

MCKESSON

Empowering Healthcare

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John Hammergren

**Chairman and
Chief Executive Officer**

Safe Harbor Clause

Some of the information in this presentation may constitute forward-looking statements which are subject to various uncertainties and could cause actual results to differ materially from those projected or implied. These uncertainties are described in the Company's reports and exhibits filed with the Securities and Exchange Commission.

Agenda For Today's Presentation

- **Market and Strategy Overview**

- **Business Unit Review**

- **Summary**

McKesson Investment Highlights

- **Positive momentum in Pharmaceutical Solutions and Information Solutions: revenue growth and margin expansion**
- **Turnaround underway in Medical-Surgical Solutions**
- **Seven quarters of EPS momentum and improving return on committed capital**
- **Demographics, economics and public policy drive demand for McKesson products and services**

Largest Healthcare Services Company

Pharmaceutical Solutions

- ◆ \$46 billion in revenues
- ◆ US and Canadian pharma distribution
- ◆ Hospital and retail automation
- ◆ Pharmacy outsourcing
- ◆ Health Solutions

Medical-Surgical Solutions

- ◆ \$2.7 billion in revenues
- ◆ Hospitals
- ◆ Physician offices
- ◆ Nursing homes
- ◆ Long-term care facilities

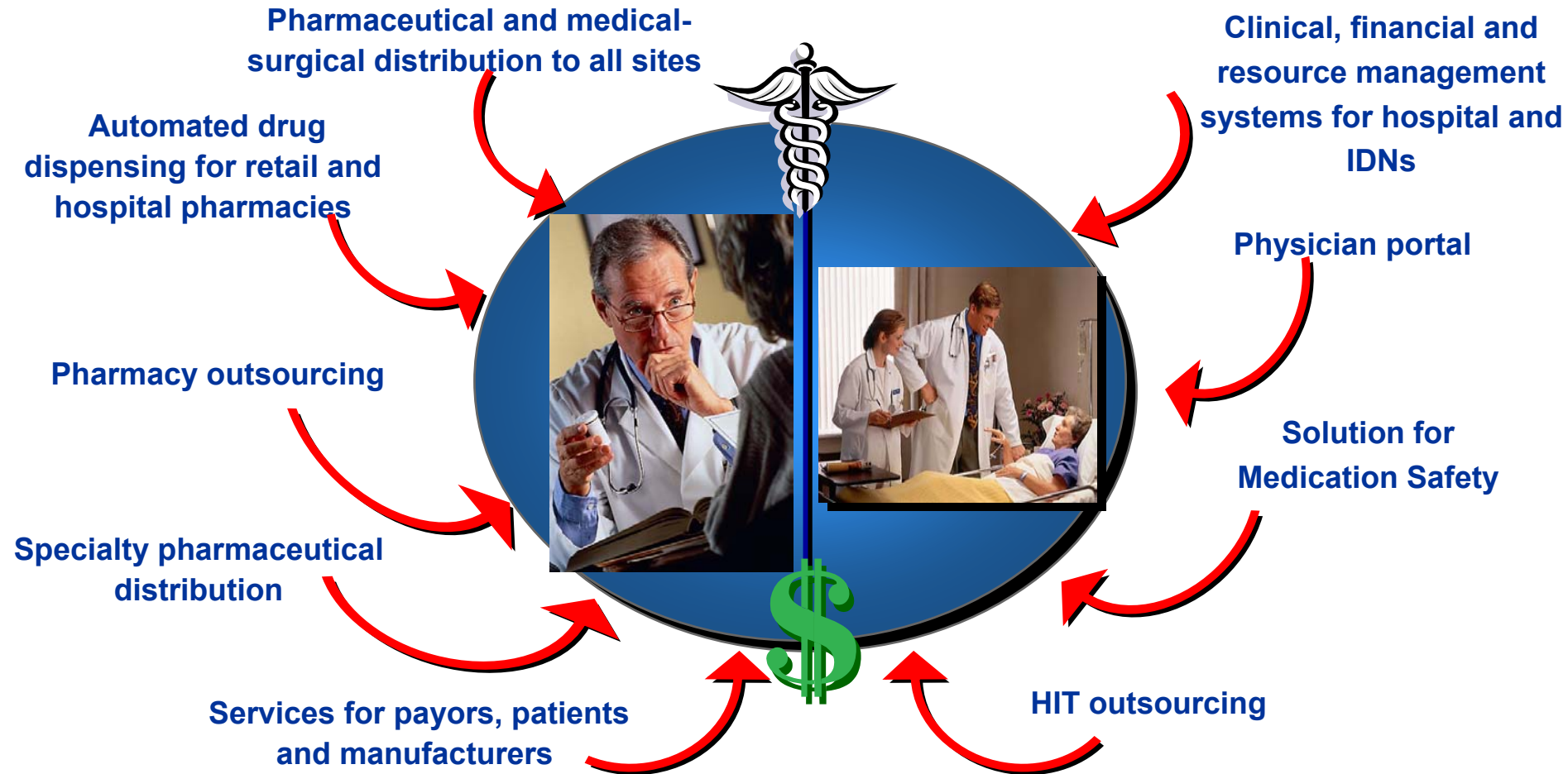
Information Solutions

- ◆ \$1 billion in revenues
- ◆ Most comprehensive HIT product line: software, services, outsourcing
- ◆ New clinical offering includes decision support, order entry and digital medical imaging

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McKesson Solutions Improve Quality and Reduce Cost



Unique Conversations with Customers At Higher Levels

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Favorable Market Factors Drive McKesson Growth

- **Aging population consumes more drugs, supplies**
- **More sophisticated population demands higher quality**
- **Employer and government focus on higher quality**
- **Costs and incentives drive increased use of generics**
- **Pharmacist and nurse shortage widens**
- **Costs and quality concerns lead to increased disease management**
- **Expanding pipeline of higher-tech drugs**

Seven Quarters of Momentum

	FY01		FY02			FY03	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue Y-O-Y	17%	16%	19%	20%	16%	19%	15%
EPS Y-O-Y	48%	41%	45%	58%	55%	35%	31%
ROCC	18.8%	18.7%	19.4%	20.4%	22.0%	22.4%	22.9%

All results exclude warehouse sales, special items and discontinued operations and include impact of FAS 142 in FY02

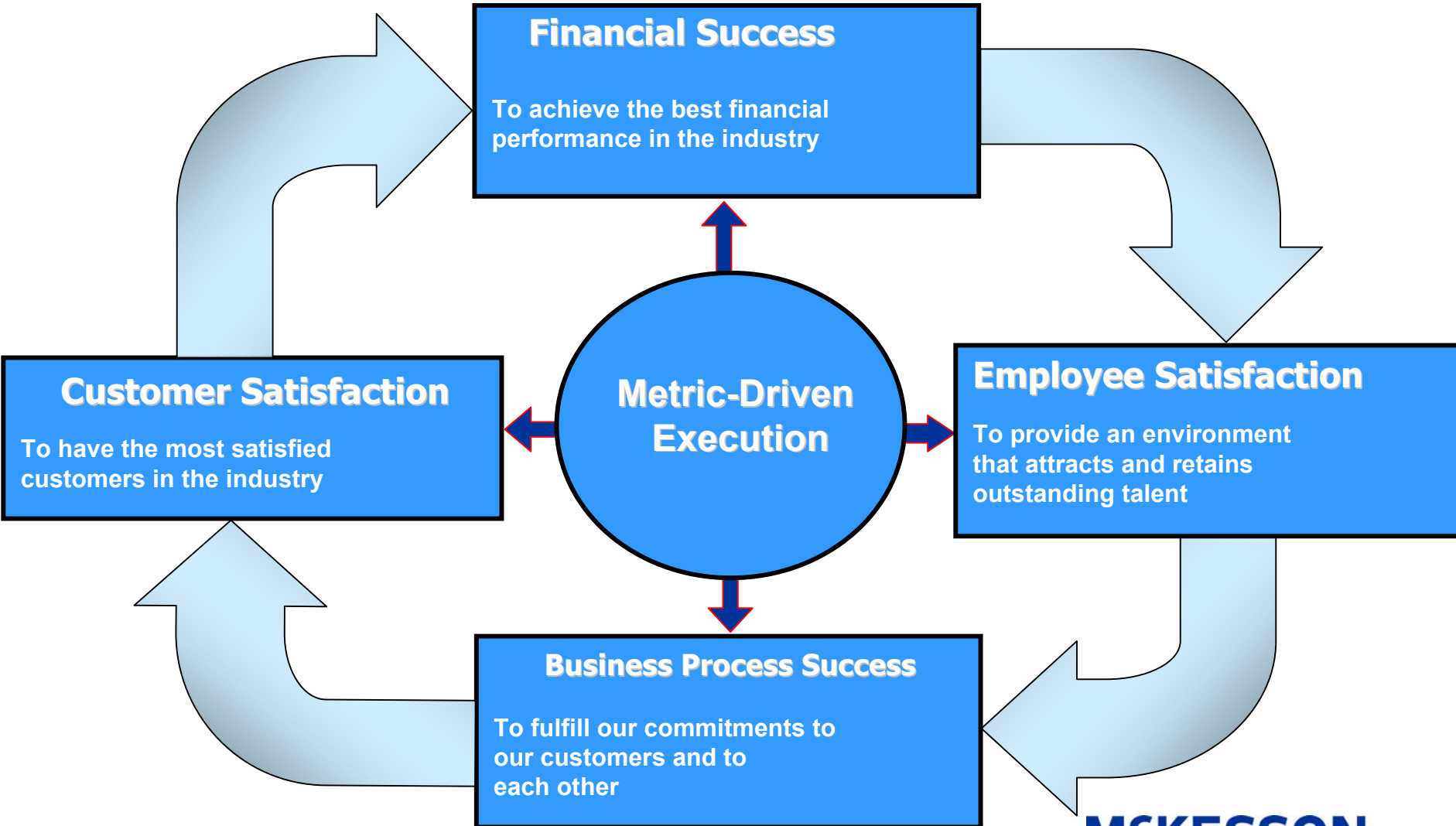
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Business Metrics Drive Results



Supply Businesses Across All Sites

McKesson
Pharmaceutical

- Distribution
- Repackaging
- Informatics
- International

McKesson
Automation

- Retail Pharmacy
- Hospital /
Institutional

McKesson Health
Solutions

- Medical
Management
Software and
Services
- Specialty
Pharmaceutical
Services

McKesson
Medication
Management

- Pharmacy and
Medication
Management
Services

McKesson
Medical Surgical

- Primary Care
- Extended Care
- Acute Care



End-to-End Continuum of Services

Multiple Points of Leverage

Comprehensive North American Distribution

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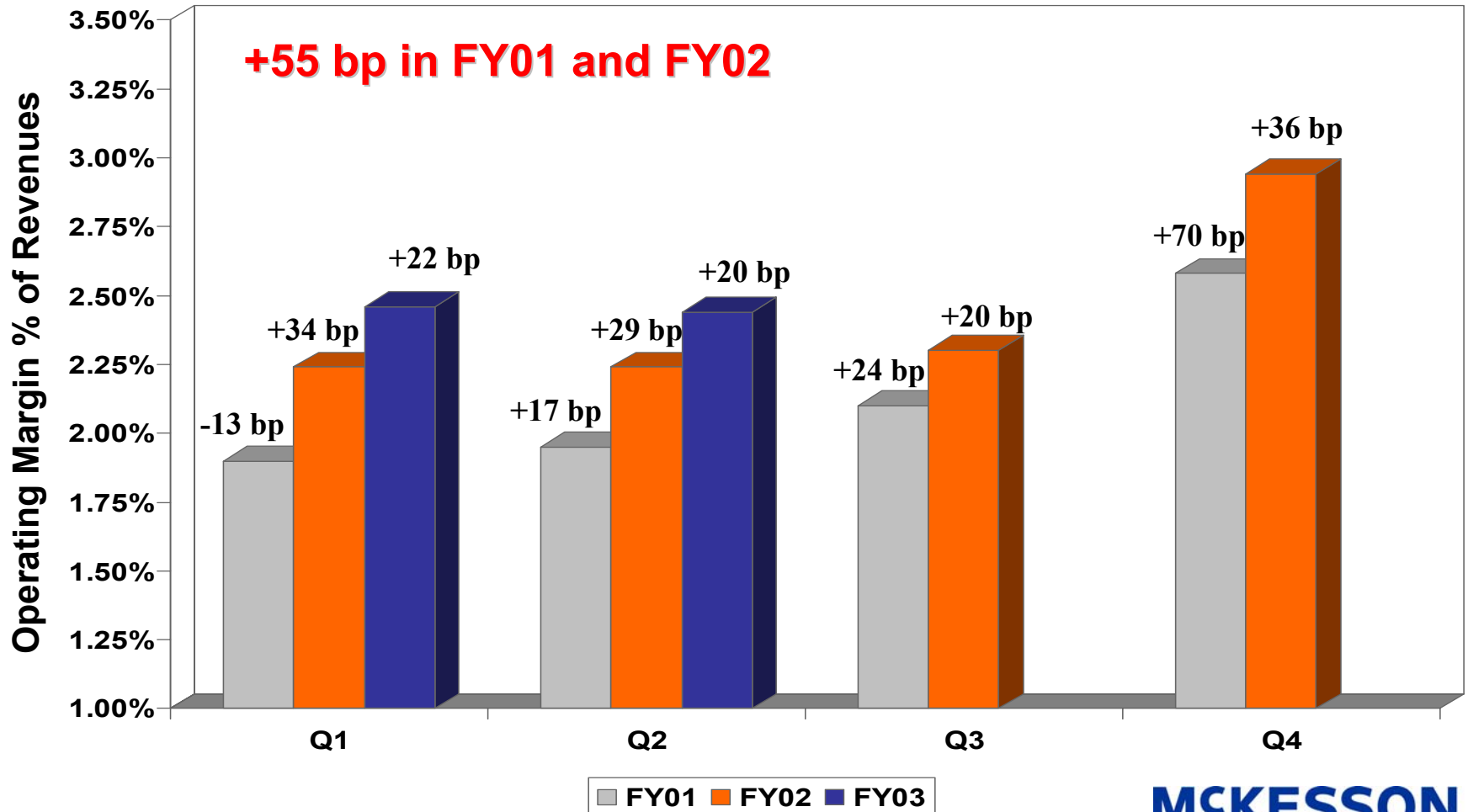
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Pharmaceutical Solutions: Strong Growth and Expanding Margins

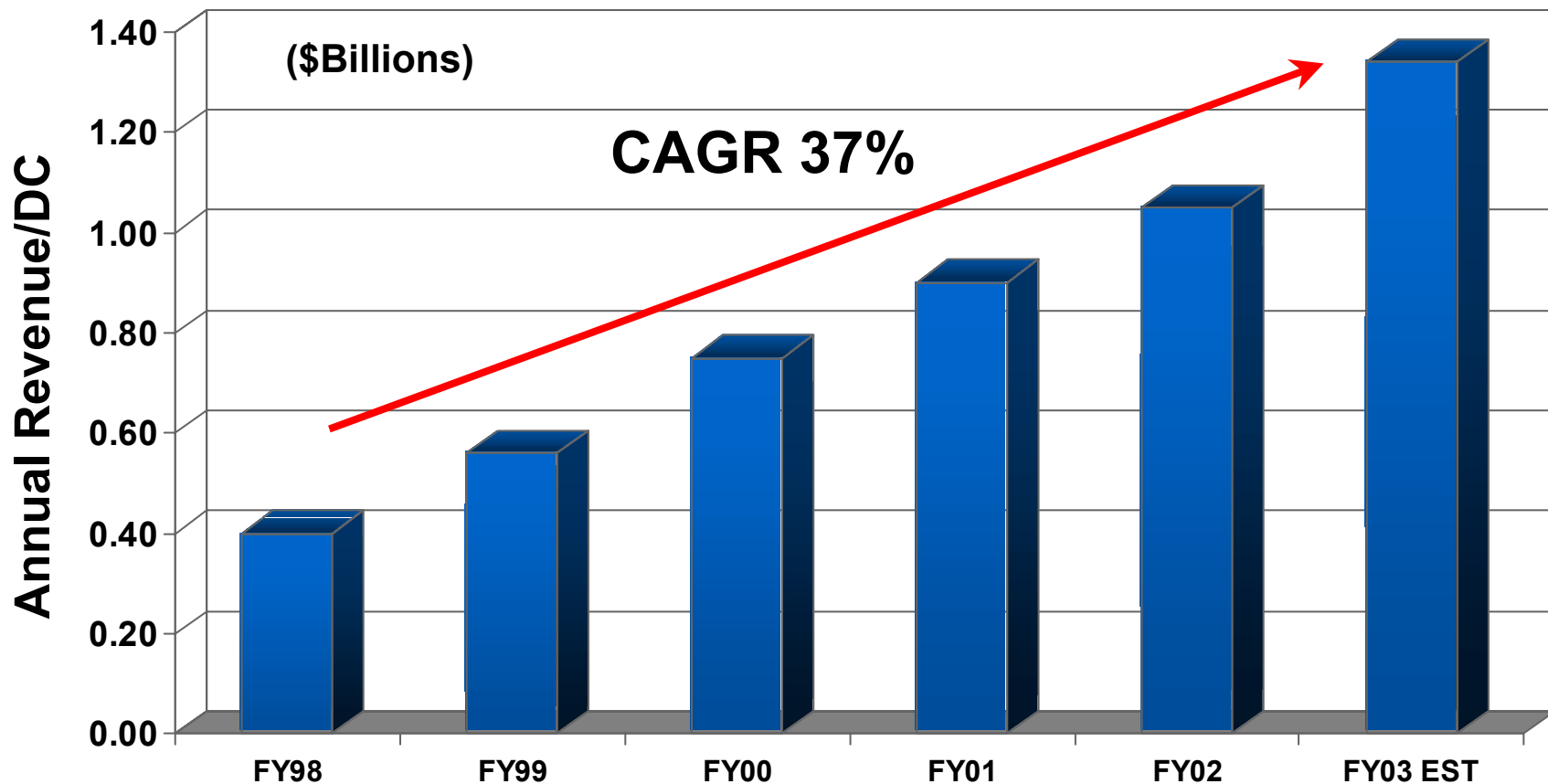
- **Q2 U.S. pharmaceutical distribution revenues up 17%**
- **Generic sales slow market growth but drive margin expansion**
- **Q2 operating margin up 20 bp driven by generics, strong pricing and increased sales of related products and services**
- **McKesson Canada revenues up 14% with margin expansion in Q2**

Pharmaceutical Solutions Margin Momentum

9 Consecutive Quarters of Y-O-Y Operating Margin Expansion

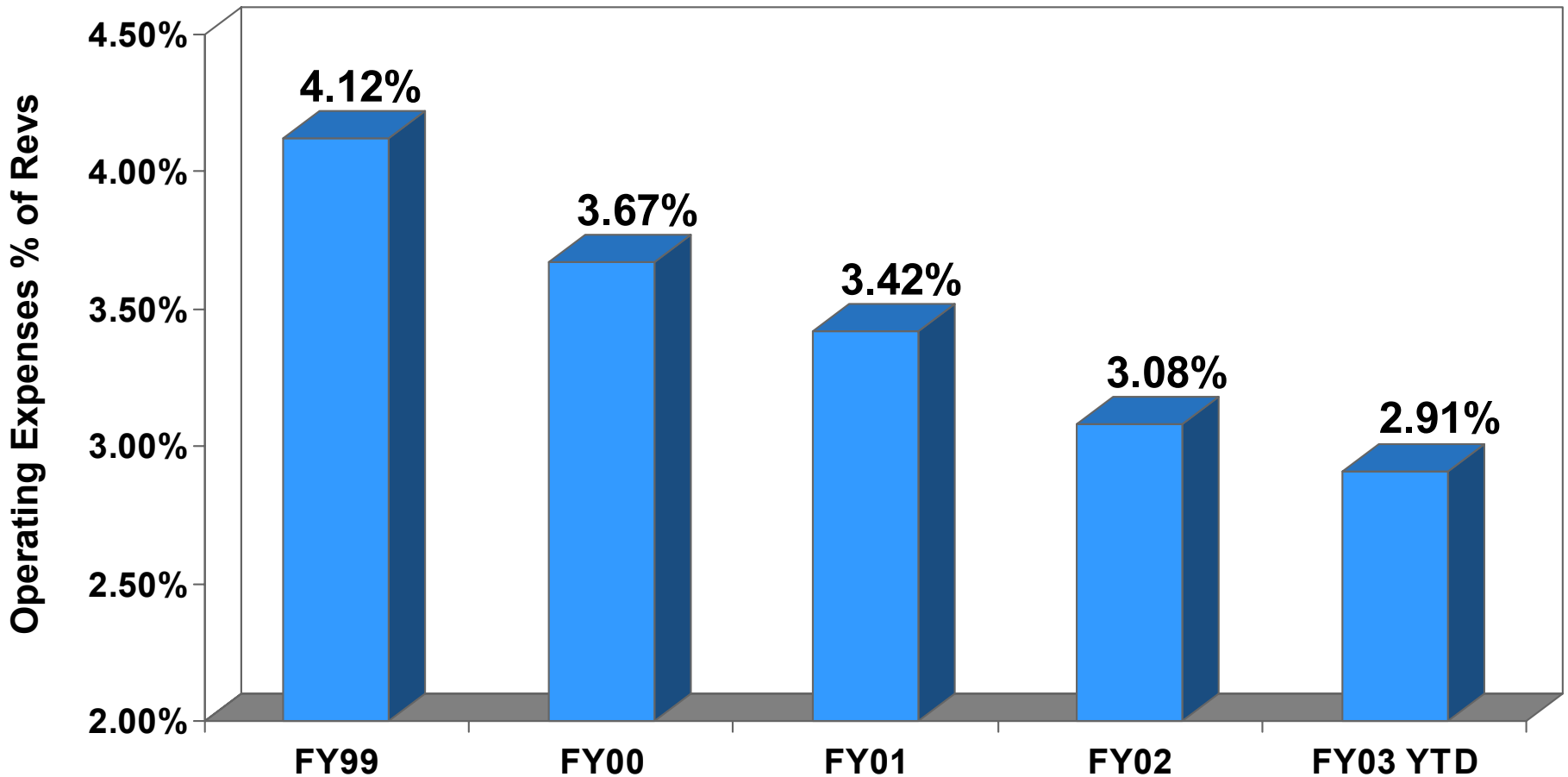


Pharmaceutical Solutions DC Productivity



Note: Excludes Alaska and Hawaii

Pharmaceutical Solutions Operating Leverage



Balanced Profit Components in Pharmaceutical Solutions

Inventory Profit

Branded product sourcing

Price increases

Special programs

Collaborative agreements

Generic product sourcing

Related products and services

McKesson Canada

Nadro

Specialty Pharmaceuticals

Automation

Repackaging

Disease Management

Pharmacy Outsourcing

Payor Services

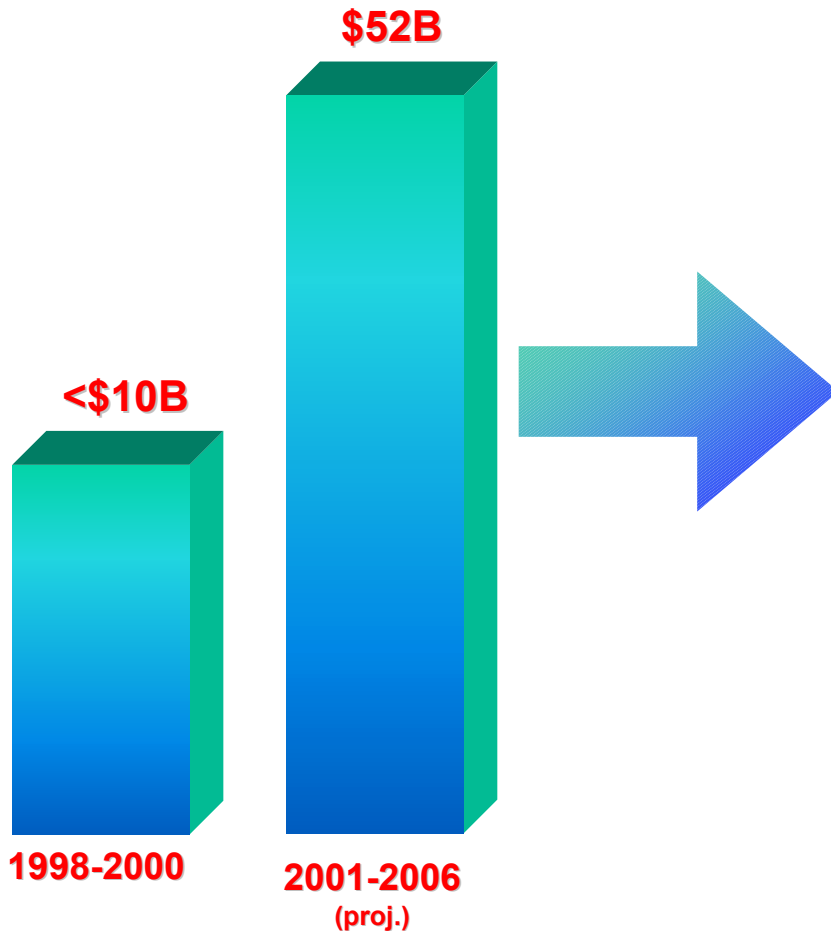
Zee Medical

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Significant Generics Opportunity

Branded pharmaceuticals going off patent



Should drive significant generic growth and margin expansion

- McKesson OneStop program
- 20,000 pharmacy outlets
- Generic Rx GP\$ and margin higher than that of branded Rx

Generics Gross Profit Drivers

- **Better sell margin**
- **Margin expansion through buying leverage**
- **“Formulary” fees**
- **Portfolio opportunities with manufacturers**
- **Free goods/credits**

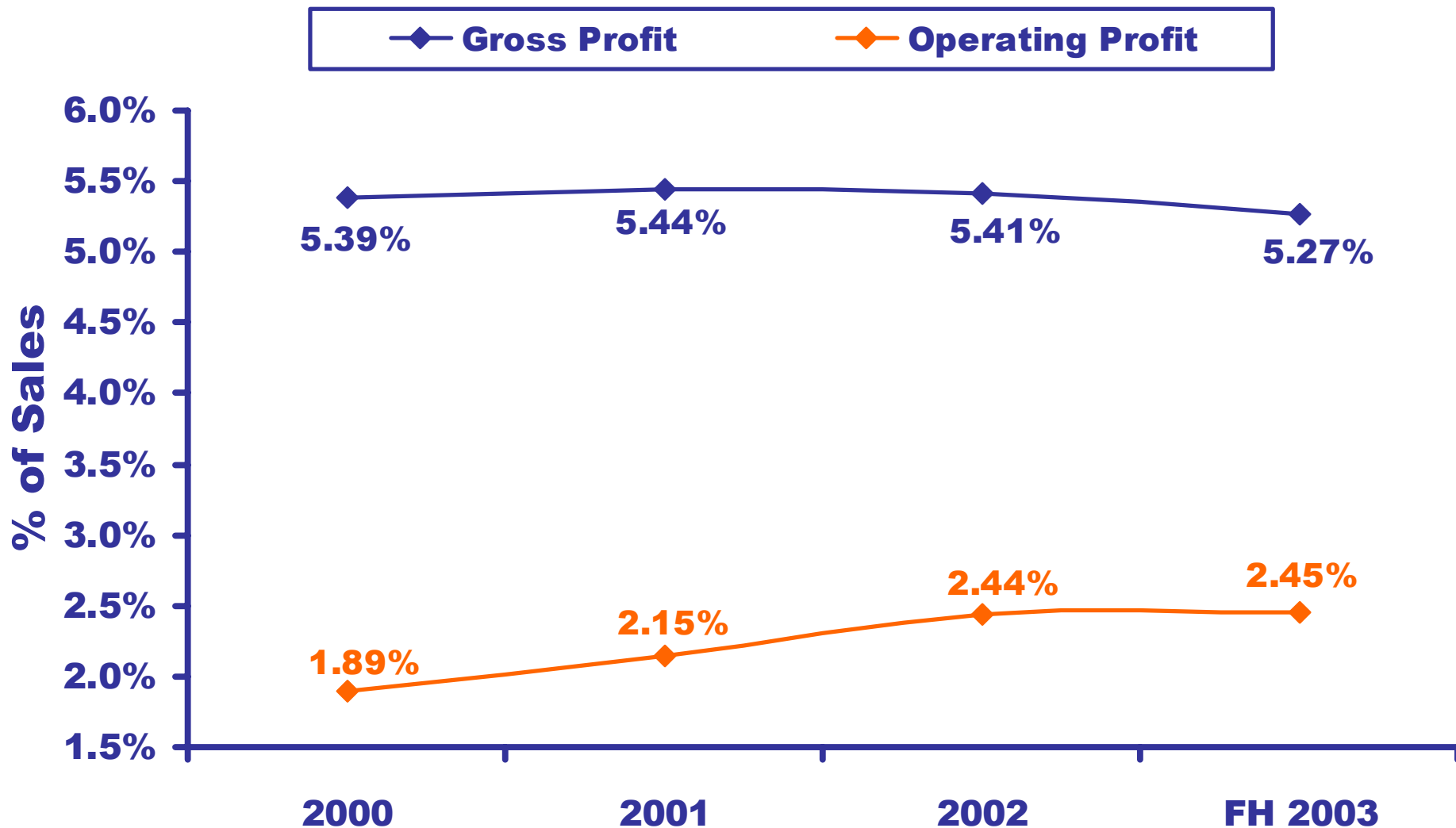
Pharmaceutical Solutions: Levers to Expand Operating Margins

- Product Sourcing
- Six Sigma
- Increased Generics Sales
- Grow Packaging Capabilities and Penetration
- Automation Market Expansion and Cross Selling
- Growth of Related Products and Services



**Significant Momentum in FY03
and Beyond**

Margin Trends Remain Favorable



Pharmaceutical Environment Remains Positive

- **Market growth of 11-14% driven partially by rapid penetration of generics, which creates profit opportunities**
- **Republican majority increases probability of Medicare drug benefit through private sector**
- **Drug price increases continue to be strong**
- **Relationships with manufacturers are cooperative and collaborative**

Medical-Surgical Solutions Strategic Value

- **Strategic role delivering supply chain solutions**
- **Strategic presence in alternate site market**
- **Potential for shareholder value creation**

McKesson Medical-Surgical: Not A Market Issue

	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>Q1FY03</u>	<u>Q2FY03</u>
Gross Profit Margin % Revenues	19.63	19.18	19.46	19.26	18.72
Operating Profit Margin % Revenues	4.22	3.40	3.49	2.84	0.28

McKesson Medical-Surgical: What We're Doing

- Install experienced leadership with track record for successful turnaround and augment with resources
- Improve financial and operating processes
- Execute DC network consolidation
- Complete ERP system implementation
- Increase private brand sales



Stabilize this year with margin improvement

expected in FY04

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Information Solutions Market Leadership

Financial Strength

- ◆ \$1 billion revenues
- ◆ 15% of revenue goes to R&D investment

Customer Reach

- ◆ 60% of health systems
- ◆ 82% of covered lives
- ◆ Largest / most profitable International HIT business

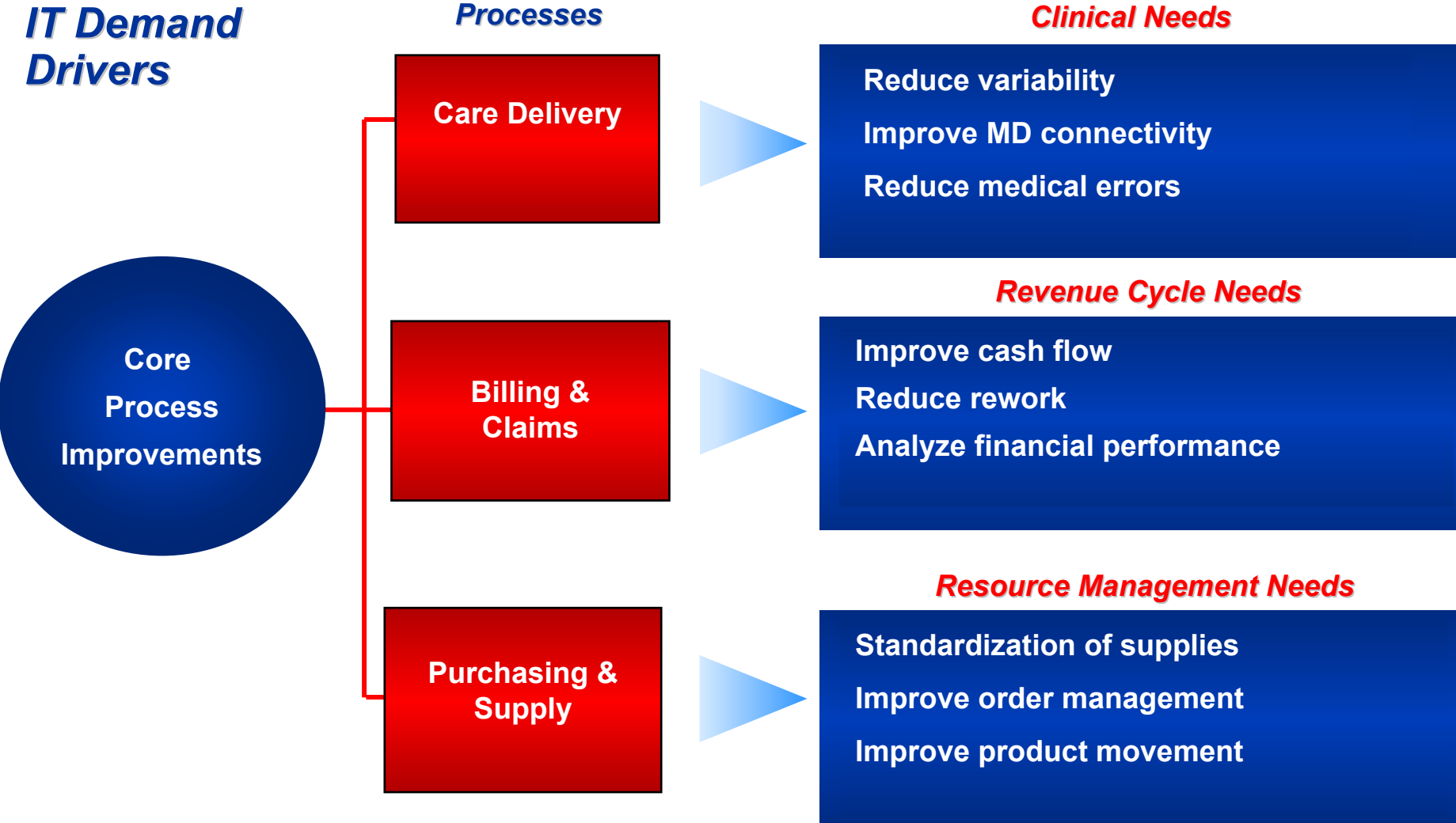
Solution Portfolio

- ◆ Most comprehensive
- ◆ Best-of-class
 - Software
 - PACS
 - Services
 - Outsourcing
 - Consulting
 - Content
 - Connectivity

Employee Expertise

- ◆ 6,300 employees
- ◆ 1,250 R&D
- ◆ 850 customer support
- ◆ 500 clinicians

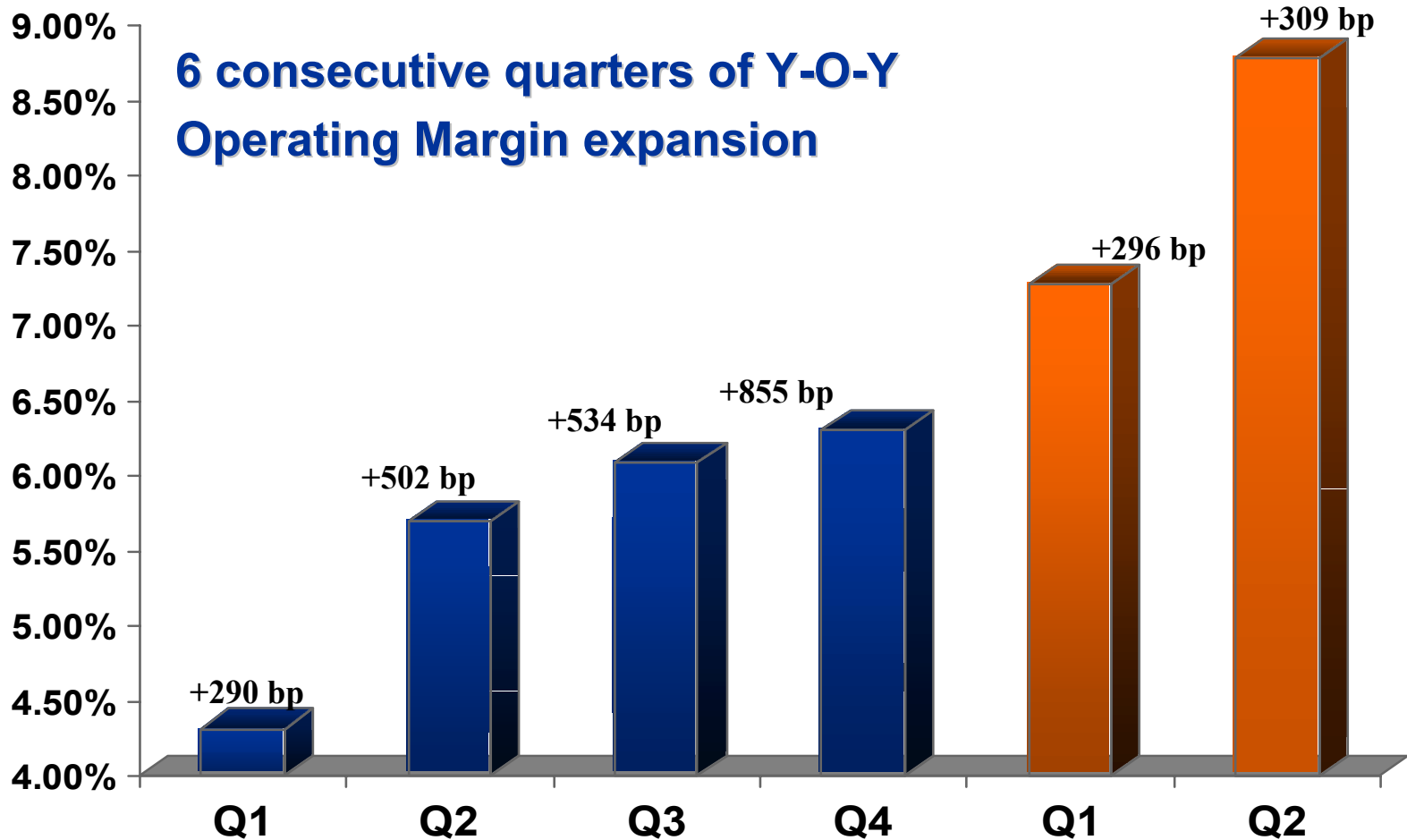
Customer Needs Drive Demand for IT Solutions



Information Solutions: Expanding Margin and Clinical Momentum

- Q2 revenues up 16%, software up 20%
- Q2 operating margin up 309 bp to 8.78%
- Q2 software bookings up 43%
- Horizon Expert Orders GA 12/9/02
 - 20 Horizon Expert Orders sales to date
 - 4 being delivered now
 - 12 in implementation by fiscal year end

Information Solutions Operating Margin Momentum



FY02

FY03

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Information Solutions Positive Outlook

- **Growing Demand for Clinical Products**
- **McKesson Positioned for Clinical Leadership**
- **Margin Expansion Strategies**
 - Improving revenue mix
 - Leveraging existing infrastructure

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FY00 to FY03 Achievements

- **Highest revenue growth and largest operating margin expansion in pharmaceutical distribution industry over the past 2-1/2 years**
- **Largest increase in customer satisfaction, more new product introductions and largest operating margin expansion in healthcare information technology industry over past 3 years**
- **EPS growth above 30% for seven consecutive quarters despite erosion in Medical-Surgical Solutions segment operating margin**

McKesson Differentiated Solutions

- **Presbyterian Healthcare, Spartanburg Health Systems, Solaris Health Systems, Atlantic Healthcare, Duke University**
- **Tenet Healthcare**
- **OTN**
- **Caremark**
- **Together Rx Card**

Goals for Delivering Sustained Financial Performance

- Industry-leading solutions and margin expansion in Pharmaceutical Solutions
- Clinical leadership, continued new product innovation and continued margin expansion in Information Solutions
- Financial turnaround and return to historical operating margins in Medical-Surgical Solutions



Value Creation for Customers and Shareholders

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