

MCKESSON

Empowering Healthcare

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John H. Hammergren, Chairman and Chief Executive Officer

Safe Harbor Clause

Some of the information in this presentation may constitute forward-looking statements that are subject to various uncertainties.

These uncertainties could cause actual results to differ materially from those projected or implied.

The risk factors associated with those uncertainties are described in the Company's reports and exhibits filed with the Securities and Exchange Commission.

Overview

- **Who We Are**
- **Our View of Healthcare**
- **How Our Businesses Are Responding to Current Challenges**

Who We Are

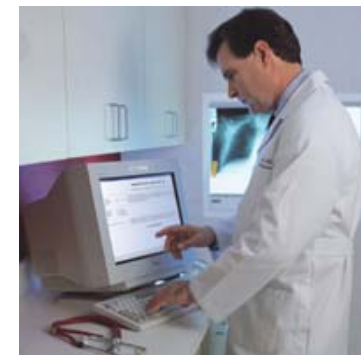
McKesson's Solutions ... Building on Distribution Strength



Pharmaceutical & medical-surgical distribution to all sites



Solutions for medication safety



Clinical, financial & resource management for hospitals & IDNs



Retail pharmacy automation



Inpatient automation



Specialty pharmaceuticals



Disease management



Drug cards for seniors



Pharmaceutical repackaging

Our Business Today

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McKesson Pharmaceutical

#1 in U.S., Canada, and Mexico

Large Rx repackaging

Leading generics provider

#1 in retail pharmacy automation

Specialty distribution & patient services for manufacturers

#1 in medical management software and services for payors

#1 in disease management for Medicaid agencies

McKesson Medical-Surgical

#1 in primary care

#1 in extended care

Total supply solution in acute care

Private label product offerings

Rapid growth in physician office pharmaceuticals and equipment

McKesson Provider Technologies

63% of health systems

51% of hospitals with 200+ beds

Leader in clinical, revenue cycle, and resource management solutions

More "Best in KLAS" products than any other vendor

#1 in robotic hospital pharmacy dispensing

#1 in bedside scanning

Strong, Long-term Customer Relationships with Market Leaders



Vanderbilt University Medical Center



Omnicare



Empowering Healthcare

FY05 Q1 Consolidated Financial Results

(\$ in millions, except EPS)

	Q1 Results		
	FY04	FY05	
Revenues	\$ 16,524	\$ 19,187	16%
Gross Profit	787	852	8%
Gross Profit Margin	4.76%	4.44%	(32) bp
Operating Income	252	261	4%
Operating Income Margin	1.52%	1.36%	(16) bp
Net Income	<u>\$ 156</u>	<u>\$ 164</u>	5%
Diluted EPS	\$ 0.53	\$ 0.55	4%
Weighted Average Shares	298	300	

Our View of Healthcare

Trends Driving Healthcare Growth

Focus on Quality of Care

- Reduce medical errors
- Adopt clinical protocols/ evidence-based medicine

Increased pressure on payors

- Payors taking on more risk
- Limitations on use of managed care tools
- Employer pressures on double-digit premium increases

Outpatient and chronic disease management

- Chronic disease management
- Case management
- Manage high-cost diseases in small populations

Continued improvements in operational and administrative efficiency

- Automation to overcome labor shortages
- Electronic claims and eligibility
- Online prescription and lab transmissions
- Streamlined pre-authorization

Continued use of new drugs, but increased pricing scrutiny

- Biotech pipeline expansion
- New drug delivery mechanisms
- Rapid growth in generics
- Regulatory pressures on pricing

Increased consumerism

- Unhappy consumers
- Better informed consumers

Improved U.S. Healthcare by 2010

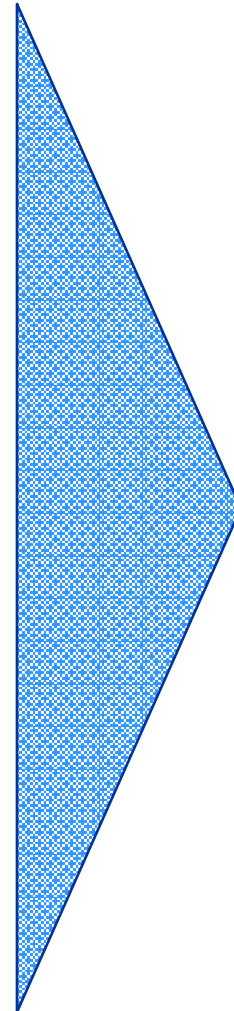
**Informed clinical
practice**

Interconnection

**Improved safety
and efficiency**

Personalized care

**Population health
initiatives**



**CULTURE
CHANGE
in the
delivery of
healthcare**

McKesson's Strategy

To bring together clinical knowledge, process expertise, technology, and the resources of a *Fortune 16* company to fundamentally change the cost and quality of healthcare.



How Our Businesses Are Responding to Current Challenges

Pharmaceutical Solutions

FY05 Q1 Financial Results – Pharmaceutical Solutions

(\$ in millions)

	Q1 Results		
	FY04	FY05	
Revenues			
U.S. direct distribution & services	\$ 9,335	\$11,011	18%
U.S. sales to customer warehouses	5,164	5,916	15%
Subtotal	14,499	16,928	17%
Canada distribution & services	1,044	1,252	20%
Total Pharmaceutical Solutions	15,543	18,180	17%
Gross Profit	518	560	8%
Gross Profit Margin	3.33%	3.08%	(25) bp
Operating Profit	265	291	10%
Operating Profit Margin	1.70%	1.60%	(10) bp

Pharmaceutical Solutions Highlights

- **Above market revenue growth of 17%**
 - **VA implementation successful with annualized revenues in excess of \$3.5B, better profitability**
 - **AdvancePCS volume of Caremark awarded to McKesson with annualized revenues of \$2B**
- **Continued strong growth in Canada**
- **Expansion of generics business**
- **IT/Operations Plan completed - operating efficiencies are being realized**

U.S. Pharmaceutical Distribution Environment

- **Evolution in manufacturer economics**
 - Historical economics based solely on pharmaceutical price inflation
 - Changes underway in healthcare may impact pharmaceutical pricing
 - Transition toward fee-based compensation for services proceeding slowly
- **Customer pricing model established on inflation-based profit opportunities**

Progress with Manufacturer Economics

- **Collaborative strategy designed to deliver more predictable core distribution fees based on value provided**
 - **Appropriate compensation being received from smaller branded and generics suppliers that were sent letters implementing fee-for-service**
 - **New agreements completed with more than 50% of larger pharmaceutical manufacturers**
 - **Compensation from largest manufacturers still tied to the timing and magnitude of price increases**
- **Fee-for-service agreements completed with large manufacturers by March 31, 2005 fiscal year end**

Fewer Q2 Price Increases Will Reduce Pharma Solutions Earnings

- Significant portion of operating profit dependent on price increases
- Plan assumed pattern and magnitude of price increases consistent with history
- While magnitude is consistent, price increases weighted by volume down significantly
- Assumption that remaining price increases will still be realized
- VA upside and new AdvancePCS volume help close the gap

Improve Existing Customer Profitability

- **Improving compliance and efficiency across customer base**
 - Eliminate non-prime vendor customers
 - Enforce contract terms (e.g., generic compliance)
 - Charge for additional services (e.g. emergency shipments, minimum order size, etc.)
- **Focus on securing prime vendor relationships exclusively**
 - Eliminate customers that do not adhere, reduce secondary relationships

Medical-Surgical Solutions

FY05 Q1 Financial Results – Medical-Surgical Solutions

(\$ in millions)

	Q1 Results		
	FY04	FY05	
Revenues	\$ 710	\$ 707	0%
Gross Profit	146	159	9%
Gross Profit Margin	20.56%	22.44%	188 bp
Operating Profit	26	29	11%
Operating Profit Margin	3.63%	4.04%	41 bp

Medical-Surgical Solutions Highlights

- **Operating improvement plan continues to deliver positive results**
- **6 consecutive quarters of year-over-year increased operating profit and operating margin rate**
 - **Operating profit growth of 11% in 1st quarter**
- **Strong Q1 revenue growth of 22% in alternate site driven by new products and vaccine sales**
- **New Optyx analytical service creates opportunity for differentiation in acute care**

McKesson Provider Technologies

FY05 Q1 Financial Results – Provider Technologies

(\$ in millions)

	Q1 Results		
	FY04	FY05	
Revenues			
Software & software systems	\$ 46	\$ 51	11%
Services	204	222	9%
Hardware	21	27	29%
Total Provider Technologies	<u>\$ 271</u>	<u>\$ 300</u>	11%
Gross Profit	122	133	9%
Gross Profit Margin	45.18%	44.34%	(84) bp
Operating Profit	5	14	204%
Operating Profit Margin	1.74%	4.77%	303 bp

Provider Technologies Highlights

- **Q1 revenue growth of 11% reflects continued strong demand for clinical solutions**
- **Demand for revenue cycle and resource management solutions remains flat**
- **Government focus on HIT may drive future growth opportunities**
- **New solutions being introduced to enhance the patient experience and bedside safety**
- **Reorganization should improve product integration and selling effectiveness under one McKesson strategy**

Summary

What McKesson Represents

- **Core pharmaceutical business positioned for growth with a strategy in place to address industry evolution**
- **Stable of additional businesses poised to take advantage of new opportunities in healthcare**
- **Track record of financial performance**
 - **Consistent annual EPS growth despite challenges**
 - **Increasing cash flow**
 - **Strong balance sheet provides financial flexibility**
 - **Commitment to financial transparency**

Outlook

- **FY05 expectation: \$2.20 to \$2.35 per share**
 - **First half down, stronger growth in second half based on resumption of price increases**
- **Long Term:**
 - **Grow revenues at or above 10% per year**
 - **Achieve EPS growth in the mid-teens once the changes in business are completed**
 - **Continue to improve ROCC**



Create Value for Suppliers, Customers and Shareholders

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