INTERNATIONAL BROTHERHOOD OF TEAMSTERS

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November 15, 2016

To: All McKesson Board Members

Re: *Board-Level Response to McKesson's Role in Fueling Opioid Epidemic*

Dear Board Member:

As you are no doubt aware, McKesson is emerging as a central figure in the media's ever-intensifying coverage of the opioid epidemic, the government's drug enforcement efforts, and a potentially precedent-setting civil suit by the state of West Virginia. Charged by West Virginia's Attorney General with "illegal and reckless and malicious action" in "flooding" a state of fewer than 2 million people with 100 million opiate doses over a five-year period, McKesson has faced a torrent of negative media attention connecting the company to this deadly crisis and raising questions about how sales of highly addictive drugs may have been incentivized.

Despite repeated assurances from CEO John Hammergren, dating as far back as 2008 –the time of the first of two settlements with the Drug Enforcement Agency (DEA) -- that preventing the diversion of controlled substances was a top priority, the available evidence suggests that management either did know or should have known that many of the opioids the company distributed were going to the black market. Still, over the past five years, CEO Hammergren has received more than $368 million in realizable compensation demonstrating a startling lack of accountability at the top.

As General Secretary-Treasurer of the International Brotherhood of Teamsters, a long-term shareholder of McKesson, I urge the board to take immediate, proactive steps to investigate and address company practices that have helped fuel the deadly opioid epidemic that claims the lives of nearly 80 people a day in this country, according to the Centers for Disease Control. Unfortunately, I have seen the devastation up close. It has ravaged my home state of West Virginia and impacted hundreds of Teamster families across the country. It has devastated families, put unimaginable stress on our public services and driven up health care costs for everyone.

Teamster affiliated pension and benefit funds have over $100 billion in assets under management and are significant holders of McKesson. As an investor, it is hard to miss the many unsettling parallels here to the accounts scandal ensnaring Wells Fargo, including skewed sales incentives, unaccountable executive pay, serious reputational damage, and numerous missed opportunities to get out ahead of the issue. The difference, of course, is that this crisis is a matter of life or death.

Accordingly, I urge the board to immediately undertake the following actions:

1. Establish an independent committee of the board, with the assistance of outside public health experts, to investigate the claims made by the state of West Virginia, and any future proceedings against the company, and to disclose its findings to shareholders.
2. Amend the annual and long-term incentive plans to provide that awards include a compliance-based metric that can reduce the entire payout to zero in the event of future failures in the distribution of controlled substances.
3. Given the serious injury to McKesson's reputation – which damage shows no sign of abating any time soon – exercise its discretion under the executive clawback policy to recover all or a significant portion of CEO Hammergren's incentive pay awarded or vested over the past twelve months and suspend payouts or vesting of any future awards until the company has implemented a robust compliance metric to its incentive plans.
4. Investigate whether the incentive pay for other top executives should be clawed back under the "reputational injury" standard in McKesson's clawback policy.
5. Suspend the use of incentive pay related to the sale of controlled substances at all levels in the company pending the board's independent investigation into company practices.

This crisis is too serious and too consequential for the board not to ensure accountability at every level of the corporation.

McKesson Repeatedly Falling Down on Its Number One Priority

Shortly after paying $13.25 million in 2008 to settle claims by the DEA that it had failed to report hundreds of suspicious orders from online pharmacies, and thereby "fueled the explosive prescription drug abuse problem," Hammergren said on a conference call: "as you are probably aware, diversion of controlled substances has been an industry issue. Nothing is more important to our industry than the safety and integrity of our drug supply chain." (Jan. 31, 2008 earnings call)

But, as it turned out, those were just words. Seven years later, in 2015, McKesson agreed to a $150 million fine and license suspensions at four distribution centers to settle a second DEA claim that it had again failed to report suspicious orders of controlled substances -- as required under federal law.

Now the company is facing what has been termed in the news media as a potentially "precedent-setting suit" from West Virginia, which alleges intentional and reckless actions by McKesson in failing to investigate, report and cease fulfilling suspicious prescriptions in the state. In one example, the suit states that in Barbour County, McKesson supplied enough hydrocodone and oxycodone over a five-year period for 210 doses for every man, woman and child, or 15,445 doses for each anticipated patient. Critically, the suit charges McKesson with continuing to incentivize the sale of these same narcotics through bonus and commission payments on the sales of controlled substances, while it ought to have been aware that "West Virginia was drowning in millions of doses of highly addictive prescription pain killers."

Given the scale of the human tragedy, it is likely that the risks for McKesson's long-term value proposition far exceed the initial, immediate financial cost of the settlement, which collectively represents 10% of McKesson's 2016's total earnings (or about the same as its combined pension promise to CEO Hammergren and Group President Paul Julian). Not only could West Virginia's lawsuit trigger an avalanche of follow-on suits, but as Wells Fargo's account scandal demonstrates, the reputational cost and subsequent political and investor scrutiny can be severe and far outstrip the original financial cost.

Already the company is emerging as a central figure in the media's ever-intensifying coverage of the opioid epidemic. McKesson played an unfortunate starring role in a 2016 CBS News investigation into West Virginia's opioid epidemic and the role of drug wholesalers. The investigation exposed one small-town pharmacy in Tug Valley, WV, filling 150 pain pill prescriptions daily, all supplied by McKesson. (McKesson terminated its contract with Tug Valley pharmacy, but only after learning about the charges from CBS). And last month, McKesson was blasted in an investigative series by the Washington Post into opioid abuse, which prompted two Senators, Patrick J. Leahy and Ron Wyden to send a letter to the DEA seeking more information on McKesson's 2015 settlement with the DEA, which has remained largely confidential. The letter, along with a separate letter signed by seven more Senators –Edward J. Markey, Richard J. Durbin, Joe Manchin, Amy Klobuchar, Tammy Baldwin, Richard Blumenthal and Bernie Sanders– is also seeking more information on what the Washington Post described as a steep decline in enforcement actions by the DEA against large drug wholesalers.

Multiple Governance Failures at Play

While it is difficult to conceive of a more serious risk oversight failure at a drug wholesaler than the inability to secure the distribution of controlled substances, there appears a dearth of accountability and visible action at the board and c-suite level.

Despite repeatedly falling down on what he describes as the industry's number one priority, CEO Hammergren has received over $368 million in realizable compensation over the past 5 years. This includes an above target annual bonus every year since 2008 -- even though the subjective "individual performance modifier" ought to have occasioned a reduction in his award given the company's distributional challenges. (Incredibly, the modifier has only ever served to supplement CEO Hammergren's initial payout based upon profitability metrics).

Even more questionable is the Compensation Committee's decision in 2015 to exclude the $150 million DEA settlement in calculating the earnings metric used in CEO

Hammergren's incentive award. To heed the adage that "what gets measured, gets managed," the Committee should make compliance performance an explicit performance metric. At the same time, the Committee should use its discretion under the executive clawback policy's reputation damage clause to recover recently awarded and vested incentive compensation.

The West Virginia Attorney General's claim that McKesson's sales staff and managers in the hardest parts of his state received bonuses and commissions based on the sale of highly addictive prescription painkillers, also raises troubling questions about the Compensation Committee's oversight of company-wide compensation practices. Based on disclosures in the proxy statement, since at least 2011 the Compensation Committee has received – and duly approved - an annual evaluation of company-wide pay structures to ensure they do not "create risks that are reasonably likely to have a material adverse effect on the Company." Regardless of whether the Committee was made aware of such payments – and if it was not, it needs to overhaul the review process -- it should immediately suspend all incentive pay tied to the sale of narcotics pending the findings of its own, independent investigation into the allegations levied in the West Virginia lawsuit.

Finally, the repeated compliance failures, spanning nearly a decade, also shines a harsh spotlight on the performance of the audit committee; and the entire board, which holds primary responsibility for assessing McKesson's enterprise-risk management processes and the output of that process. At this point, it is critical that the board wake up to the seriousness of the issue (indeed it is a matter of life and death); treat this as more than a run-of-the-mill legal proceeding for which 'no comment' is a typical response; and, rapidly heed the governance lessons of the public and political backlash felt by Wells Fargo. To this end, the board should establish an independent committee to investigate the claims made by the state of West Virginia, any future proceedings against the company, and to establish a more robust board oversight process going forward, with the findings disclosed to shareholders in a timely manner.

I look forward to a timely response to this request and a forthcoming public announcement. In the meantime, please feel free to contact Michael Pryce-Jones, Capital Strategies Department at (202) 624-8990 or by email: MPryce-Jones@teamster.org.

Sincerely,

Ken Hall

Ken Hall
General Secretary-Treasurer

KH/cz/p