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2018 Shareholder Resolution
McKesson
Request: Adopt GAAP Metrics for Executive Compensation
Lead Filer: AFL-CIO

BE IT RESOLVED: Shareholders of McKesson Corporation (the "Company") urge the Compensation Committee of the Board of Directors to adopt a policy that when using performance metrics to calculate senior executive compensation, the Company shall not adjust performance metrics that are calculated in accordance with generally accepted accounting principles (GAAP). The policy should be implemented in a way that does not violate any existing contractual obligation of the Company or the terms of any compensation or benefit plan.

SUPPORTING STATEMENT:

As shareholders, we believe that senior executives should be held accountable for the performance of the Company. We are concerned that the use of adjusted GAAP financial metrics for senior executive compensation benchmarks can undermine the connection between pay and performance. In our view, if the Company chooses to use GAAP metrics to calculate performance then the calculation of the metric should follow GAAP rather than exclude certain costs. In our view, the use of adjusted GAAP metrics complicates investors' ability to compare senior executive compensation performance metrics across companies.

Our Company has used adjusted Earnings Per Share ("EPS") and adjusted Operating Cash Flow ("OCF") for its senior executive annual cash incentive goals. (2017 proxy statement, page 32) For example, the Company makes adjustments to GAAP EPS for costs including acquisitions, litigation and restructuring. For the fiscal year ended March 31, 2017, the Compensation Committee adjusted EPS downward from $23.28 to $13.10, a difference of 44 percent. However, in the prior three fiscal years, GAAP EPS was adjusted up by 28 percent in 2016, 49 percent in 2015 and 37 percent in 2014. (2017 proxy statement, page A-1) Likewise, the Compensation Committee adjusted OCF in 2017 by excluding a projected loss in cash flow from a joint venture. (2017 proxy statement, page 32).

More generally, the use of adjusted GAAP financial metrics for compensation determinations can lead to executive pay inflation. It is our belief that the use of adjusted GAAP financial metrics can tilt the scales to unduly help executives achieve their performance benchmarks. For example, approximately two-thirds of S&P 500 companies reported adjusted earnings exceeding their GAAP income in 2015. (Robert Pozen and S.P. Kothari, "Decoding CEO Pay," Harvard Business Review, August 2017, available at https://hbr.org/2017/07/decoding-ceo-pay)

For these reasons, we urge shareholders to vote FOR this resolution.