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Empowering Healthcare

SG Cowen **2003 Health Care Conference**

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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 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

- **Market and Strategy Overview**

- **Business Unit Review**

- **Focus on Innovation**

- **Summary**

McKesson Investment Highlights

- **Positive momentum continues in Pharmaceutical Solutions and Information Solutions: revenue growth and margin expansion**
- **Turnaround underway in Medical-Surgical Solutions**
- **Demographics, economics and public policy drive demand for McKesson products and services**

Largest Healthcare Services Company in North America -- 3 Segments

Pharmaceutical Solutions

- ◆ \$46 billion in revenues
- ◆ US and Canadian pharma distribution
- ◆ Market growth 11-14%
- ◆ Focus on operating efficiencies and margin expansion

Medical-Surgical Solutions

- ◆ \$2.7 billion in revenues
- ◆ Multi-site U.S. med-surg supply distribution
- ◆ Market growth 2-5%
- ◆ Focus on improving results

Information Solutions

- ◆ \$1 billion in revenues
- ◆ HIT software, services, outsourcing
- ◆ Market growth ~10%
- ◆ Focus on clinical implementations and new product penetration

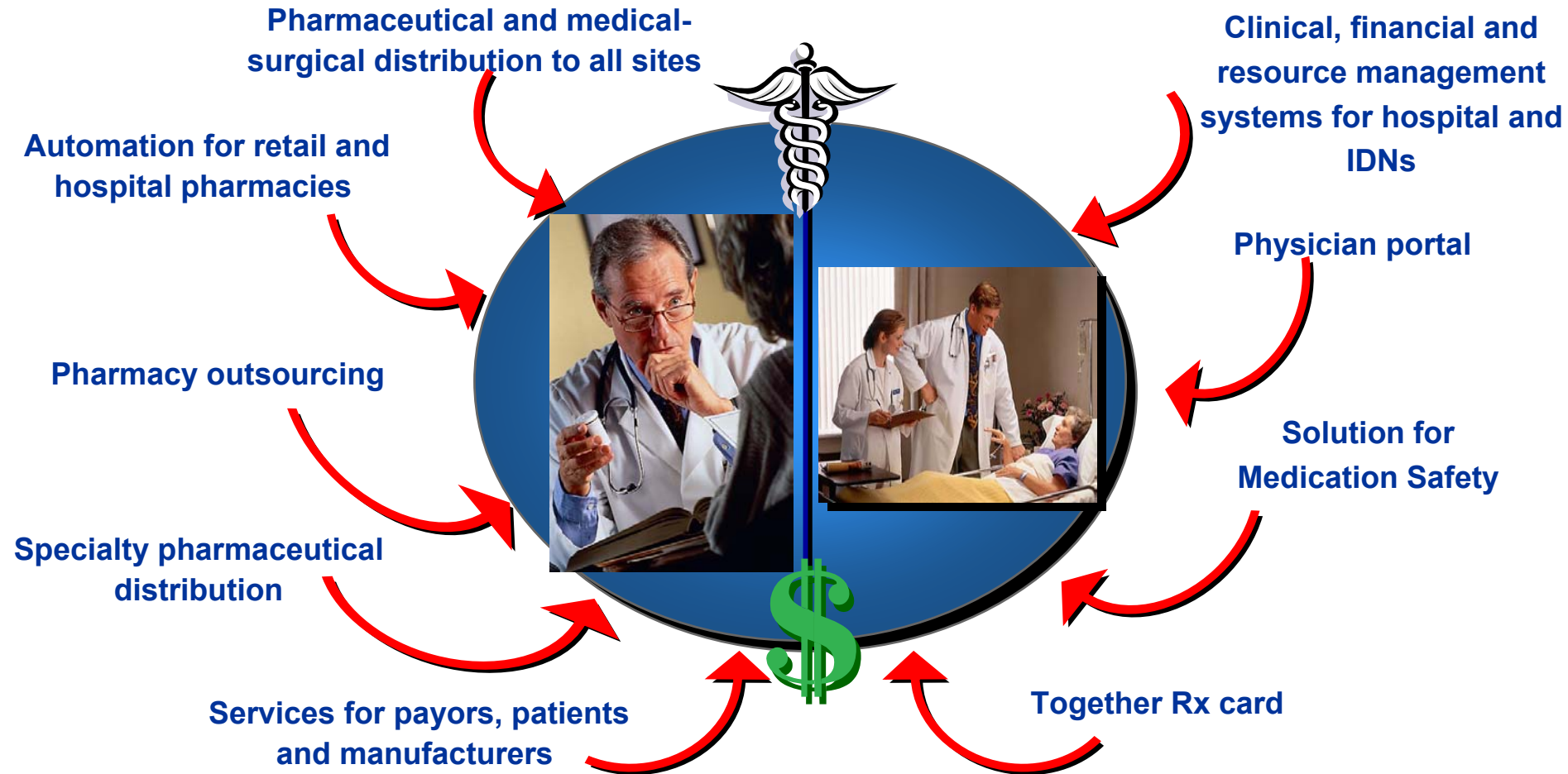
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Customers for Life

- **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**

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 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 growth 3-4 times growth of general economy

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Strong Q3 & YTD Results -- GAAP

(all \$ in millions, except EPS)

	<u>3rd Quarter</u>			<u>Nine Months</u>		
	<u>FY03</u>	<u>FY02</u>		<u>FY03</u>	<u>FY02</u>	
Revenues						
Pharmaceutical Solutions	\$9,926	\$8,695	+14%	\$28,437	\$24,311	+17%
Medical-Surgical Solutions	\$ 693	\$ 684	+1%	\$ 2,060	\$ 2,044	+1%
Information Solutions	\$ 295	\$ 248	+19%	\$ 825	\$ 732	+13%
Operating Profit						
Pharmaceutical Solutions	\$ 241	\$ 200	+20%	\$ 687	\$ 551	+25%
Medical-Surgical Solutions	\$ 18	\$ 26	-32%	\$ 48	\$ 48	---
Information Solutions	\$ 15	\$ 15	---	\$ 59	\$ 19	+215%
Diluted Earnings per Share	\$ 0.46	\$ 0.37	+24%	\$ 1.27	\$ 1.00	+27%
Return on Committed Capital	22.3%	9.3%				
Net Debt/Net Capital Ratio	18.1%	19.1%				

Note: Excludes sales to customers' warehouses

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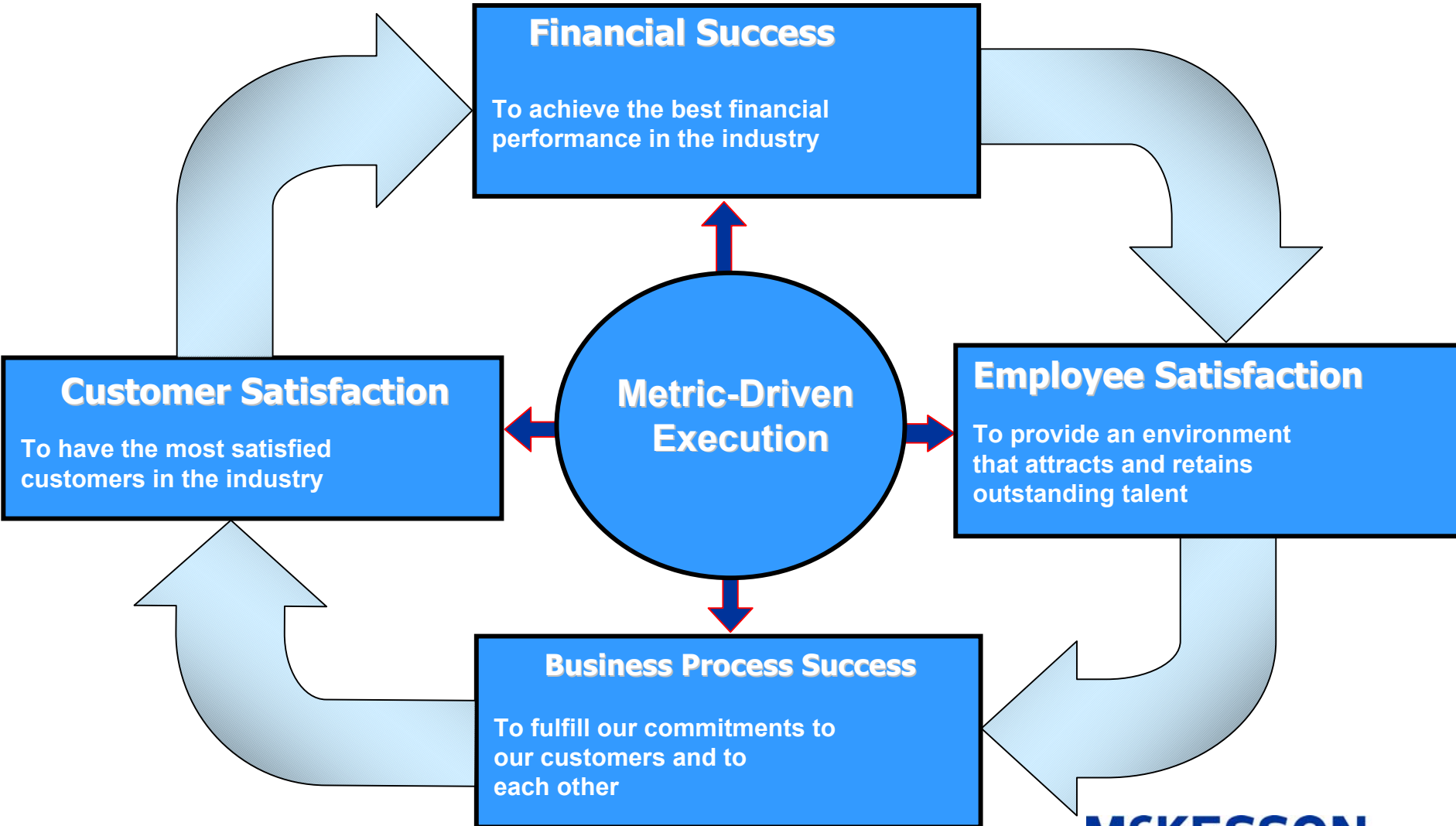
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Business Metrics Drive Results



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

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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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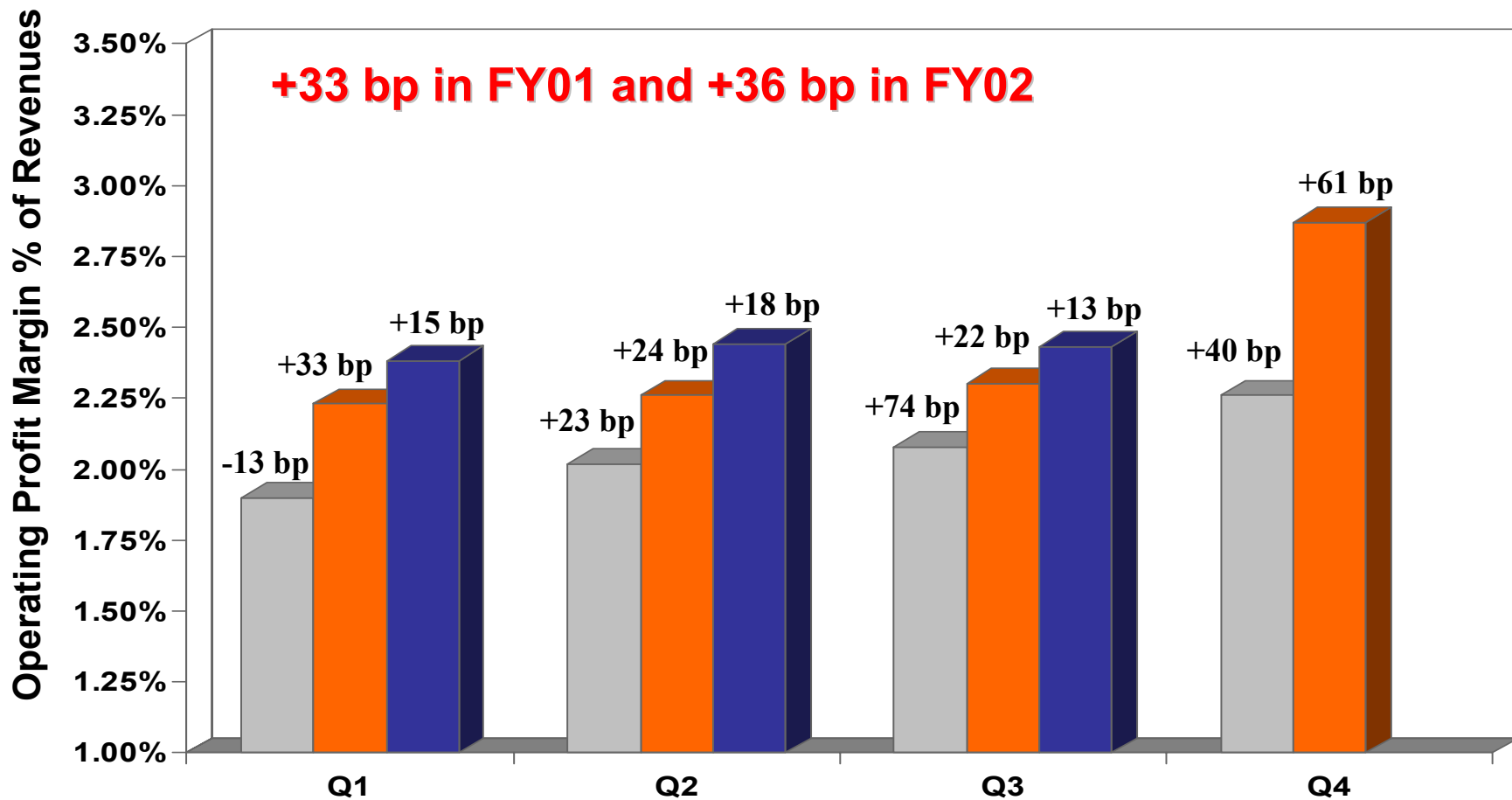
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Pharmaceutical Solutions: Solid Growth and Expanding Margins

- Q3 U.S. pharmaceutical revenues up 14%, warehouse sales up 12%
- Generic sales slow market growth but drive margin expansion
- Q3 operating margin up 13 bp
- McKesson Canada revenues up 17%

Pharmaceutical Solutions Operating Profit Margin Momentum

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



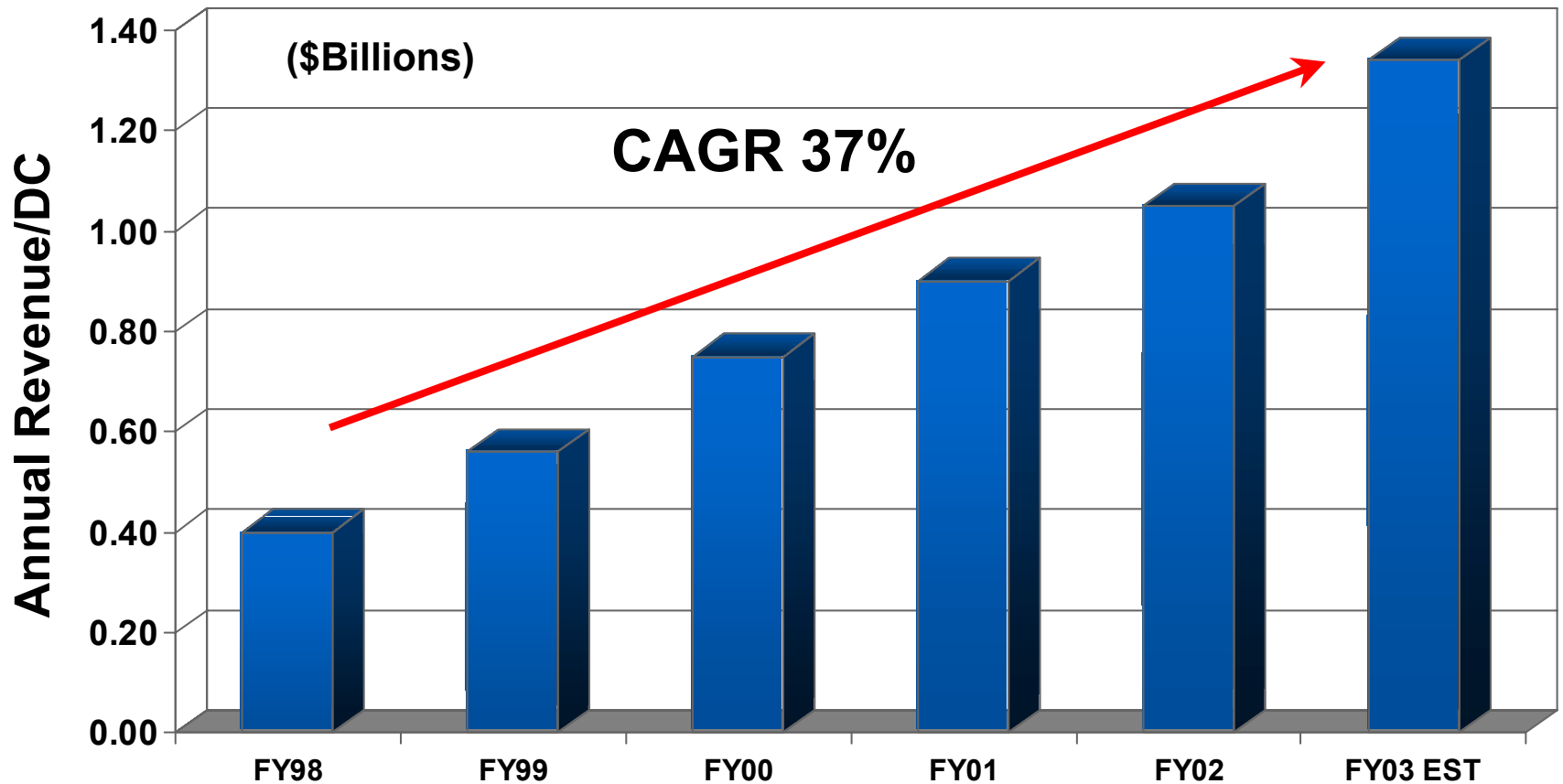
Note: Excluding impact of warehouse sales

■ FY01 ■ FY02 ■ FY03

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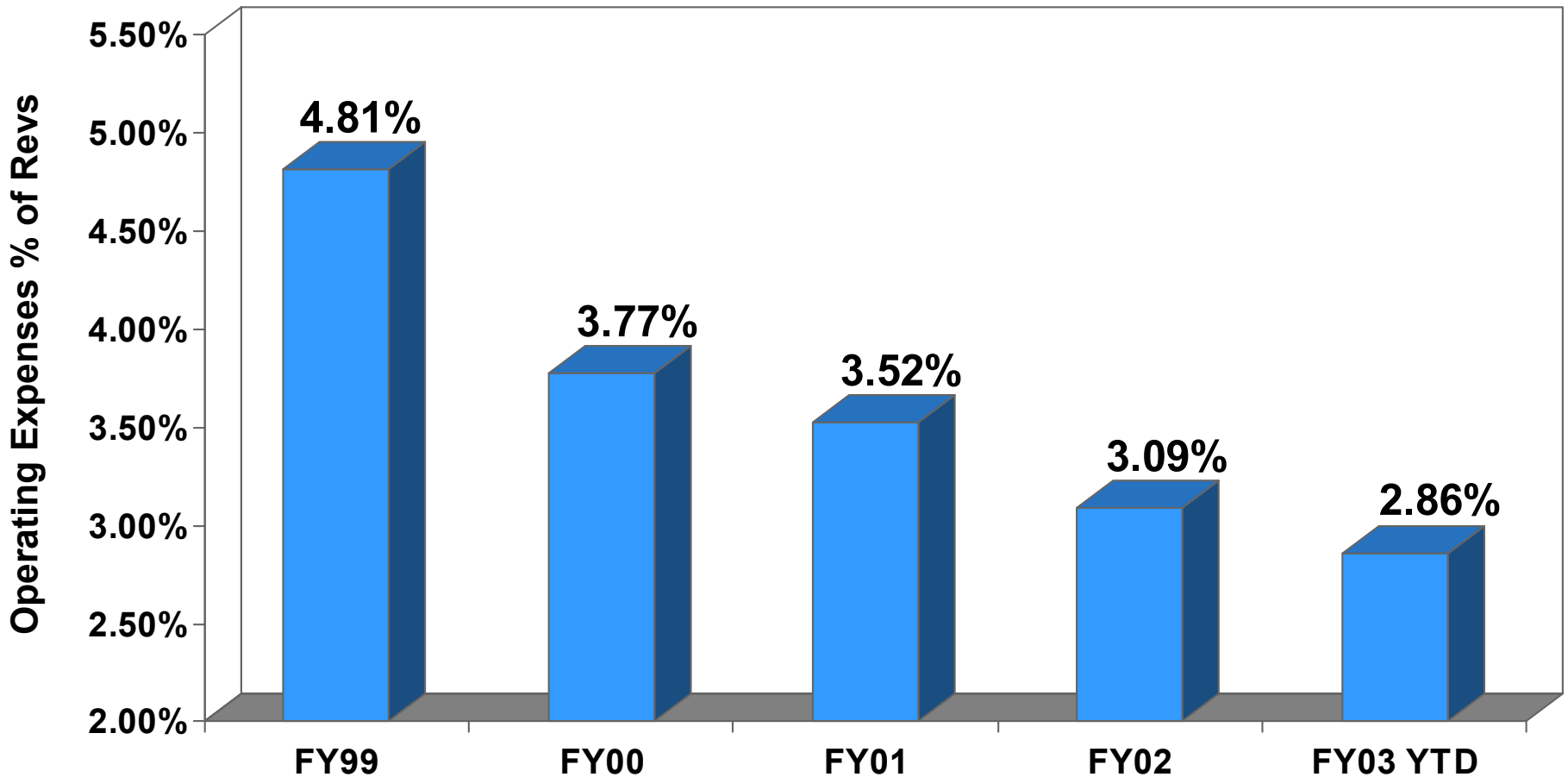
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Distribution Center Productivity Increases Provide . . .



Note: Excludes Alaska and Hawaii and warehouse sales

... Significant Operating Leverage



Note: Excludes impact of warehouse sales

Pharmaceutical Solutions: Levers to Expand Operating Margins

Inventory Profit

Branded product sourcing

- Price increases
- Special programs
- Collaborative agreements

Generic product sourcing

- McKesson One-Stop Program
- 20,000 total pharmacy outlets
- 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

Six Sigma Delivers Operating Efficiency Gains

- **Focus to date on Pharmaceutical Solutions: \$35 million EBIT benefit past two years**
- **Additional projects scheduled for Pharmaceutical Solutions with expanded programs in Automation, Canada and Medical-Surgical Solutions**
- **Beginning to apply Six Sigma in Information Solutions**
- **Pilot programs underway with customers**

Pharmaceutical Environment Remains Positive

- **Rapid penetration of generics dampens market growth to 11-14% but creates new profit opportunities**
- **Bi-partisan support increases probability of Medicare drug benefit**
- **Drug price increases continue**
- **Relationships with manufacturers are cooperative and collaborative**

Medical-Surgical Solutions Turnaround Underway

- New leadership has stabilized the business
- Near-term focus on completing DC network consolidation and ERP system implementation
- Longer term: realize benefits of consolidation and ERP system, improve processes and increase McKesson brand sales



**Gradual improvement expected
throughout FY04**

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Information Solutions Growth and Leadership Strategy

Financial Strength

- ◆ \$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
- ◆ 13 new product introductions in FY02 and FY03

Employee Expertise

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

Information Solutions Market Momentum Continues

- Q3 revenues up 19%, software up 63%
- Q3 operating profit flat due to international loss provision, offset in part by positive adjustment to customer settlement reserve
- Horizon Expert Orders GA 12/9/02
 - 4 customers in implementation currently
 - 12 in implementation by fiscal year end

Information Solutions Positive Outlook

- **Growing demand for clinical products**
- **McKesson positioned for clinical leadership**
- **Margin expansion drivers**
 - **Increasing software backlog and revenues**
 - **Leveraging existing infrastructure**

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Closed Loop Medication Management



PRESCRIBING



TRANSCRIBING



DISPENSING



ADMINISTERING



MONITORING



DISTRIBUTION

Integrated Solution



CONSULTING

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SupplyScan: Closed Loop Supply Management

- 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



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.

RsItLvl	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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