

Change Healthcare Inc.

SECOND QUARTER FISCAL 2020
EARNINGS CONFERENCE CALL

11.14.19

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FORWARD LOOKING STATEMENT:

This presentation includes forward-looking statements that are subject to risks, uncertainties and other factors. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including information concerning our possible or assumed future results of operations; any statements of the plans, strategies and objectives of management for future operations; any statements regarding product or service developments, extensions or integration; any statements of expectation or belief; any statements regarding general industry conditions and competition; any statements regarding economic conditions; and any statements of assumptions underlying any of the foregoing. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these uncertainties, you should not place undue reliance on any forward-looking statements in this presentation. All forward-looking statements are based on information currently available to Change Healthcare and are qualified in their entirety by this cautionary statement. The statements herein speak only as of the date such statements were first made. Except to the extent required by law, Change Healthcare assumes no obligation to update any such forward-looking statements or other statements included in this presentation.

NON-GAAP MEASURES DISCLOSURE:

In the Company's earnings releases, prepared remarks, conference calls, slide presentations and webcasts, there may be use or discussion of non-GAAP financial measures. The GAAP financial measure most directly comparable to each non-GAAP financial measure used or discussed, and a reconciliation of the differences between the comparable GAAP financial measure and each non-GAAP financial measure are included in this press release after the consolidated financial statements. These non-GAAP financial measures that are calculated and presented on the basis of methodologies other than in accordance with generally accepted accounting principles in the United States of America ("GAAP"). These non-GAAP financial measures should be considered only as supplemental to, and not as superior to, financial measures prepared in accordance with GAAP.

ADOPTION OF NEW REVENUE RECOGNITION STANDARD:

Change Healthcare adopted the new revenue recognition accounting standard Accounting Standards Codification ("ASC") 606 effective April 1, 2019 on a modified retrospective basis. Financial results for reporting periods during fiscal year 2020 are presented in compliance with the new revenue recognition standard. Historical financial results for reporting periods prior to fiscal year 2020 are presented in conformity with the prior revenue recognition standard ASC 605. This presentation and the related press release includes additional information to reconcile the impacts of the adoption of the new revenue recognition standard on the Company's financial results for the quarter ended June 30, 2018. This includes the presentation of financial results during fiscal year 2019 under ASC 605 for comparison to the prior year.

Overview & Business Update



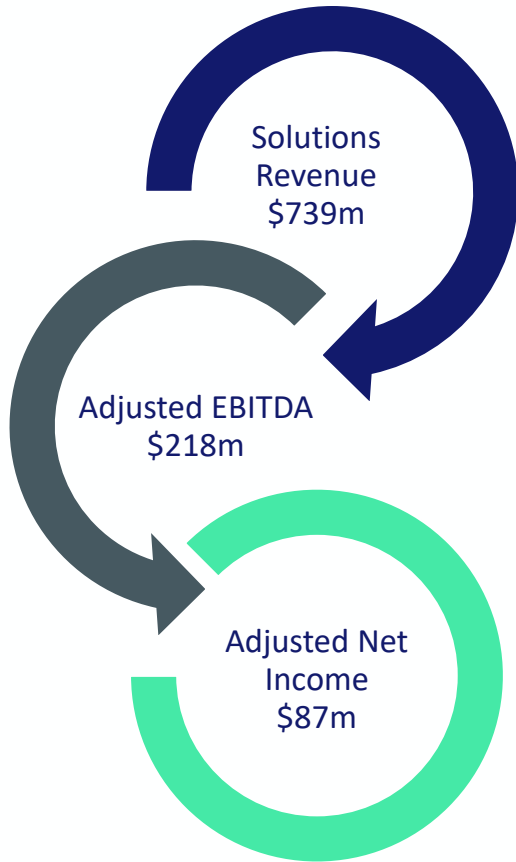
Neil de Crescenzo
President and CEO

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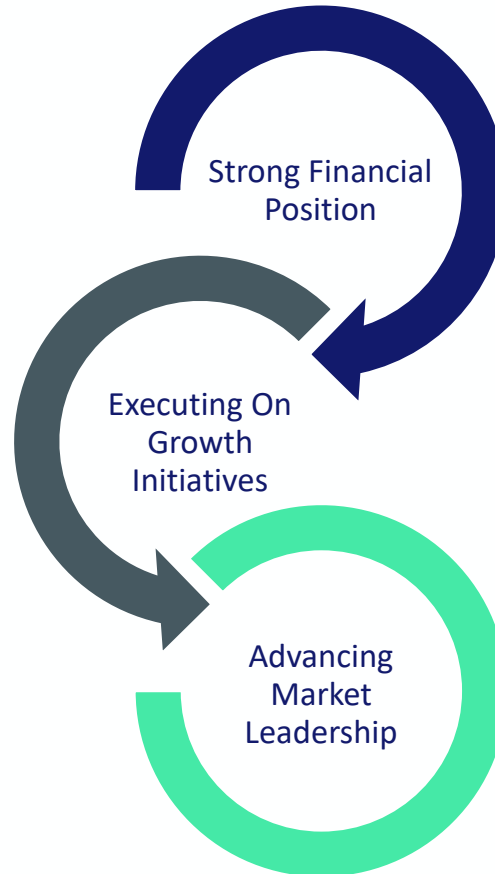
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Change Healthcare – Second Quarter CEO Summary

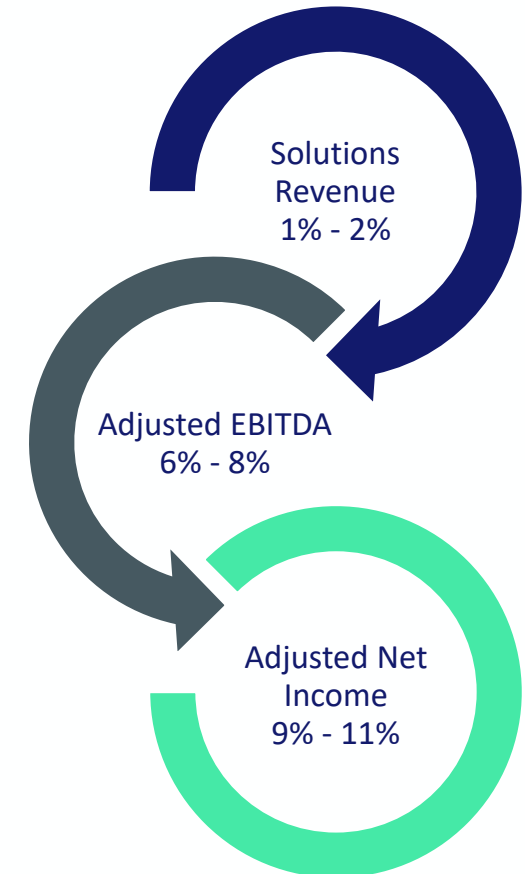
Financial Results



Key Highlights



FY'20 Guidance (Growth Rates)



Financial Performance

Fredrik Eliasson
EVP and Chief Financial Officer



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ASC 606 Impact on Q2 FY'20 Reported Results

In millions except EPU	Q2 FY'20	Impact	Q2 FY'20
	ASC 606	ASC 606	ASC 605

Consolidated Revenue ⁽¹⁾	\$ 796	\$ (10)	\$ 806
Solutions Revenue ⁽¹⁾	739	(10)	749
EBITDA	151	(4)	156
Net Income	(0)	(4)	4
Diluted EPU ⁽²⁾	(0.00)	(0.01)	0.01
Adjusted EBITDA	218	(4)	222
Adjusted Net Income	87	(4)	91
Adjusted Diluted EPU ⁽²⁾	0.27	(0.01)	0.28

Note 2: Common units of Change Healthcare LLC are equivalent to the number of outstanding common shares of Change Healthcare Inc. and membership interests of Change Healthcare LLC held by subsidiaries of McKesson.

Note 1: Segment totals include corporate eliminations and the impact of the sale of the Extended Care business.

606 vs. 605 Impact

- Revenue Impact:
 - ASC 606 revenue negatively impacted by \$10 million including a \$13 million negative impact from ASC 606 in S&A offset by \$3 million increase in TES
 - Majority of impact in Software & Analytics related to timing of content being delivered primarily in Decision Support Solutions
 - Under ASC 606 TES contingent fee contracts now required to be recognized when the service is delivered rather than when collected
- Expense Impact:
 - Operating expenses decreased by \$6 million due to extension of amortization period of deferred commissions and contract set-up costs
 - Costs, previously amortized over the contract term, are now amortized over the expected customer relationship period to include renewal periods

Q2 FY'20 Strong Core Performance (ASC 605)

In millions except EPU	Q2 FY'20	Q2 FY'19	%
	ASC 605	ASC 605	Change
Consolidated Revenue ⁽¹⁾	\$ 806	\$ 800	0.7%
Solutions Revenue ⁽¹⁾	749	738	1.5%
EBITDA ⁽¹⁾	156	265	(41.2%)
Net Income	4	113	(96.3%)
Diluted EPU ⁽²⁾	0.01	0.45	(97.1%)
Adjusted EBITDA	222	216	2.8%
Adjusted Net Income	91	90	1.2%
Adjusted Diluted EPU ⁽²⁾	0.28	0.35	(21.7%)
Diluted Number of Units ⁽³⁾	324	253	27.9%

Note 1: Includes the impact of the sale of the Extended Care business.

Note 2: Common units of Change Healthcare LLC are equivalent to the number of outstanding common shares of Change Healthcare Inc. and membership interests of Change Healthcare LLC held by subsidiaries of McKesson.

Note 3: Fully diluted shares outstanding for the three months ended September 30th, 2019 give effect to initial public offering of 49,285,713 shares of its common stock and 5,750,000 tangible equity units ("Units"), on July 1, 2019.

Q2 FY'20 Business Highlights

- Adjusted Solutions Revenue⁽¹⁾ and Adjusted EBITDA⁽¹⁾ growth, including the impact of the sale of Extended Care, of 1.5% and 2.8%, respectively
- Adjusted EBITDA Margins of 29.7% up 40bps
 - Driven by revenue growth, ongoing productivity improvements and synergy realization
 - Partially offset by additional growth investments in enterprise sales, imaging, and innovation
- Adjusted Net Income of \$91 million or \$ 0.28 per diluted share
 - Lower interest expense as result of \$890M redemption and 25bps step down in rates on Term Loan Facility
 - Impacted by increased integration D&A expense

Q2 FY'20 Segment Performance (ASC 605)

In millions	Q2 FY'20 ASC 605	Q2 FY'19 ASC 605	% Change
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Segment Revenue

S&A	\$ 389	\$ 384	1.5%
Network	144	136	5.8%
TES	241	243	(1.0%)
Corp. and Elimination ⁽¹⁾	31	37	(15.5%)
Total Net Revenue⁽²⁾	\$ 806	\$ 800	0.7%

Segment Adjusted EBITDA

S&A	\$ 149	\$ 139	6.8%
Network	86	84	3.0%
TES	41	39	4.8%
Corp. and Elimination ⁽¹⁾	(54)	(46)	16.8%
Total Adjusted EBITDA⁽²⁾	\$ 222	\$ 216	2.8%

Note 1: Includes Postage

Note 2: Segment totals includes impact of the sale of the Extended Care business.

Q2 FY'20 Segment Highlights

- **S&A: Strong Performance & Execution Across Segment**
 - Strong growth In Payment Accuracy and Decision Support
 - Execution on Connected Analytics optimization and transition to cloud-based Enterprise Imaging solution
- **Network: Strength in B2B Payments/Data Solutions**
 - Continued growth in B2B Payments/Data Solution and increased market penetration in our Medical and Dental network
 - Investments to expand market growth for data services, payments, and expanded capabilities in areas like attachments.
- **TES: Executing on Transformation**
 - Revenue growth of 3.7% net of planned \$15 million attrition
 - Customer wins in health system and aggregator segment support long-term growth potential
 - Sequential margin improvement due to cost initiatives

Year To Date FY'20 Cash Generation & Liquidity

- Free Cash Flow for Q2 FY20 of \$77 million; Year To Date \$94 million
- Adjusted Free Cash Flow for Q2 FY20 of \$113 million; Year To Date \$174 million
- Net Debt \$5 billion⁽¹⁾
- Leverage Ratio 4.9x⁽²⁾
- Liquidity:
 - Cash and Cash equivalents of \$73 million
 - \$785 million undrawn secured credit facility (maturity July 2024)
 - Liquidity: \$858 million⁽³⁾

Note 1: On July 1, 2019 the company closed an initial public offering of common stock and concurrent offering of tangible equity units providing \$888 million in net proceeds and issued \$47 million senior amortizing note. Also, on July 3, 2019, the company redeemed \$805 million in Term Loan B obligations and an additional \$85 million during the second quarter.

Note 2: Based on Adjusted EBITDA as of September 30, 2019 in accordance with the Credit Agreement and \$70 million of unrealized synergies.

Note 3: Includes \$785 million revolver, \$73 million of Cash and Cash Equivalents as of September 30, 2019.

Financial Guidance (ASC 606)

Full Year Fiscal 2020 Guidance ⁽¹⁾ (in millions, except per share data)

- Solutions Revenue Growth of 1% to 2%
- Adjusted EBITDA Growth of 6% to 8%
- Non-GAAP Adjusted Net Income Growth of 9% to 11%
- Free Cash Flow of \$250 million - \$300 million

Q3 Fiscal 2020 Guidance ⁽¹⁾ (in millions, except per share data)

- Solutions Revenue between \$745 million to \$760 million
- Adjusted EBITDA between \$225 million to \$235 million
- Adjusted Net Income between \$98 million to \$103 million

Assumptions

- Interest Expense: \$290 million - \$295 million
- Integration Related Expense: \$100 million - \$120 million
- Adjusted Effective Tax Rate: 12% - 13%
- CapEx: ~7% of Solutions Revenue
- Integration CapEx: \$25 million - \$30 million
- Basic Shares Outstanding: 319.2 million ⁽²⁾

Note 1: All year over year growth reflects FY 2019 under ASC 605 and FY 2020 under ASC 606

Note 2: Includes TEUs

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Appendix

Q2 FY'20 Financial Statements

Q2 FY'20 and FY'19 Non-GAAP Reconciliations

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Consolidated Balance Sheets (unaudited and amounts in thousands)

	September 30, 2019	March 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 72,992	\$ 47,718
Restricted cash	—	1,176
Accounts receivable, net of allowance for doubtful accounts	675,306	759,502
Contract assets	139,111	—
Prepaid expenses and other current assets	155,019	172,067
Assets held for sale (see Note 14)	29,562	—
Total current assets	1,071,990	980,463
Property and equipment, net	160,305	197,263
Goodwill	3,295,381	3,284,266
Intangible assets, net	1,261,290	1,320,161
Other noncurrent assets, net	500,627	421,985
Total assets	\$ 6,289,593	\$ 6,204,138
Liabilities and members' equity		
Current liabilities:		
Drafts and accounts payable	\$ 64,010	\$ 98,550
Accrued expenses	315,419	316,179
Deferred revenues	337,371	437,636
Due to related parties, net	23,230	34,629
Current portion of long-term debt	26,644	2,789
Total current liabilities	766,674	889,783
Long-term debt, excluding current portion	4,944,395	5,787,150
Deferred income tax liabilities	110,016	106,099
Tax receivable agreement obligations to related parties	199,876	212,698
Other long-term liabilities	112,812	113,194
Commitments and contingencies (see Note 6)		
Members' equity (deficit)	155,820	(904,786)
Total liabilities and members' equity	\$ 6,289,593	\$ 6,204,138

Change Healthcare LLC

Consolidated Statements of Operations (unaudited and amounts in thousands, except unit and per unit amounts)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2019	2018	2019	2018
Revenue:				
Solutions revenue	\$ 738,701	\$ 737,786	\$ 1,535,773	\$ 1,495,491
Postage revenue	57,110	62,404	115,594	127,962
Total revenue	795,811	800,190	1,651,367	1,623,453
Operating expenses:				
Cost of operations (exclusive of depreciation and amortization below)	331,234	327,563	658,181	664,993
Research and development	51,783	51,243	101,122	106,567
Sales, marketing, general and administrative	190,039	207,105	383,312	414,019
Customer postage	57,110	62,404	115,594	127,962
Depreciation and amortization	77,448	69,258	148,764	137,785
Accretion and changes in estimate with related parties, net	3,214	5,932	7,094	9,756
Gain on Sale of the Extended Care	—	(111,392)	—	(111,392)
Total operating expenses	710,828	612,113	1,414,067	1,349,690
Operating income (loss)	84,983	188,077	237,300	273,763
Non-operating (income) and expense				
Interest expense, net	69,901	80,677	153,307	159,226
Loss on extinguishment of debt	16,900	—	16,900	—
Contingent consideration	1,700	(72)	909	200
Other, net	(4,386)	(3,849)	(8,164)	(9,381)
Total non-operating (income) and expense	84,115	76,756	162,952	150,045
Income (loss) before income tax provision	868	111,321	74,348	123,718
Income tax provision (benefit)	998	(2,119)	2,563	(2,228)
Net income (loss)	\$ (130)	\$ 113,440	\$ 71,785	\$ 125,946
Net income (loss) per common unit:				
Basic	\$ -	\$ 0.45	\$ 0.25	\$ 0.50
Diluted	\$ -	\$ 0.45	\$ 0.25	\$ 0.50
Weighted average common units				
Basic	318,219,028	251,501,744	285,107,046	251,550,892
Diluted	323,970,033	253,333,940	288,809,850	253,390,770

Change Healthcare LLC

Consolidated Statements of Cash Flows (unaudited and amounts in thousands)

	Six Months Ended September 30.	
	2019	2018
Cash flows from operating activities:		
Net income (loss)	\$ 71,785	\$ 125,946
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	148,764	137,785
Amortization of capitalized software developed for sale	6,698	7,378
Accretion and changes in estimate, net	7,094	9,756
Equity compensation	15,207	8,269
Deferred income tax expense (benefit)	1,473	(3,013)
Amortization of debt discount and issuance costs	9,941	10,964
Contingent consideration	909	200
Gain on Sale of the Extended Care Business	—	(111,392)
Loss on extinguishment of debt	16,900	—
Other	(111)	538
Changes in operating assets and liabilities:		
Accounts receivable	54,240	6,730
Contract assets	12,688	—
Prepaid expenses and other	(8,583)	(16,373)
Accounts payable	(15,209)	(32,035)
Accrued expenses and other liabilities	(16,311)	142,707
Deferred revenue	(69,471)	(75,074)
Due to related party, net	(12,150)	15,482
Net cash provided by (used in) operating activities	223,864	227,868
Cash flows from investing activities:		
Capitalized expenditures	(129,847)	(124,631)
Proceeds from Sale of the Extended Care Business	—	160,244
Investments in businesses	(18,946)	—
Net cash provided by (used in) investing activities	(148,793)	35,613
Cash flows from financing activities:		
Payments of third party IPO and loan costs	(8,554)	—
Payments under tax receivable agreements with related parties	(27,227)	(25,096)
Payments on Term Loan Facility	(902,750)	(76,500)
Receipts (payments) on derivative instruments	3,109	2,090
Payments of deferred financing obligations	—	(3,432)
Capital contribution from Members from exercise of equity awards	1,139	205
Repurchase of equity awards	—	(5,305)
Proceeds from Change Healthcare Inc. initial public offering	608,679	—
Proceeds from debt issued to Change Healthcare Inc.	47,367	—
Proceeds from forward purchase contract with Change Healthcare Inc.	232,929	—
Advances to and refunds from Change Healthcare Inc.	(2,590)	2,636
Payment of debt issued to Change Healthcare Inc.	(3,621)	—
Other	247	598
Net cash provided by (used in) financing activities	(51,272)	(104,804)
Effect of exchange rate changes on cash and cash equivalents	299	(672)
Net increase (decrease) in cash, cash equivalents and restricted cash	24,098	158,005
Cash, cash equivalents and restricted cash at beginning of period	48,894	50,011
Cash, cash equivalents and restricted cash at end of period	\$ 72,992	\$ 208,016

Change Healthcare LLC

Reconciliation of Net Income (Loss) to Adjusted EBITDA

Unaudited and amounts in thousands	Three Months Ended September 30,				Six Months Ended September 30,			
	2019		2018		2019		2018	
	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
Net income (loss)	\$ (130)	\$ 4,386	\$ 4,256	\$ 113,440	\$ 71,785	\$ (40,871)	\$ 30,914	\$ 125,946
Net interest expense	69,901	—	69,901	80,677	153,307	—	153,307	159,226
Income tax provision (benefit)	998	(32)	966	(2,119)	2,563	(2,283)	280	(2,228)
Depreciation and amortization	77,448	—	77,448	69,258	148,764	—	148,764	137,785
Amortization of capitalized software developed for sale	3,249	—	3,249	3,618	6,698	—	6,698	7,378
EBITDA	151,466	4,354	155,820	264,874	383,117	(43,154)	339,963	428,107
Adjustments to EBITDA:								
Equity compensation	9,345	—	9,345	2,959	15,207	—	15,207	8,259
Acquisition accounting adjustments	553	—	553	555	927	—	927	2,540
Acquisition and divestiture-related costs	414	—	414	3,319	1,073	—	1,073	7,507
Integration and related costs	19,781	—	19,781	26,291	45,507	—	45,507	47,242
Strategic initiatives, duplicative and transition costs	6,120	—	6,120	8,348	9,688	—	9,688	19,122
Severance costs	2,929	—	2,929	2,339	10,099	—	10,099	10,015
Costs related to recently issued accounting standards	—	—	—	1,772	—	—	—	5,513
Accretion and changes in estimate with related parties, net	3,214	—	3,214	5,932	7,094	—	7,094	9,756
Management fees and related costs	2,413	—	2,413	2,607	5,060	—	5,060	5,284
Impairment of long-lived assets and other	—	—	—	2,343	(840)	—	(840)	3,360
Gain on sale of extended care business	—	—	—	(111,392)	—	—	—	(111,392)
Contingent consideration	1,700	—	1,700	—	909	—	909	272
Loss on extinguishment of debt	16,900	—	16,900	—	16,900	—	16,900	—
Other non-routine, net	2,858	—	2,858	6,004	4,008	—	4,008	8,156
EBITDA Adjustments	66,227	—	66,227	(48,923)	115,632	—	115,632	15,634
Adjusted EBITDA	<u>\$ 217,693</u>	<u>\$ 4,354</u>	<u>\$ 222,047</u>	<u>\$ 215,951</u>	<u>\$ 498,749</u>	<u>\$ (43,154)</u>	<u>\$ 455,595</u>	<u>\$ 443,741</u>

Change Healthcare LLC

Reconciliation of Net Income (Loss) to Adjusted Net Income (Loss)

Unaudited and amounts in thousands	Three Months Ended September 30,				Six Months Ended September 30,			
	2019		2018		2019		2018	
	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
Net income (loss)	\$ (130)	\$ 4,386	\$ 4,256	\$ 113,440	\$ 71,785	\$ (40,871)	\$ 30,914	\$ 125,946
Amortization expense resulting from acquisition method adjustments	35,054	—	35,054	36,765	69,702	—	69,702	74,708
EBITDA Adjustments	66,227	—	66,227	(48,923)	115,632	—	115,566	—
Tax effect of EBITDA Adjustments and amortization expense	(14,527)	—	(14,527)	(11,359)	(28,991)	—	(28,991)	(28,760)
Adjusted Net Income	<u>\$ 86,624</u>	<u>\$ 4,386</u>	<u>\$ 91,010</u>	<u>\$ 89,923</u>	<u>\$ 228,128</u>	<u>\$ (40,871)</u>	<u>\$ 187,191</u>	<u>\$ 171,894</u>
Adjusted net income (loss) per diluted unit ⁽¹⁾	<u>\$ 0.27</u>	<u>\$ 0.01</u>	<u>\$ 0.28</u>	<u>\$ 0.35</u>	<u>\$ 0.79</u>	<u>\$ (0.14)</u>	<u>\$ 0.65</u>	<u>\$ 0.68</u>

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Segment Results

Unaudited and amounts in thousands	Three Months Ended September 30,				Six Months Ended September 30,			
	2019			2018	2019			2018
	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)	As Reported	Impacts from Adoption	Without Adoption (ASC 605)	As Reported (ASC 605)
Segment revenue								
Software and Analytics	\$ 376,128	\$ 13,151	\$ 389,279	\$ 383,510	\$ 813,472	\$ (28,476)	\$ 784,996	\$ 779,912
Network Solutions	144,276	—	144,276	136,322	285,888	—	285,888	272,925
Technology-enabled Services	244,124	(3,206)	240,918	243,343	488,114	(3,110)	485,004	493,338
Corporate and Eliminations	31,283	—	31,283	37,015	63,893	—	63,893	77,278
Net revenue	<u>\$ 795,811</u>	<u>\$ 9,945</u>	<u>\$ 805,756</u>	<u>\$ 800,190</u>	<u>\$ 1,651,367</u>	<u>\$ (31,586)</u>	<u>\$ 1,619,781</u>	<u>\$ 1,623,453</u>
Segment Adjusted EBITDA								
Software and Analytics	\$ 140,078	\$ 8,847	\$ 148,925	\$ 139,419	\$ 342,393	\$ (37,137)	\$ 305,256	\$ 282,056
Network Solutions	86,500	(414)	86,086	83,612	171,472	(932)	170,540	165,849
Technology-enabled Services	44,841	(3,757)	41,084	39,181	89,992	(4,515)	85,477	89,154
Corporate and Eliminations	(53,726)	(322)	(54,048)	(46,261)	(105,108)	(570)	(105,744)	(93,318)
Total Adjusted EBITDA	<u>\$ 217,693</u>	<u>\$ 4,354</u>	<u>\$ 222,047</u>	<u>\$ 215,951</u>	<u>\$ 498,749</u>	<u>\$ (43,154)</u>	<u>\$ 455,529</u>	<u>\$ 443,741</u>

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Reconciliation of Cash Provided by (Used in) Operating Activities to Free Cash Flow and Adjusted Free Cash Flow

Unaudited and amounts in thousands	Six Months Ended	
	September 30,	
	2019	2018
Cash provided by (used in) operating activities ⁽¹⁾	\$ 223,864	\$ 227,868
Capital expenditures	(129,847)	(124,631)
Free Cash Flow	<u>94,017</u>	<u>103,237</u>
Adjustments to Free Cash Flow ⁽²⁾:		
Integration and related costs	45,507	47,242
Strategic initiatives, duplicative and transition costs	9,688	19,122
Severance costs	10,099	10,015
Costs related to recently issued accounting standards	—	5,513
Integration capital expenditures	14,546	47,983
Adjusted Free Cash Flow	<u>\$ 173,858</u>	<u>\$ 233,112</u>

⁽¹⁾ Includes cash provided by pass-thru funds of \$12.9 million and \$156.1 million for the six months ended September 30, 2019 and 2018, respectively.

⁽²⁾ All operating costs and integration capital expenditures in the table are presented on an as-incurred basis.

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