MCKESSON CORP
Form DEFA14A
June 26, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

þ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

McKesson Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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þ No fee required.

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2014 Annual Meeting of Stockholders
Meeting Date: July 30, 2014

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Executive Summary
We ask for your support at our 2014 Annual Meeting
Delivered Strong
Performance
Superior financial and operational performance in FY 2014

Revenues of $137.6B (13% increase from FY 2013)

Operating cash flow of $3.1B (24% increase from FY 2013)

Adjusted EPS of $8.35 (31% increase from FY 2013)
65% total shareholder return for the fiscal year ended March 31, 2014
Successfully executed on strategic and operational initiatives, including the $8B international acquisition of Celesio AG

Robust Governance Structure is Informed by Shareholder Feedback

We value shareholder feedback in the refinement of our compensation and governance practices
We implemented and expanded our Lead Independent Director role
We have committed to submit a proxy access by-law amendment to our shareholders in 2015

Continued Improvements to the Compensation Program

After our 2013 Annual Meeting, we engaged with over 50% of our shareholder base to understand their concerns
We made meaningful changes to our CEO s pension benefit, our executive pay magnitude and incentive plan design

Independent and Experienced Board

8 of 9 director nominees are independent
Our directors bring a balance of industry-specific and functional expertise
We are refreshing our Board

we added 1 new director in April 2014

and
expect
4 of our existing directors to retire over the next 3 years (including 1 at the 2014
Annual Meeting)

3
3

A History of Strong, Sustained Performance

Key Operational,
Financial and
Strategic
Achievements

Delivered significant, profitable growth on a top-line, bottom-line, and cash flow basis

Undertook strategic and operational actions focusing on areas where we have a leading position in order to improve our efficiency and enhance our ability to continually innovate

for our customers
Continued execution of disciplined strategic transactions, most recently the $8B acquisition of Celesio AG that expands McKesson s global platform
Balanced capital allocation policy with significant capital return to shareholders through both stock repurchases and dividends
Our Executive Team and experienced Board
have driven tremendous long-term value for our shareholders
1-Year TSR
3-Year TSR
TSR Since Mr.
Hammergren
Named CEO in
FY 2002
127%
88%
29%
195%
80%
25%
628%
129%
65%
0%
100%
200%
300%
400%
500%
600%
700%
McKesson
FY 2014 Compensation Peer Group
(Market Cap Weighted Average)
S&P 500 Health Care Index

Responsive to 2013 Vote and
Subsequent Shareholder Feedback
4
Ongoing Board
Committee
Refreshment
Clawback Policy
Enhanced Based
On Shareholder
Proposal
Compensation Committee implemented changes to address concerns regarding the scale

of the CEO s pension and the quantum of his pay
o
Reduced pension by $45M and set a fixed value for pension benefit
o
Eliminated volatility in pension due to changes in actuarial assumptions
Alton Irby, former Chair of the Compensation Committee, has stepped off that Committee
Jane
Shaw
joined
the
Compensation
Committee
and
assumed
the
role
of
Committee
Chair
New Director N. Anthony Coles joined the Compensation Committee in April 2014
Wayne Budd was appointed Chair of the Governance Committee
Policy previously required intentional misconduct or a material negative revision of financial
or operating measures to trigger a clawback
o
Intent
and Materiality
restrictions were eliminated, providing the Compensation
Committee greater flexibility in determining when to trigger a clawback
Policy now requires public disclosure of the results of any deliberations regarding whether
to recoup compensation, except where prevented by legal or privacy concerns
We
engaged
with
over
50%
of
our
shareholders
to
understand
areas
of
concern
and made meaningful changes in response to shareholder feedback
Substantive
Compensation
Program Changes
Made to CEO Pay

What s New: Executive Compensation
Evaluation of Our CEO s Pension Benefit
5
Some shareholders had concerns regarding the scale of our CEO s pension benefit
The CEO s pension benefit is provided under a legacy pension benefit plan and an employment agreement from 1999
The annual increase in pension accumulation is reflected in the Summary Compensation Table and can cause spikes in total disclosed compensation
Change reported in 2013 resulted from

adjustments to actuarial / interest rate assumptions, which were required in light of a long period of historically low interest rates

Representatives of the Board and management reached out to shareholders to understand their perspectives following the 2013 say on pay vote

The Compensation Committee evaluated possible changes to the CEO s pension in the context of important goals

Drive the right business outcomes for McKesson

Be in the best interests of all shareholders, and responsive to their concerns

Retain and motivate our CEO

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What s New: Executive Compensation
Changes to the CEO s Pension
Eliminated growth in CEO s pension cost
Eliminated volatility in CEO s pension benefit due to changes in actuarial assumptions
Eliminated CEO s incentive to leave based on a changing interest rate environment
Due to this change, there will be no future change to the value of the pension, which will simplify Summary Compensation Table disclosure
Fixed the CEO s pension benefit with $45M reduction (~30%) from the termination benefit disclosed in 2013

7
What s New: Executive Compensation
FY 2014 Current NEO Compensation Decisions
Base
Salaries
Maintained
CEO base salary since May 2010 and other Current NEO
base salaries since May 2011
Performance
RSUs
Reduced

target
awards
by
an
average
of
6%
from
FY
2013
Option
Awards
Reduced
grant date values by an average of 24% from FY 2013
Long-Term
Incentive
Plan
Reduced
maximum payout opportunity for executive officers by 33%
for
FY
2012

FY
2014
performance
period
Reduced
target
awards
by
an
average
3%
from
FY
2013

FY
2015
performance period
We
heard
our
shareholders
views
about
the
level
of

total
compensation
and responded by reducing nearly every element of our FY 2014 pay program

FY 2010
FY 2014 CEO Direct Pay Down 26%
With Total Shareholder Return of 427%
8
(1)
(2)
Total shareholder return assumes $100 invested at the close of trading on March 31, 2009 and the reinvestment of dividends w
Total direct compensation (TDC) refers to total compensation disclosed in the Summary Compensation Table minus the am
the Change in Pension Value and Nonqualified Deferred Compensation Earnings column. We exclude this amount because
Compensation Committee decisions based on Company or individual performance.

Executive Compensation
Financial Targets Tied to Operating and Strategic Plans
9
Key Considerations in Development of Financial Targets
for Annual and Long-Term Incentive Plans
Business Environment
Competitive Factors
McKesson Objectives
Public Policy
Analyst Expectations
Market Outlook
Tax Policy
Industry Trends
Competitor Performance
Competitor Plans
Competitive Landscape
Market Growth
Historical Trends
Historical Performance
Long Range Planning

Capital Deployment Opportunities
Recent Capital Deployment Decisions
Long Range Corporate Strategy
Financial
targets
for
annual
and
long-term
incentive
plans
tied
to
1-
year
operating
plan
and
rolling
3-
year strategic plan
This approach has been effective
o
From FY
2012 to FY
2014, McKesson s forward earnings guidance grew by more than 30%,
representing a compound annual growth rate of approximately 15%
o
For FY
2015, forward earnings guidance published on May 12, 2014 was 27% greater than the
actual
earnings
result
for
FY
2014

What s New: Executive Compensation
Incentive Plan Changes for FY 2015
10
Shareholder Concerns
Impact on FY 2015 Incentive Plan
Redundant use of
earnings metrics
Replaced Adjusted EBITDA with Adjusted OCF as secondary
financial metric in Management Incentive Plan (annual cash
incentive)
Replaced Cumulative Adjusted OCF with Adjusted ROIC as
secondary metric in Long-Term Incentive Plan (long-term cash

incentive)
Lack of shareholder return
or relative measure
and
Short performance period
(1-
year) in PeRSU program
Replaced
Performance
Restricted
Stock
Unit
(PeRSU,
former long-
term equity incentive) program with new Total Shareholder
Return
Unit
(TSRU,
new
long-term
equity
incentive)
program
for
executive officers
Adopted TSR relative to S&P 500 Health Care Index as sole
performance metric in new TSR program
o
Target
payout
at
55
th
percentile
relative
to
index
(above
median performance)
o
Payout capped at target if McKesson TSR is negative
All long-term incentive plans for executive officers, including new
TSRU
program,
now
have
performance
or
vesting
periods

of
at
least
3
years

11
Governance Attributes
Our Board actively seeks input from shareholders and is committed to continuously monitoring and maintaining effective governance practices
*
Reflects governance changes adopted or enhanced in last year
Key
Governance
Attributes
Shareholder Right
to Call Special

Meeting *
No Supermajority
Vote Provisions
Majority Voting for
Uncontested Director
Elections
Annual Election
of Directors
8 of 9 Director
Nominees are
Independent
Robust Lead
Independent
Director *
Significant
Director Equity
Ownership
Annual CEO
Succession Review
Regular Executive
Sessions of the Board
No Poison Pill
Related Party
Transactions Policy

12
Independent, Experienced Board with
Diverse Skills & Perspectives
McKesson s Board, with its diverse perspectives, provides valuable guidance, consultation and oversight for management
Nominees Bring a Balance of Industry-Specific and Functional Expertise
All 9 have served on other public company boards
2 former leaders of pharmaceutical or medical device companies
4 nominees with healthcare experience

3 with financial expertise
3 technology industry experts
2 former CFOs
8
Independent
Directors
7
Current or
Former CEOs
2
Females
2
African
Americans
2
Physicians
89%
78%
22%
22%
22%

What s New: Corporate Governance
Ongoing Board Refreshment
13
The Governance Committee continues to identify candidates to join the Board and provide fresh perspectives as new independent Directors
Expected Composition at 2017 AGM**
Current Board Tenure*
N. Anthony Coles, M.D.,
appointed to the Board in
April 2014
o

Former CEO and
Chairman of Onyx
Pharmaceuticals
(NASDAQ:ONXX)
o
Extensive experience in
biopharmaceuticals and
pharmaceuticals
o
Independent under SEC,
New York Stock
Exchange and McKesson
criteria
*Includes
Dr.
Shaw
who
will
be
leaving
the
Board
at
the
upcoming
Annual
Meeting
**Assumes no expansion in Board size
16+ Years
2
1
4
4
1
0-5 Years
6-10 Years
11-15 Years
16+ Years
4
1
2
0-5 Years
6-10 Years
11-15 Years

What s New: Corporate Governance
Expansion of Lead Director Role
14
Preside at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors
Serve as liaison between the Chairman and the independent directors
Approve information sent to the

Board
Approve Board meeting agendas and assure that there is sufficient time for discussion of all items
Call meetings of the independent directors, as appropriate
If requested by major shareholders, ensure that he or she is available for direct communication
Lead the annual evaluation of directors and the CEO
Assume role of Chairman of the Board on an interim basis in the event of a temporary or permanent absence of the Chairman
Provide recommendations to the Governance Committee regarding Board committee memberships selection of committee chairs
Retain independent legal, accounting and other advisors
Assist in assuring compliance with, and implementation of, the Corporate Governance Guidelines
Core Roles and Responsibilities of Lead Independent Director
Expansion of Lead Independent Director s Powers
Created role in January 2013, effective July 2013
Expanded role in October 2013

What s New: Governance
Proxy Access By-Law in 2015
15
We recently announced plan to submit a proposal at the 2015
Annual Meeting to adopt a proxy access by-law amendment
Discussed proxy access with shareholders in reaching decision
3% ownership with a 3-year holding period
Shareholders may nominate directors for up to 20% of the
available seats
McKesson s
plan
to

seek
shareholder
approval
of
proxy
access
demonstrates
our
commitment to best practices in corporate governance

Board Perspectives on Shareholder Proposals
Action by Written Consent of Shareholders
16
The Board believes that implementation of this proposal is unnecessary given the ability of shareholders to call special meetings
o
Currently, any matter that either McKesson or its shareholders wish to present for a vote must be presented at an annual or special meeting; this allows all shareholders to consider, discuss and vote on pending shareholder actions
Written consent would permit a small group of shareholders (including those who accumulate a short-term voting position through the borrowing of shares) to initiate action with no prior notice either to the other

shareholders or to the Company

o

Such shareholders may not act in the interests of longer-term holders of our common stock

o

Action by written consent is not subject to notice periods that are vital to informed decision making

o

This could prevent all shareholders from having an opportunity to deliberate in an open and transparent manner, and to consider arguments for and against any action

o

Further, the Board does not have the opportunity to analyze and provide a recommendation, and proponents need not provide any information regarding themselves or their interests in the proposed action to other shareholders or the Company

A proposal on this topic in 2013 was opposed by 55% of votes cast, while the special meeting right proposed by the Company was overwhelmingly approved, reflecting shareholder preferences

Given the potential for abuse and disenfranchisement of minority shareholders and other adverse consequences associated with the right to act by less than unanimous written consent, the Board recommends a vote AGAINST this proposal

Board Perspectives on Shareholder Proposals
Disclosure of Political Contributions
17
McKesson understands that the decisions made by policymakers have a profound impact on our industry, business and customers
McKesson primarily engages in the political process through the McKesson Corporation Employees Political Fund (PAC)
o
Contributions
are

funded entirely by eligible McKesson employees on a voluntary basis; such contributions are not made with corporate assets

The Company does not make independent expenditures or super PAC contributions

The Company does make a limited number of corporate political contributions at the state level

o

This includes corporate contributions to state candidates and political action committees in areas where the Company has a significant employee or facility presence

o

Political contributions are subject to Board oversight, and all contributions must be approved by the Senior Vice President of Public Affairs, with contributions greater than $1,000 subject to approval by the Chairman of the Board and Chief Executive Officer

We agree that transparency and accountability with respect to political expenditures are important

o

All corporate political contributions are subject to both internal procedures and strict laws regarding transparency

We support transparency in reporting; a link to a database of PAC contributions is made available on our website at www.mckesson.com under the caption About McKesson-Public Affairs, as well as the aggregate

amount of political contributions and a statement about the Company s political contribution policies
Given the limited nature of McKesson s corporate political contributions, together with
recently enhanced transparency and Board oversight of our political engagement, the
Board believes this proposal is unnecessary and recommends a vote AGAINST

Board Perspectives on Shareholder Proposals
Accelerated Vesting of Equity Awards
18
The Board opposes this proposal because providing for accelerated vesting of equity awards in the event of a named executive officer s termination following a change in control is in the best interests of shareholders
o
This
double
trigger
for
accelerated

vesting
is
consistent
with
feedback
from
our
shareholders
o
Executives have employee benefits, including severance and change in control benefits, that the Compensation Committee believes are competitively necessary
o
Adopting this proposal would limit our ability to provide competitive compensation programs and could disadvantage our ability to attract and retain highly qualified employees
Accelerated
vesting
can
help
to
mitigate
some
of
the
uncertainty
that
will
likely
arise
for
executives
from
a
change in control transaction, and reduce the risk of executive turnover during a pending transaction where the risk of job loss is relatively high for senior executives
The Board believes that the current structure of the Company s executive compensation program, including the provisions related to accelerated vesting of equity incentive awards, are appropriate and effective, and align the interests of our executives with those of the Company s shareholders
o
These compensation programs are consistent with market practice and provide us with the ability to compete for, attract and retain talented executives
The Board believes that the current executive compensation structure, including accelerated vesting of equity incentive awards, is appropriate and effective
at aligning the interests of
executives and shareholders
a vote AGAINST
is recommended

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2014 Annual Meeting of Stockholders
This information is being provided to shareholders in addition to the proxy statement filed by McKesson Corporation (the Company) with the Securities and Exchange Commission (the SEC) on June 19, 2014. Please read the complete proxy statement and accompanying materials carefully before you make a voting decision. Even if voting instructions for your proxy have already been given, you can change your vote at any time before the annual meeting by giving new voting instructions as described in more detail in the proxy statement.
The proxy
statement,
and
any
other
documents
filed
by
the
Company

with
the
SEC,
may
be
obtained free of charge at www.sec.gov
and from the Company s website at
www.mckesson.com.