MCKESSON CORP
Form DEFA14A
June 19, 2015

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 ¨ 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
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)

Payment of Filing Fee (Check the appropriate box):

No fee required.
¨ **Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.**
(1) Title of each class of securities to which transaction applies:
(2) Aggregate number of securities to which transaction applies:
(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4) Proposed maximum aggregate value of transaction:
(5) Total fee paid:
¨ **Fee paid previously with preliminary materials.**
¨ **Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.**
(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

2015 Annual Meeting of Stockholders
Meeting Date: July 29, 2015

2
2
Executive Summary
We ask for your support at our 2015 Annual Meeting
Strong
Performance
Delivered strong financial and operational performance in FY 2015
Increased Adjusted EPS by 29% year-over-year and achieved a three-year compound annual growth rate of almost 21%
Generated $3.1 billion in operating cash flow
Delivered total shareholder return of 29%, adding $11.7 billion in market value
Expanded our scale and global reach with the acquisition of Celesio AG

Robust
Governance
Practices
We value shareholder feedback in the refinement of our governance practices
Recently elected our Lead Independent Director to an additional two-year term
Delivering on our commitment, we are pleased to submit proxy access by-law amendments to shareholders at the 2015 Annual Meeting
Improvements to
the Compensation
Program
Engaged with over 62% of our shareholder base since the 2014 Annual Meeting
Continued to enhance our compensation program in response to feedback:
o
Introduced new performance metrics
o
Performance or vesting periods for new long-term awards of at least three years
Independent and
Experienced Board
10 of 11 director nominees are independent
Our directors bring a balance of industry-specific and functional expertise
We
are
refreshing
our
Board

we
added
three
new
independent
directors
in
FY
2015
and expect three of our current directors to retire over the next two years

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
Deepened relationships with customers and manufacturing partners while expanding
scale and global reach
Focused

growth
on
emerging
technology
solutions
and
enhanced
customer
relationships
in distribution solutions
Continued execution of disciplined strategic transactions, most recently the $8 billion acquisition of Celesio AG that expanded 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

* Total shareholder return (TSR) is calculated as stock price appreciation (or reduction) over the measurement period, incl
dividends when paid, divided by the stock price at the beginning of the period.

Responsive to Shareholder Feedback
4
Ongoing
Board
Refreshment
Substantive
Compensation
Program
Changes
In FY 2014, implemented changes to address concerns regarding the scale of our CEO s pension and

the quantum of his pay:

o

Reduced pension benefit to a fixed value almost 30% less than the amount he would have received had he resigned at the end of FY 2013

o

Eliminated volatility in pension due to changes in actuarial assumptions

In FY 2015, continued to enhance our executive compensation program:

o

Introduced a new relative performance metric and strengthened pay for performance alignment

o

Relative total shareholder return metric is part of a long-term incentive program that also uses absolute financial performance metrics

o

All executive officers receive long-term incentive awards with performance or vesting periods of at least three years

In FY 2014, implemented a number of changes to our Board s leadership structure:

o

Alton F. Irby III, former Chair of the Compensation Committee, stepped off that Committee

o

Jane E. Shaw, Ph.D., joined the Compensation Committee and then assumed the role of Chair

o

Wayne A. Budd was appointed Chair of the Governance Committee

In FY 2015, refreshed Board committees and Board composition:

o

Appointed a new Chair of the Compensation Committee, Andy D. Bryant, upon retirement of the former Chair

o

Three new members joined our Board of Directors - N. Anthony Coles, M.D., Donald R. Knauss and Susan R. Salka

o

In addition to a

fresh perspective, Dr. Coles and Ms. Salka both bring years of leadership in the healthcare industry and Mr. Knauss brings unique branding and retailer knowledge
We expect three of our current directors to retire over the next two years: Alton F. Irby III, David M. Lawrence, M.D. and Wayne A.

Budd
We regularly engage with our shareholders to understand their views and make meaningful changes in response to shareholder feedback

Total Shareholder Return of 258%,
CEO Direct Pay Down 21%
5
Total Shareholder Return
(1)
vs. CEO Total Direct Compensation
(2)
(1)
Total shareholder return assumes $100 invested at the close of trading on March 31, 2010 and the reinvestment of dividends w
Total direct compensation (TDC) refers to total compensation disclosed in the Summary Compensation Table minus the am
under the Change in Pension Value and Nonqualified Deferred Compensation Earnings column. We exclude this amount be
not reflect Compensation Committee decisions based on Company or individual performance.
(2)

Executive Compensation
Financial Targets Tied to Operating and Strategic Plans
6
Key Considerations in Development of Annual and Long-Term Goals
Business Environment
Competitive Factors
McKesson Objectives
International Trends
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 annual operating plan and rolling three-year strategic plan

This approach has been effective:

o
From FY
2013 to FY
2015, McKesson s forward earnings guidance grew at its midpoint by more than 47%, representing a compound annual growth rate of more than 21%

o
For FY
2015, forward earnings guidance published on May 12, 2014 represented 25% to 30% growth year-over-year on a constant currency basis

o
The growth marked by our FY 2015 forward guidance was incorporated into each of the financial performance targets approved by the Compensation Committee in May 2014 for use in McKesson s executive compensation program

Rigorous operational and strategic planning supports
the development of relevant and challenging incentive targets

What s New: Executive Compensation
Incentive Plan Changes for FY 2015
7
Shareholder Feedback
Impact on FY 2015 Incentive
Plans
Redundant
use of
earnings metrics
Replaced Adjusted EBITDA with Adjusted OCF as secondary financial
metric in the Management Incentive Plan (annual cash incentive)
Replaced Cumulative Adjusted OCF with Adjusted ROIC as secondary
metric in the Long-Term Incentive Plan (long-term cash incentive)
Lack of shareholder
return or relative measure
Replaced Performance Restricted Stock Unit program (PeRSU,

former long-term equity incentive) with a new Total Shareholder Return Unit program (TSRU, new long-term equity incentive) for executive officers

Adopted TSR relative to S&P 500 Health Care Index as sole performance metric in new TSRU program:

o Target payout at 55 th percentile relative to index (above median performance)

o Payout capped at target if McKesson TSR is negative

Short performance period (one-year) in PeRSU program

All long-term incentive plans for executive officers, including the new TSRU program, now have performance or vesting periods of at least three years

Vital Balance of Industry and Functional Expertise
8
Experienced Leaders
Global Leadership
All 11
nominees are experienced
business leaders, which equips them
to provide constructive insight to our
management team.
8
of the nominees have substantial
international experience, which

brings critical perspective to our Board with our expansion in the global marketplace.

Healthcare

Financial Expertise

5 of the nominees are experienced leaders in the healthcare industry, including leaders of pharmaceutical and medical device companies and organizations providing healthcare services.

10 of the nominees have valuable financial experience having spent a significant portion of their careers focused on finance or as chief executives, with 3 of them previously having served as Chief Financial Officers.

Supply Chain

Technology

8 of the nominees bring supply chain or manufacturing experience to our boardroom, which enhances the Board s oversight of our Distribution Solutions businesses.

5 of the nominees are experienced leaders in the technology industry, which allows them to effectively oversee the management of our

Technology Solutions businesses.
The Governance Committee has worked to build a vibrant Board
that blends the right expertise and perspectives to oversee McKesson

9
Independent, Experienced and Diverse Board
McKesson s Board, with its diverse perspectives, provides valuable guidance, consultation and oversight for management
Actively Refreshing the Board with New Talent
During
FY
2015,
three
new
members

joined our Board of Directors: N. Anthony Coles, M.D., Donald R. Knauss and Susan R. Salka In addition to the fresh perspectives they provide the Board, Dr. Coles and Ms. Salka both bring years of leadership in the healthcare industry, and Mr. Knauss brings unique branding and retailer knowledge Jane E. Shaw, Ph.D., our longest-tenured director, retired from the Board at the 2014 Annual Meeting of Stockholders,

and
we
expect
three
additional
directors
to
retire
over
the
next
two
years:
Alton
F.
Irby
III,
David
M.
Lawrence,
M.D.
and
Wayne
A.
Budd
The Governance Committee maintains a robust self-assessment and nomination process and will continue to draw from a pool of highly qualified, diverse and independent director candidates for nomination to the Board

What s New: Governance
10
In 2014, we announced plans to submit a proposal at the 2015 Annual Meeting to adopt proxy access by-law amendments
Over the last 12 months, we continued to actively engage with shareholders to understand their views on proxy access
On June 1
st
, we announced that our Board adopted proxy access by-law amendments, subject to shareholder approval at the 2015 Annual Meeting, with the following terms:
o

3% ownership with a three-year holding period
o
Shareholders may nominate directors for up to 20% of the available seats
The by-law amendments will become effective immediately if approved by shareholders
Our Board remains committed to strong, shareholder-focused,
contemporary corporate governance practices consistent with our goal
of creating long-term, sustainable value for McKesson s shareholders
Delivering on Proxy Access
Reelection of Lead Independent Director
In 2013, the Board created the role of Lead Independent Director and elected Edward A. Mueller as McKesson s first Lead Independent Director to serve a two-year term
In April 2015, the independent directors of the Board elected Mr. Mueller to serve an additional two-year term as Lead Independent Director, subject to his continuing reelection and status as an independent director

Board Perspectives on Shareholder Proposals
Disclosure of Political Contributions
11
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
Decisions
made
by
policymakers

have
a
profound
impact
on
our
industry,
business
and
customers
We primarily engage in the political process through the McKesson Corporation Employees Political Fund (PAC)
Contributions are funded entirely by eligible McKesson employees on a voluntary basis; such contributions are not made with corporate assets
Transparency and accountability with respect to political expenditures are important
All
corporate
political
contributions
are
subject
to
both
internal
procedures
and
strict
laws
regarding
transparency
www.mckessoncorporatecitizenship.com provides a detailed description of our approach and total
corporate
political
contributions
(under
Our
Company

Engagement
and
Collaboration),
and
our
PAC files monthly reports with the Federal Election Commission
McKesson
does
not
make
independent
expenditures

or
super
PAC
contributions
McKesson makes a limited number of corporate political contributions at the state level
This includes corporate contributions to state candidates and political action committees in areas where the Company has a significant employee or facility presence
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
Participating
in the
Political Process
Contributions
Funded by
Employees
Transparency
and Disclosure
Limited
Corporate
Contributions

Board Perspectives on Shareholder Proposals
Accelerated Vesting of Equity Awards
12
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
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
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, is appropriate and effective, and aligns 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
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
Accelerated
Vesting Subject

to a Double
Trigger Benefits
Shareholders
Aligning
Incentives
Retaining Key
Talent

13

2015 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 15, 2015. 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.