

MCKESSON

Empowering Healthcare

Goldman Sachs 2003 Global Health Care Conference

June 10, 2003

John 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.

Agenda For Today's Presentation

- **Company and Market Overview**
- **Business Unit Review**
- **One McKesson Customer Strategy**
- **Summary**

McKesson Investment Highlights

- **Positive momentum continues in Pharmaceutical Solutions and Information Solutions: revenue growth and margin expansion**
- **Results have stabilized in Medical-Surgical Solutions, and turnaround has begun**
- **Demographics, economics and public policy drive demand for McKesson products and services**

Largest Healthcare Services Company in North America -- 3 Segments

Pharmaceutical Solutions

- ◆ \$53 billion in revenues
- ◆ Pharma distribution in U.S. and Canada
- ◆ Long-term market growth 10-14% (IMS)
- ◆ Focus on further margin expansion

Medical-Surgical Solutions

- ◆ \$2.7 billion in revenues
- ◆ Multi-site U.S. med-surg supply distribution
- ◆ Market growth 2-5%
- ◆ Focus on operating efficiencies and margin expansion

Information Solutions

- ◆ \$1.1 billion in revenues
- ◆ HIT software, services, outsourcing
- ◆ Market growth ~10%
- ◆ Focus on clinical implementations and new product penetration

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Favorable Market Factors Drive McKesson Growth

- Aging and more sophisticated population consumes more drugs and supplies, more knowledgably
- Consumer, employer and government focus on quality
- Costs and incentives drive increased use of generics
- Clinician shortage increases focus on productivity
- Near-term pipeline of drugs expanding once again





McKesson revenue growth 3-4 times rate of growth of general economy

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Strong Q4 & FY Results

(\$ in millions, except EPS)

	<u>4th Quarter</u>			<u>Fiscal 2003</u>		
	<u>FY03</u>	<u>FY02</u>		<u>FY03</u>	<u>FY02</u>	
Revenues						
Pharmaceutical Solutions	\$9,968	\$8,763	+14%	\$38,406	\$33,073	+16%
Medical-Surgical Solutions	\$ 684	\$ 683	---	\$ 2,743	\$ 2,726	+1%
Information Solutions	\$ 314	\$ 272	+15%	\$ 1,139	\$ 1,004	+13%
Operating Profit						
Pharmaceutical Solutions	\$ 301	\$ 251	+20%	\$ 988	\$ 802	+23%
Medical-Surgical Solutions	\$ 17	\$ 16	+3%	\$ 65	\$ 64	+1%
Information Solutions	\$ 36	\$ 3	NM	\$ 94	\$ 22	+335%
Diluted Earnings per Share	\$ 0.62	\$ 0.43	+44%	\$ 1.90	\$ 1.44	+32%
Operating Cash Flow				\$ 696	\$ 326	+113%
Net Debt/Net Capital Ratio				14.0%	17.3%	

Note: Excluding sales to customers' warehouses

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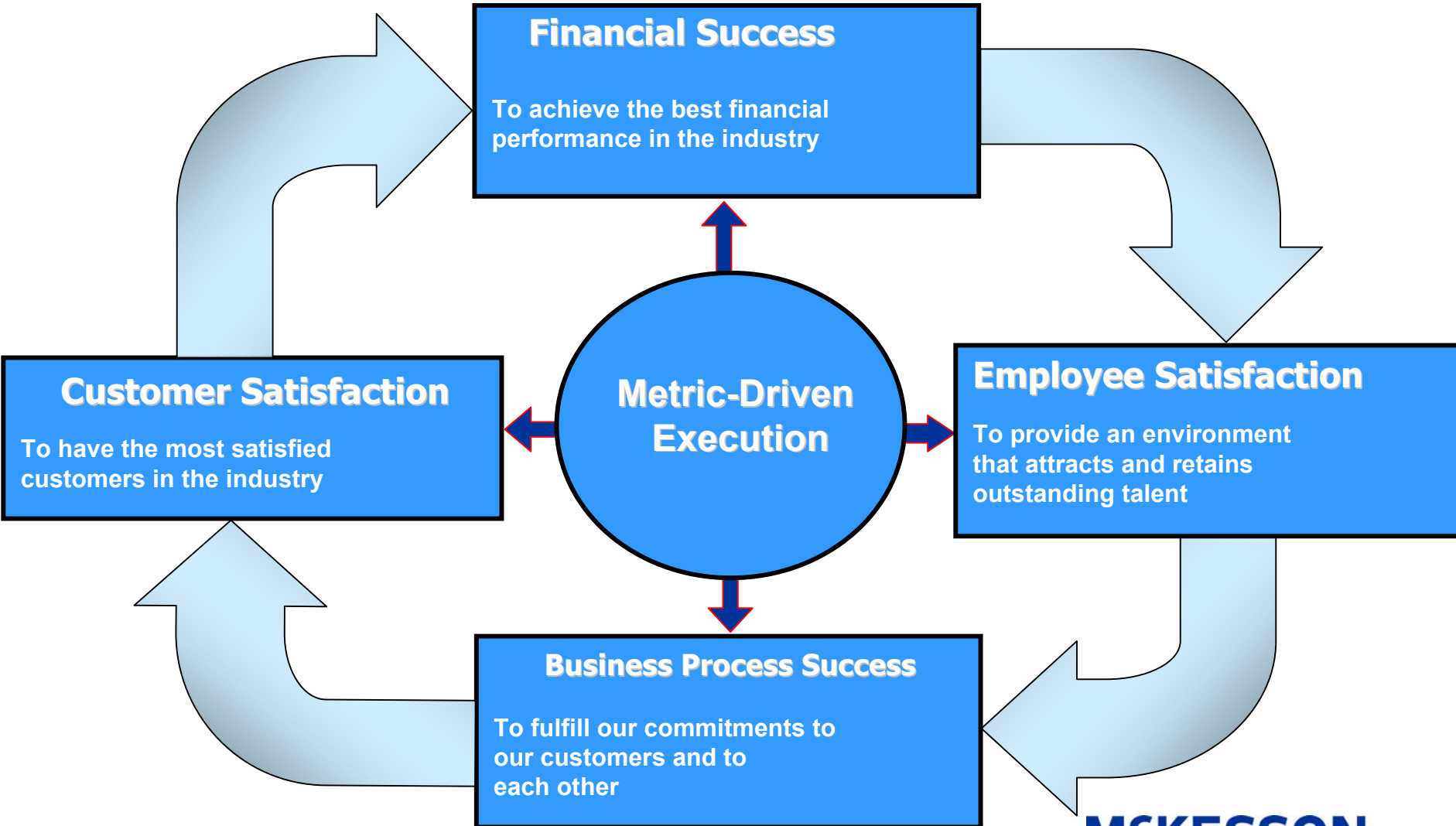
Fiscal 2003 Summary

- **Another solid year of improving financial results**
- **Pharmaceutical Solutions and domestic Information Solutions continued to achieve revenue growth and operating margin expansion**
- **Information Solutions international contracts and Medical-Surgical Solutions mid-year downturn were negatives but did not prevent overall positive results**
- **A.L.I. Technologies was acquired and rapidly integrated into the Horizon Clinical suite**
- **Strengthened balance sheet**

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Business Metrics Drive Results



Healthcare Supply Chain Management Across All Sites

McKesson
Pharmaceutical

- Distribution
- Repackaging
- Informatics
- #1 in Canada
- #1 in Mexico

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Automation

- Retail Pharmacy
- Hospital / Institutional
- Robots and cabinets
- SupplyScan

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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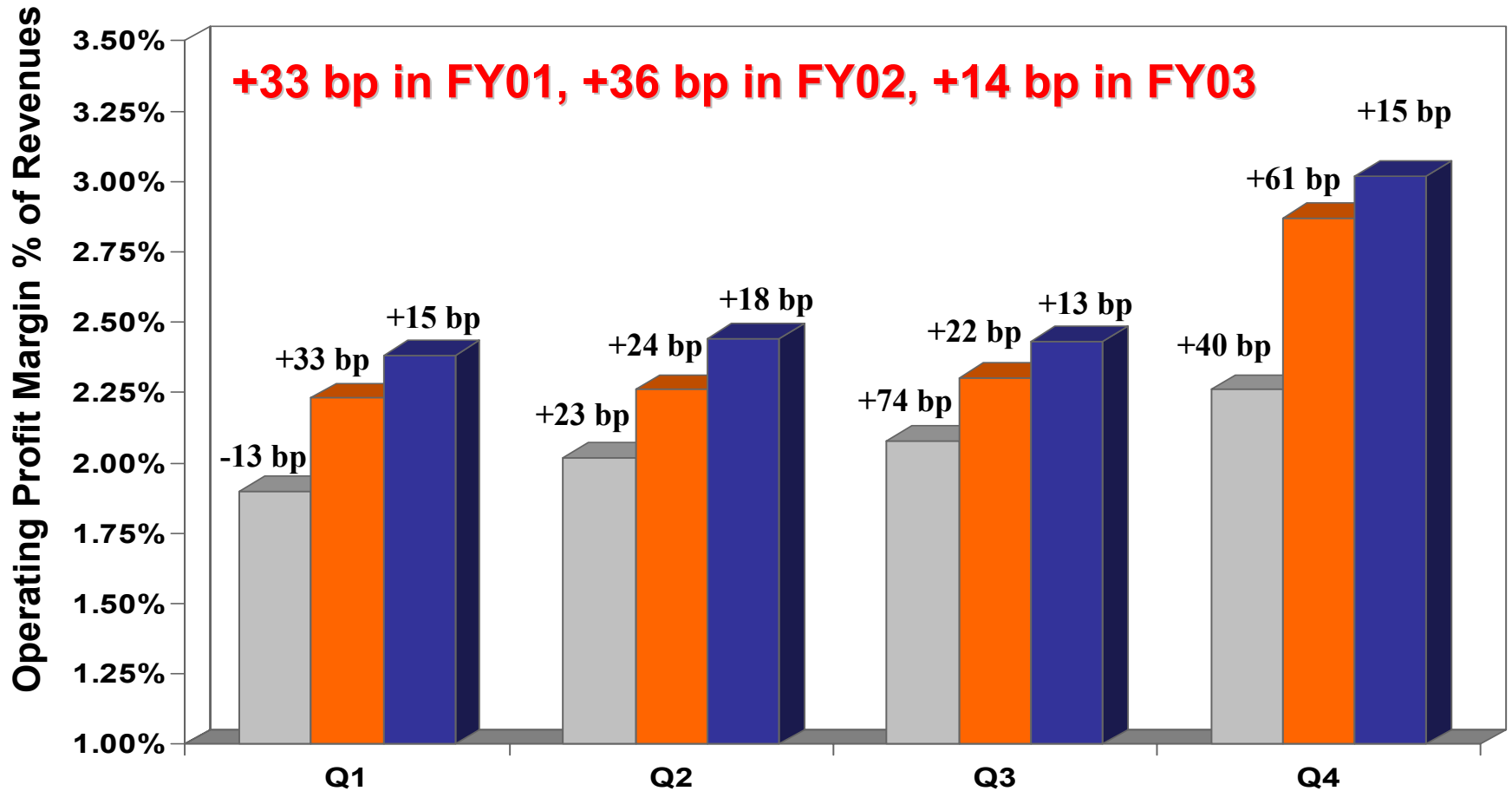
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Pharmaceutical Solutions: Solid Growth and Expanding Margins

- Q4 U.S. pharmaceutical direct-to-store revenues up 12%, warehouse sales up 20%
- Generic sales slow revenue growth but continue to drive margin expansion
- Operating margin up 15 bp in Q4 and up 14 bp for FY03
- McKesson Canada revenues up 28% for the quarter and 19% for the year

Pharmaceutical Solutions Operating Margin Expansion Continues

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



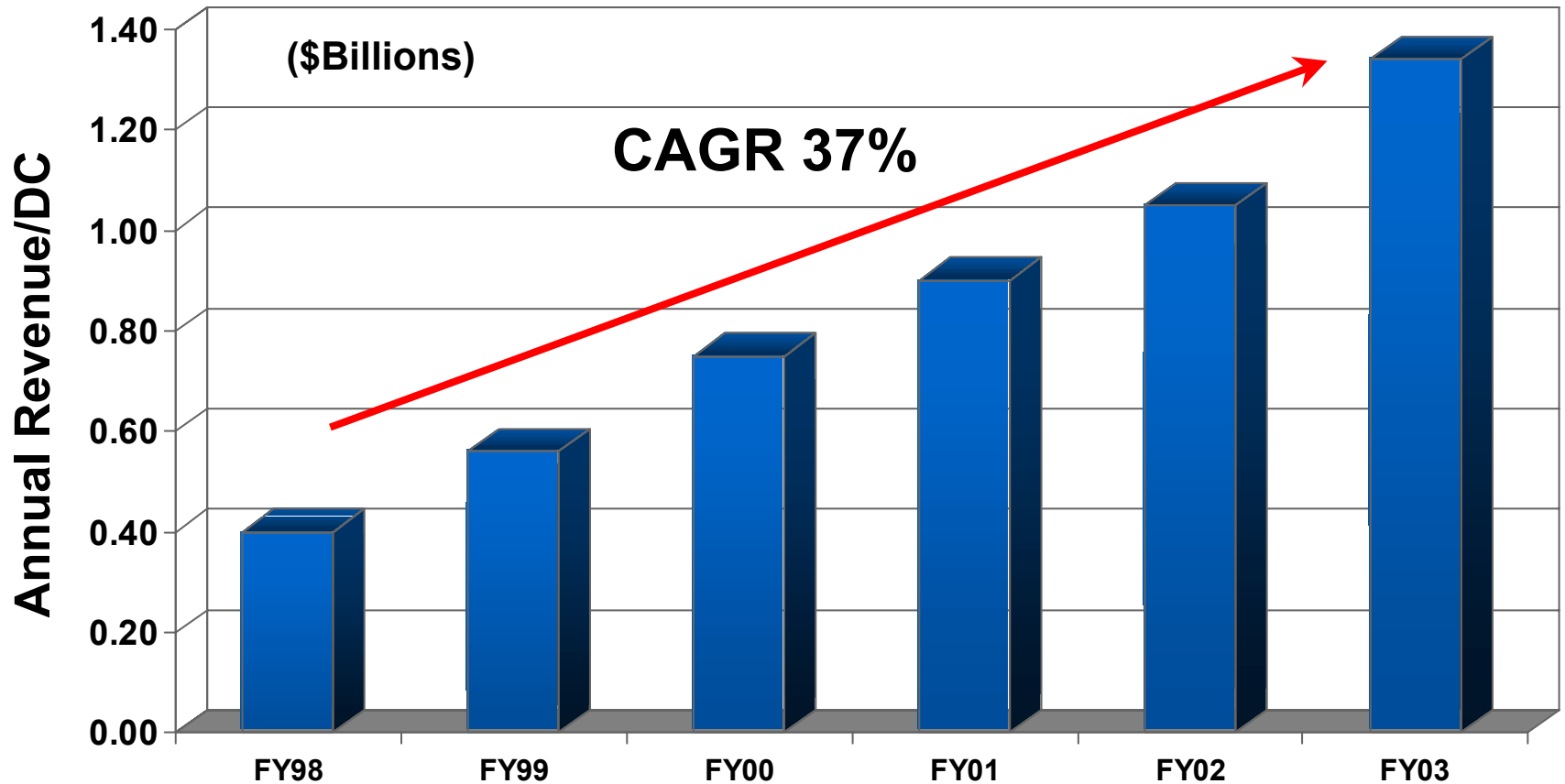
Note: Excluding impact of warehouse sales

■ FY01 ■ FY02 ■ FY03

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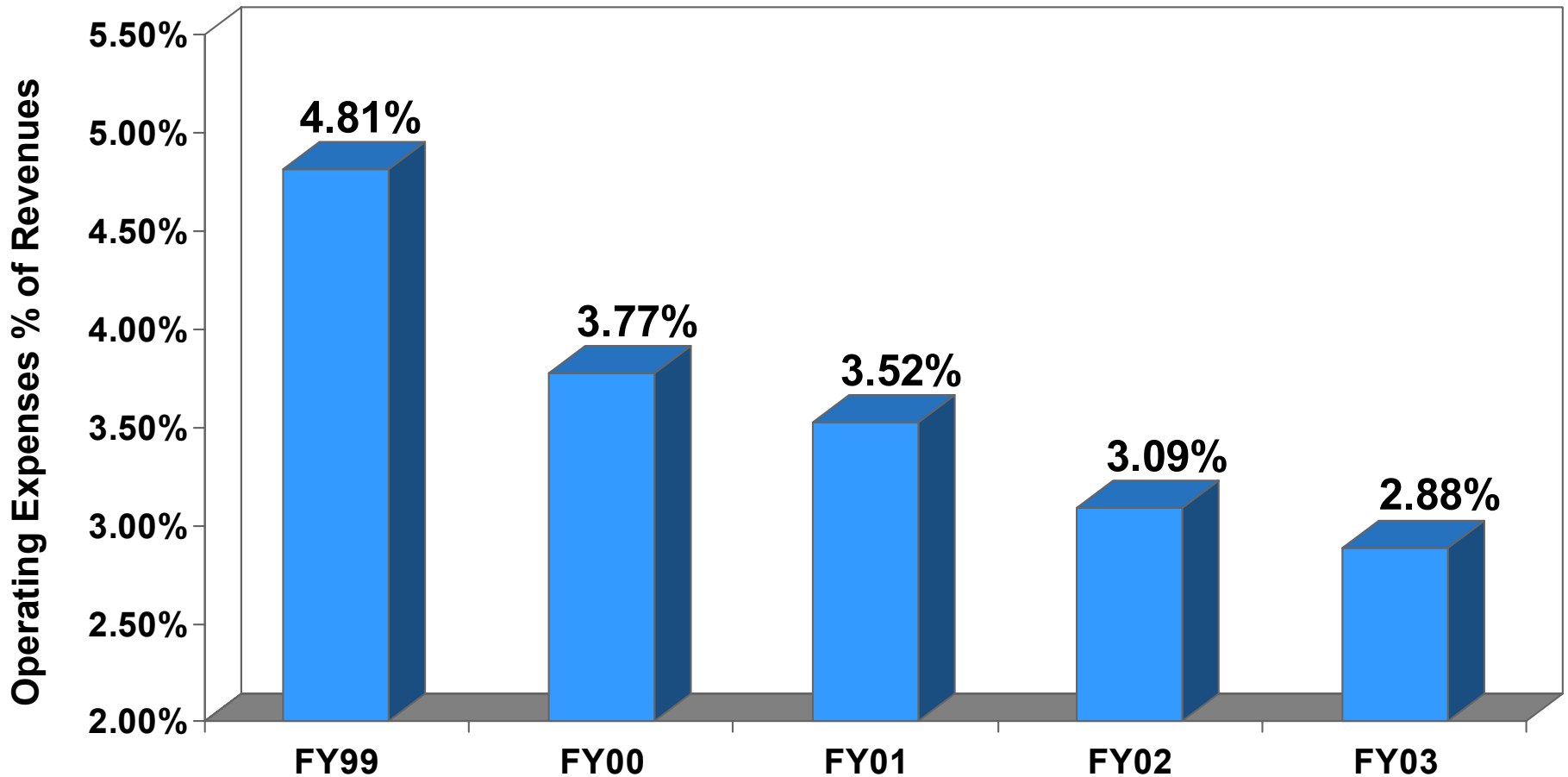
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Distribution Center Productivity Increases Continue . . .



Note: Excludes Alaska and Hawaii and warehouse sales

... Providing Operating Leverage



Note: Excludes impact of warehouse sales

Levers to Further Expand Operating Margin and Return on Capital

Inventory Profit

Branded product sourcing

- Price increases
- Special programs
- Manufacturer collaborative agreements (IMAs)

Generic product sourcing

- McKesson One Stop Program
- 20,000 total pharmacy outlets
- One Stop FY03 revenues +61%
- Generic Rx GP\$ and margin higher than that of branded Rx

Related products and services

- McKesson Canada
- Nadro
- Specialty Pharmaceuticals
- Automation
- Repackaging
- Disease Management
- Pharmacy Outsourcing
- Payor Services
- Zee Medical

Pharmaceutical Environment Remains Positive

- Penetration of generics dampens market growth to 10-14% over long term but creates incremental profit opportunities
- New bi-partisan bill increases probability of Medicare drug benefit
- Drug price increases continue
- Relationships with manufacturers are positive and collaborative
- Increasing visibility for new drugs, especially oncology

Pharmaceutical Solutions

Fiscal 2004 Expectations

- Revenue growth of at least 10%, in line with overall market growth

- Operating margin improvement of 5-10 bps

Medical-Surgical Solutions Turnaround Underway

- **New leadership has stabilized the business**
- **DC network consolidation has been completed and ERP system implementation remains on schedule**
- **Fiscal 2003-04: begin to realize benefits of consolidation and ERP system, improve processes and increase McKesson brand sales**

Medical-Surgical Solutions

Fiscal 2004 Expectations

- Modest revenue growth in FY04
- Operating margin should improve to 3% or better by Q4 FY04

Information Solutions Growth and Leadership Strategy

Financial Strength

- ◆ \$1.1 billion revenues
- ◆ ~15% of revenue goes to R&D investment
- ◆ Conservative accounting

Customer Reach

- ◆ 60% of U.S. health systems
- ◆ >50% of hospitals with 200 or more beds
- ◆ Significant improvement in customer service and satisfaction

Solution Portfolio

- ◆ Broadest product line
- ◆ 14 products were introduced in FY02 and FY03

Employee Expertise

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

Information Solutions Highlights

- Signed 1,900 software contracts, 46 of which had a value more than \$1 million
- Delivered Horizon Expert Orders to market on time, with 14 customer implementations currently underway
- Completed 500 Horizon Clinicals projects in FY03 and have another 600 scheduled or in progress
- Key products during FY03 – Horizon Medical Imaging, Horizon Expert Documentation, Horizon Care Access, Horizon Emergency Care and Horizon Ambulatory Care

Information Solutions

Fiscal 2004 Expectations

- Revenue growth in line with the market, about 10%, with software revenue growth higher than the growth rate overall
- Operating margin continues to improve, reaching to 11% to 12%

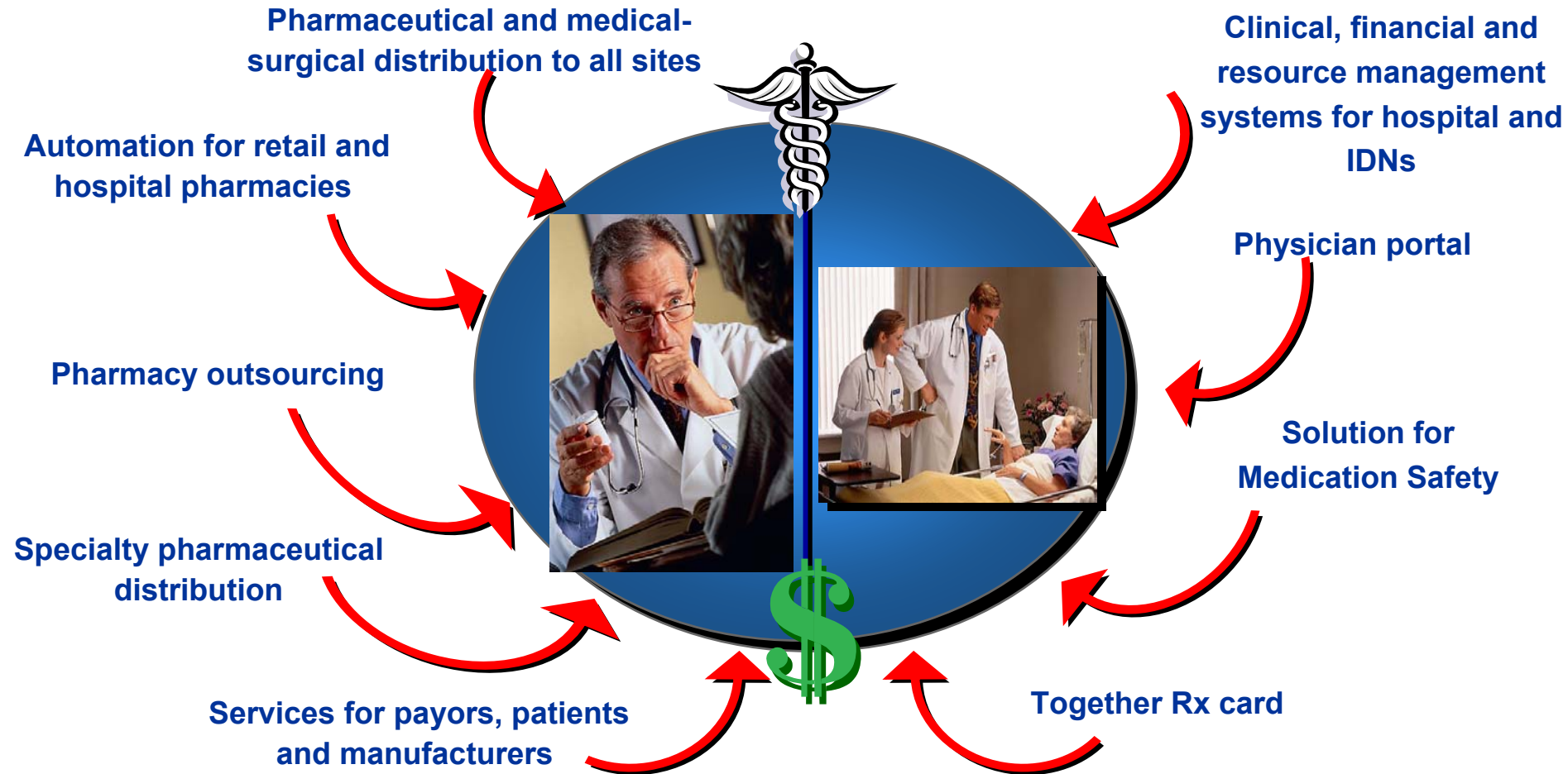
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One McKesson: Customers for Life

- **Create long-term customer relationships based on ROI and quality improvements**
- **Penetrate relationship by selling additional products and services**
- **Innovate with new offerings that address emerging healthcare challenges faster than the competition**

One McKesson Solutions Improve Quality and Reduce Cost



Unique Conversations with Customers At Higher Levels

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Closed Loop Medication Management



PRESCRIBING



TRANSCRIBING



DISPENSING



ADMINISTERING



MONITORING



DISTRIBUTION

Integrated Solution



CONSULTING

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Closed Loop Supply Management

- SupplyScan bar code scanner automates tracking, billing and re-stocking of medical-surgical supplies by nurses
- Developed for HCA in 2001, launched into broader market in 2002
- Live in more than 180 hospitals in less than 2 years
- Large under-penetrated market
- Integrated with medical-surgical and information solutions



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Closed Loop Patient Care Management

The screenshot displays a 'Physician Portal' interface. On the left, the 'EDIT Results Viewer' shows a table of lab results. A green box highlights a portion of this table. In the center, a line graph titled 'Temperature (02/03/2001 00:00 - 04/04/2001 16:04)' shows temperature fluctuations over time. On the right, a red box highlights two chest X-ray images. The bottom of the screen shows a Windows taskbar with various application icons and the system clock at 4:07 PM.

RsltLvl	Collected	Ordered	Item (Order Number)	Dept Status	Priority
<input type="checkbox"/>	03/14/01 2042	03/14/01 2026	CHEMISTRY PANEL (41)	Done	ROUTINE
<input type="checkbox"/>	03/14/01 2040	03/14/01 2026	ARTERIAL BLOOD GAS (42)	Done	STAT
<input type="checkbox"/>	03/14/01 2035	03/14/01 2036	CBC WITH DIFF (43)	Partial	STAT
<input type="checkbox"/>	03/12/01 2123	03/12/01 2223	COMPLETE BLOOD COUNT (5)	Done	STAT
<input type="checkbox"/>	03/13/01 0557	03/13/01 0610	CBC WITH DIFF (9)	Done	ROUTINE
<input type="checkbox"/>	03/13/01 0605	03/13/01 0628	CBC WITH DIFF (11)	Done	ROUTINE
<input type="checkbox"/>	03/13/01 0903	03/13/01 0904	SMAC (12)	Done	STAT
<input type="checkbox"/>			ARTERIAL BLOOD GAS (13)	Done	STAT
<input type="checkbox"/>			CHEST PA LAT 71020	RPT READ	ROUTINE
<input type="checkbox"/>			CULTURE, RESPIRATORY	Done	ASAP

Discrete Data

- Lab
- Vitals - I&Os

Medical Images

Documents

- History & Physical
- Discharge Summary

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FY00 to FY03 Achievements

- **Highest revenue growth and largest operating profit margin expansion in industry for Pharmaceutical Solutions**
- **Major improvement in customer satisfaction and more new product introductions combined with solid operating margin expansion for Information Solutions**
- **Solid EPS growth despite erosion in Medical-Surgical Solutions operating profit**

Goals for Delivering Sustained Financial Performance

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



Value Creation for Customers and Shareholders

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