committee’s discretion pursuant to Section E.2.
14. “Eligible Executive” shall mean an employee of the Employer, or its affiliate or subsidiary, who is eligible to participate in this Plan under Section C.
15. “Employer” shall mean McKesson and any other affiliate that would be considered a service recipient or employer for purposes of Treasury Regulation section 1.409A-1(h)(3).
16. “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended.
17. “Identification Date” shall mean each December 31.
18. “McKesson” shall mean McKesson Corporation, a Delaware corporation.

19. “Monthly Company Match” shall mean, with respect to a calendar month, the amount credited to the Account of an Eligible Executive in accordance with Section E.1(a)(i).
20. “Participant” shall be any Eligible Executive or former Eligible Executive for whom amounts are credited to an Account under this Plan. Upon a Participant’s death his or her Beneficiary shall be a Participant until all amounts are paid out of the decedent-Participant’s Account.
21. “Payment Event” shall mean the earliest of the following: Retirement, death, Separation from Service other than due to Retirement or death, or Disability.
22. “Plan” shall mean the McKesson Corporation Supplemental Retirement Savings Plan.
23. “Plan Year” shall mean the calendar year.
24. “Prior Plan” shall mean the McKesson Corporation Supplemental PSIP.
25. “Retirement” shall mean Separation from Service from the Employer after the date on which the Participant has attained age 50 and has at least five Years of Service.
26. “Separation from Service” shall mean termination of employment with the Employer, except in the event of death or Disability, as provided under Treasury Regulation section 1.409A-1(h)(1)(ii). A Participant shall be deemed to have had a Separation from Service if the Participant’s service with the Employer is reduced to an annual rate that is equal to or less than twenty percent of the services rendered, on average, during the immediately preceding three years of service with the Employer (or if providing service to the Employer less than three years, such lesser period).
27. “Service” shall mean an Eligible Executive’s employment with the Company, commencing with the first day of such employment and ending on the day the Eligible Executive has a Separation from Service.
28. “Specified Employee” shall mean a Participant who, on an Identification Date, is:
 - (a) An officer of the Company having annual compensation greater than the compensation limit in Section 416(i)(1)(A)(i) of the Code, provided that no more than fifty officers of the Company shall be determined to be Specified Employees as of any Identification Date;
 - (b) A five percent owner of the Company; or
 - (c) A one percent owner of the Company having annual compensation from the Company of more than \$150,000.

For purposes of determining whether a Participant is a Specified Employee, Treasury Regulation section 1.415(c)-2(d) shall be used to calculate compensation. If a Participant is identified as a Specified Employee on an Identification Date, then such Participant shall be considered a Specified Employee for purposes of the Plan during the period beginning on the first April 1 following the Identification Date and ending on the next March 31.

29. “Year of Service” shall mean a period of 365 aggregate days of Service (including holidays, weekends and other non-working days).

N. SUCCESSORS

This Plan shall be binding on the Company and any successors or assigns thereto.

O. EXECUTION

To record the adoption of the amended and restated Plan by the Compensation Committee of the Board of Directors of McKesson Corporation at a meeting held on July [●], 2019, effective as of such date.

McKESSON CORPORATION

By: /s/ Jorge L. Figueredo

Name: Jorge L. Figueredo

Title: Executive Vice President, Human Resources

APPENDIX A

EXAMPLE OF DEFERRALS UNDER PLAN

The following example illustrates the extent to which a Participant could make deferrals under this Plan. The example assumes that the applicable compensation limit under Code Section 401(a)(17) is \$280,000.

E's Compensation is \$400,000. E elects to make Basic Contributions under the 401(k) Plan at the rate of 5% of his Compensation. Because Code Section 401(a)(17) limits the amount of E's compensation which may be considered by the 401(k) Plan to \$280,000 (for 2019), E's Basic Contributions for the year are limited to \$14,000 (5% of \$280,000). Accordingly, E may defer \$6,000 (5% of his Compensation in excess of \$280,000) into this Plan. This deferral will then be eligible for a Monthly Company Match and an Additional Company Match based on the 401(k) Plan's "Matching Employer Contribution" and "Additional Matching Employer Contribution" for the relevant 401(k) Plan calendar months and plan year.

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Brian S. Tyler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ Brian S. Tyler

Brian S. Tyler

Chief Executive Officer

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Britt J. Vitalone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of McKesson Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of McKesson Corporation (the “Company”) on Form 10-Q for the quarterly period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, in the capacities and on the dates indicated below, each hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian S. Tyler

Brian S. Tyler

Chief Executive Officer

October 30, 2019

/s/ Britt J. Vitalone

Britt J. Vitalone

Executive Vice President and Chief Financial Officer

October 30, 2019

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to McKesson Corporation and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.