

CHANGE HEALTHCARE

THIRD QUARTER FISCAL 2020 EARNINGS CONFERENCE CALL



Legal

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 three and nine month periods ended December 31, 2019. This includes the presentation of financial results during fiscal year 2019 under ASC 605 for comparison to the prior year.

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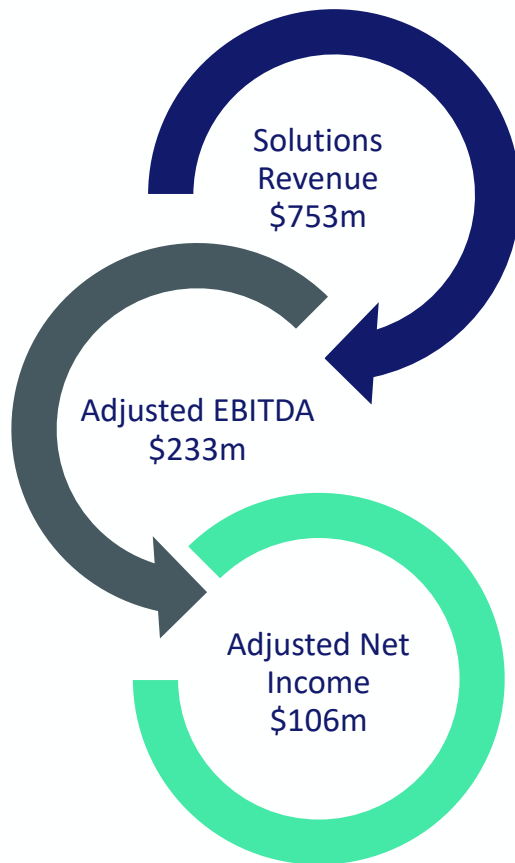
Overview and Business Update

Neil de Crescenzo
President and CEO



Change Healthcare – Third Quarter CEO Summary

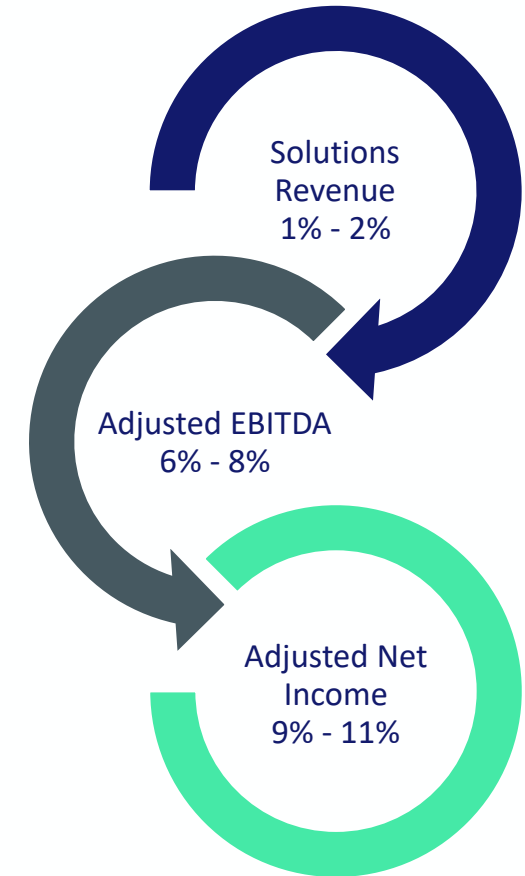
Financial Results



Key Highlights



FY'20 Guidance (Growth Rates)



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Financial Performance

Fredrik Eliasson
EVP and Chief Financial Officer



ASC 606 Impact on Q3 FY'20 Reported Results

In millions except EPU	Q3 FY'20 ASC 606	Impact ASC 606	Q3 FY'20 ASC 605
Consolidated Revenue ⁽¹⁾	\$ 808	\$ (24)	\$ 832
Solutions Revenue ⁽¹⁾	753	(24)	777
EBITDA	177	(18)	194
Net Income	31	(18)	49
Diluted EPU ⁽²⁾	0.10	(0.05)	0.15
Adjusted EBITDA	233	(18)	250
Adjusted Net Income	106	(18)	124
Adjusted Diluted EPU ⁽²⁾	0.33	(0.06)	0.39

Note 1: Segment totals include corporate eliminations.

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.

606 vs. 605 Impact

Revenue Impact:

- ASC 606 revenue negatively impacted by \$24 million including a \$19 million negative impact from ASC 606 in S&A and a \$5 million 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

Q3 FY'20 Strong Core Performance (ASC 605)

In millions except EPU	Q3 FY'20 ASC 605	Q3 FY'19 ASC 605	% Change
Consolidated Revenue	\$ 832	\$ 822	1.3%
Solutions Revenue	777	763	1.8%
EBITDA	194	173	12.4%
Net Income	49	13	276.4%
Diluted EPU ⁽²⁾	0.15	0.05	200.0%
Adjusted EBITDA	250	234	6.9%
Adjusted Net Income	124	96	28.8%
Adjusted Diluted EPU ⁽¹⁾	0.39	0.38	2.6%
Diluted Number of Units ⁽²⁾	322	253	27.2%

Q3 FY'20 Business Highlights

- **Adjusted Solutions Revenue and Adjusted EBITDA growth** includes
 - \$16 million from planned contract elimination in TES
 - Year-over-year impact related to optimization of our Connected Analytics Solutions business.
- **Adjusted EBITDA Margins of 32.2% up 150bps**
 - 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 \$124.1 million or \$ 0.39 per diluted share**
 - Lower interest expense as result of \$1,040 million YTD debt paydown
 - Impacted by increased integration D&A expense

Note 1: 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 2: 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.

Q3 FY'20 Segment Performance (ASC 605)

In millions	Q3 FY'20 ASC 605	Q3 FY'19 ASC 605	% Change
Segment Revenue			
S&A	\$ 406	\$ 385	5.3%
Network	151	144	5.0%
TES	247	257	(3.7%)
Corp. and Elimination ⁽¹⁾	29	36	(21.2%)
Total Net Revenue	832	822	1.3%
Segment Adjusted EBITDA			
S&A	\$ 163	\$ 150	8.6%
Network	92	88	4.7%
TES	41	44	(7.5%)
Corp. and Elimination ⁽¹⁾	(46)	(49)	(5.2%)
Total Adjusted EBITDA	250	234	6.9%

Note 1: Includes Postage

Q3 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 2.5% net of planned \$16 million attrition; YTD growth of 2.4% net of \$41 million planned 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 Q3 FY20 of \$120 million; Year To Date \$214 million
- Adjusted Free Cash Flow for Q3 FY20 of \$151 million; Year To Date \$325 million
- Net Debt \$4.8 billion¹
- Leverage Ratio 4.7x²
- Liquidity: \$859 million³
 - Cash and Cash equivalents of ~\$74 million
 - \$785 million undrawn secured credit facility (maturity July 2024)

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, an additional \$85 million during the second quarter, and an additional \$150 million during the third quarter of fiscal year 2020.

Note 2: Based on Adjusted EBITDA as of December 31, 2019 in accordance with the Credit Agreement and \$59 million of unrealized synergies.

Note 3: Includes \$785 million revolver, \$74 million of Cash and Cash Equivalents as of December 31, 2019.

Financial Guidance (ASC 606)

Q4 Fiscal 2020 Guidance¹ (in millions, except per share data)

- Solutions Revenue between \$775 million to \$785 million
- Adjusted EBITDA between \$260 million to \$270 million
- Adjusted Net Income between \$115 million to \$125 million

Full Year Fiscal 2020 Guidance¹ (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

Assumptions

- Interest Expense: \$282 million - \$285 million
- Integration Related Expense: \$110 million - \$120 million
- Adjusted Effective Tax Rate: 12% - 13%
- CapEx: ~7% of Solutions Revenue
- Integration CapEx: \$20 million - \$25 million
- Basic Shares Outstanding: 319.2 million²

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

Q3 FY'20 Financial Statements

Q3 FY'20 and FY'19 Non-GAAP Reconciliations

Change Healthcare LLC

Consolidated Balance Sheets (unaudited and amounts in thousands)

	December 31, 2019	March 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 74,183	\$ 47,718
Restricted cash	314	1,176
Accounts receivable, net of allowance for doubtful accounts	724,908	759,502
Contract assets	130,824	—
Prepaid expenses and other current assets	155,276	172,067
Total current assets	1,085,505	980,463
Property and equipment, net	153,036	197,263
Goodwill	3,298,151	3,284,266
Intangible assets, net	1,225,424	1,320,161
Other noncurrent assets, net	528,545	421,985
Total assets	\$ 6,290,661	\$ 6,204,138
Liabilities and members' equity		
Current liabilities:		
Drafts and accounts payable	\$ 49,478	\$ 98,550
Accrued expenses	354,034	316,179
Deferred revenues	402,854	437,636
Due to related parties, net	22,817	34,629
Current portion of long-term debt	28,812	2,789
Total current liabilities	857,995	889,783
Long-term debt, excluding current portion	4,799,178	5,787,150
Deferred income tax liabilities	106,008	106,099
Tax receivable agreement obligations to related parties	203,121	212,698
Other long-term liabilities	112,019	113,194
Commitments and contingencies (see Note 6)		
Members' equity (deficit)	212,340	(904,786)
Total liabilities and members' equity	\$ 6,290,661	\$ 6,204,138

Change Healthcare LLC

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2019	2018	2019	2018
Revenue:				
Solutions revenue	\$ 752,533	\$ 763,149	\$ 2,288,305	\$ 2,264,684
Postage revenue	55,693	58,788	171,288	180,706
Total revenue	808,226	821,937	2,459,593	2,445,390
Operating expenses:				
Cost of operations (exclusive of depreciation and amortization below)	339,413	339,485	998,943	1,007,328
Research and development	50,618	49,882	151,778	159,604
Sales, marketing, general and administrative	185,661	206,558	567,586	620,612
Customer postage	55,693	58,788	171,288	180,706
Depreciation and amortization	77,330	70,318	226,094	208,103
Accretion and changes in estimate with related parties, net	3,245	3,534	10,339	13,290
Gain on Sale of Business	—	(43)	—	(111,435)
Total operating expenses	711,960	728,522	2,126,028	2,078,208
Operating income (loss)	96,266	93,415	333,565	367,182
Non-operating (income) and expense				
Interest expense, net	66,353	82,614	219,661	241,840
Loss on extinguishment of debt	2,514	—	19,414	—
Contingent consideration	900	(1,100)	1,809	(900)
Other, net	(2,718)	(4,385)	(10,881)	(13,762)
Total non-operating (income) and expense	67,049	77,129	230,003	227,178
Income (loss) before income tax provision (benefit)	29,217	16,286	103,562	140,004
Income tax provision (benefit)	(1,974)	3,277	589	1,049
Net income (loss)	\$ 31,191	\$ 13,009	\$ 102,973	\$ 138,955
Net income (loss) per common unit:				
Basic	\$ 0.10	\$ 0.05	0.35	\$ 0.55
Diluted	\$ 0.10	\$ 0.05	0.34	\$ 0.55
Weighted average common units outstanding:				
Basic	319,387,487	251,460,502	296,653,051	251,520,837
Diluted	322,197,051	253,318,833	300,058,108	253,366,866

Change Healthcare LLC

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

	Nine Months Ended December 31,	
	2019	2018
Cash flows from operating activities:		
Net income (loss)	\$ 102,973	\$ 138,955
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	226,094	208,103
Amortization of capitalized software developed for sale	10,456	10,880
Accretion and changes in estimate, net	10,339	13,290
Equity compensation	24,914	16,378
Deferred income tax expense (benefit)	(189)	(17)
Amortization of debt discount and issuance costs	14,406	15,786
Contingent consideration	1,809	(900)
Gain on Sale of the Extended Care Business	—	(111,435)
Loss on extinguishment of debt	19,414	—
Other	3,374	1,943
Changes in operating assets and liabilities:		
Accounts receivable	14,719	(97,259)
Contract assets	19,525	—
Prepaid expenses and other	(23,224)	(10,302)
Accounts payable	(32,031)	5,190
Accrued expenses and other liabilities	13,994	78,344
Deferred Revenue	(1,213)	(25,493)
Due to related party, net	(4,404)	5,367
Net cash provided by (used in) operating activities	400,956	248,830
Cash flows from investing activities:		
Capitalized expenditures	(187,177)	(190,264)
Proceeds from Sale of the Extended Care Business	—	159,871
Proceeds from sale of real estate	29,813	—
Investments in businesses	(19,010)	(2,985)
Net cash provided by (used in) investing activities	(176,374)	(33,378)
Cash flows from financing activities:		
Payments of third party initial public offering and loan costs	(8,555)	—
Payments under tax receivable agreements with related parties	(27,227)	(25,096)
Payments on Term Loan Facility	(1,052,750)	(140,250)
Receipts (payments) on derivative instruments	2,403	3,321
Payments of deferred financing obligations	(2,441)	(3,432)
Capital contribution from Members from exercise of equity awards	2,338	205
Repurchase of equity awards	—	(7,425)
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 Members	5,084	2,636
Payment of debt issued to Change Healthcare Inc.	(7,332)	—
Other	—	(2,548)
Net cash provided by (used in) financing activities	(199,505)	(172,589)
Effect of exchange rate changes on cash and cash equivalents	526	(1,368)
Net increase (decrease) in cash, cash equivalents and restricted cash	25,603	41,495
Cash, cash equivalents and restricted cash at beginning of period	48,894	50,011
Cash, cash equivalents and restricted cash at end of period	\$ 74,497	\$ 91,506

Change Healthcare LLC

Reconciliation of Net Income (Loss) to Adjusted EBITDA

Unaudited and amounts in thousands	Three Months Ended December 31,				Nine Months Ended December 31,			
	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)	\$ 31,191	\$ 17,769	\$ 48,960	\$ 13,009	\$ 102,973	\$ (23,101)	\$ 79,872	\$ 138,955
Net interest expense	66,353	—	66,353	82,614	219,661	—	219,661	241,840
Income tax provision (benefit)	(1,974)	(70)	(2,044)	3,277	589	(2,353)	(1,764)	1,049
Depreciation and amortization	77,330	—	77,330	70,318	226,094	—	226,094	208,103
Amortization of capitalized software developed for sale	3,755	—	3,755	3,760	10,456	—	10,456	10,880
EBITDA	176,655	17,699	194,354	172,978	559,773	(25,454)	534,319	600,827
Adjustments to EBITDA:								
Equity compensation	9,707	—	9,707	8,109	24,914	—	24,914	16,378
Acquisition accounting adjustments	440	—	440	651	1,367	—	1,367	3,191
Acquisition and divestiture-related costs	1,481	—	1,481	4,010	2,554	—	2,554	11,517
Integration and related costs	21,470	—	21,470	30,266	66,976	—	66,976	79,805
Strategic initiatives, duplicative and transition	4,645	—	4,645	2,789	14,334	—	14,334	19,014
Severance costs	4,191	—	4,191	3,952	14,290	—	14,290	14,327
Costs related to recently issued accounting standards	—	—	—	1,730	—	—	—	7,243
Accretion and changes in estimate with related parties, net	3,245	—	3,245	3,534	10,339	—	10,339	13,290
Management fees and related costs	2,648	—	2,648	2,599	7,708	—	7,708	7,883
Impairment of long-lived assets and other	(435)	—	(435)	382	(1,275)	—	(1,275)	3,742
Gain on sale of business	—	—	—	(43)	—	—	—	(111,435)
Contingent consideration	900	—	900	(1,100)	1,809	—	1,809	(900)
Loss on Extinguishment of Debt	2,514	—	2,514	—	19,414	—	19,414	—
Other non-routine, net	5,166	—	5,166	4,219	9,174	—	9,174	12,936
EBITDA Adjustments	55,972	—	55,972	61,098	171,604	—	171,604	76,991
Adjusted EBITDA	<u>\$ 232,627</u>	<u>\$ 17,699</u>	<u>\$ 250,326</u>	<u>\$ 234,076</u>	<u>\$ 731,377</u>	<u>\$ (25,454)</u>	<u>\$ 705,923</u>	<u>\$ 677,818</u>

Change Healthcare LLC

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

Unaudited and amounts in thousands	Three Months Ended December 31,				Nine Months Ended December 31,			
	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)	\$ 31,191	\$ 17,769	\$ 48,960	\$ 13,009	\$ 102,973	\$ (23,101)	\$ 79,872	\$ 138,955
Amortization expense resulting from acquisition method adjustments	34,922	—	34,922	35,568	104,624	—	104,624	110,276
EBITDA Adjustments	55,972	—	55,972	61,098	171,603	—	171,603	76,991
Tax effect of EBITDA Adjustments and amortization	(15,760)	—	(15,760)	(13,315)	(44,751)	—	(44,751)	(42,075)
Adjusted Net Income	<u>\$ 106,325</u>	<u>\$ 17,769</u>	<u>\$ 124,094</u>	<u>\$ 96,360</u>	<u>\$ 334,449</u>	<u>\$ (23,101)</u>	<u>\$ 311,348</u>	<u>\$ 284,147</u>
Adjusted net income (loss) per diluted unit	<u>\$ 0.33</u>		<u>\$ 0.39</u>	<u>\$ 0.38</u>	<u>\$ 1.11</u>		<u>\$ 1.04</u>	<u>\$ 1.12</u>

Change Healthcare LLC

Segment Results

Unaudited and amounts in thousands	Three Months Ended December 31,				Nine Months Ended December 31,			
	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	\$ 387,331	\$ 18,535	\$ 405,866	\$ 385,434	\$ 1,194,142	\$ (9,941)	\$ 1,184,201	\$ 1,159,898
Network Solutions	150,697	—	150,697	143,507	436,585	—	436,585	416,432
Technology-Enabled Services	241,465	5,467	246,932	256,552	736,240	2,357	738,597	761,382
Corporate and Eliminations	28,733	—	28,733	36,444	92,626	—	92,626	107,678
Net revenue	<u>\$ 808,226</u>	<u>\$ 24,002</u>	<u>\$ 832,228</u>	<u>\$ 821,937</u>	<u>\$ 2,459,593</u>	<u>\$ (7,584)</u>	<u>\$ 2,452,009</u>	<u>\$ 2,445,390</u>
Segment Adjusted EBITDA								
Software and Analytics	\$ 149,199	\$ 14,127	\$ 163,326	\$ 150,426	\$ 490,300	\$ (22,862)	\$ 467,438	\$ 432,859
Network Solutions	92,694	(474)	92,220	88,072	264,165	(1,405)	262,760	253,921
Technology-Enabled Services	36,691	4,435	41,126	44,482	127,976	(229)	127,747	133,258
Corporate and Eliminations	(45,957)	(389)	(46,346)	(48,904)	(151,064)	(958)	(152,024)	(142,220)
Total Adjusted EBITDA	<u>\$ 232,627</u>	<u>\$ 17,699</u>	<u>\$ 250,326</u>	<u>\$ 234,076</u>	<u>\$ 731,377</u>	<u>\$ (25,454)</u>	<u>\$ 705,921</u>	<u>\$ 677,818</u>

Change Healthcare LLC

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

Unaudited and amounts in thousands	Nine Months Ended	
	December 31,	
	2019	2018
Cash provided by (used in) operating activities ⁽¹⁾	\$ 400,956	\$ 248,830
Capital expenditures	(187,177)	(190,264)
Free Cash Flow	213,779	58,566
Adjustments to Free Cash Flow ⁽²⁾:		
Integration and related costs	66,976	79,805
Strategic initiatives, duplicative and transition costs	14,334	19,014
Severance costs	14,290	14,327
Costs related to recently issued accounting standards	—	7,243
Integration capital expenditures	15,532	71,260
Adjusted Free Cash Flow	\$ 324,911	\$ 250,215

⁽¹⁾ Includes cash provided by pass-thru funds of \$1.8 million and \$37.1 million for the nine months ended December 31, 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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