

MCKESSON

Empowering Healthcare

Lehman Brothers Global Healthcare Conference

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Business Review

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**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.

McKesson's Comprehensive Offering of Products and Services



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McKesson Pharmaceutical

- #1 in retail chains and independents
- #1 in Canada
- Large Rx repackaging
- Leading generics provider

McKesson Information Solutions

- 63% of health systems
- 51% of hospitals with 200+ beds
- Comprehensive product and service offering: software, consulting, and outsourcing
- More "Best in KLAS" products than any other vendor

McKesson Automation

- #1 in robotic hospital pharmacy dispensing
- Leading bedside administration scanning
- #1 in retail pharmacy automation

McKesson Health Solutions

- #1 in medical management software and services for payors
- Disease management
- Patient relationship management and specialty distribution services for manufacturers

McKesson Medical-Surgical

- #1 in primary care and extended care
- Repositioning in acute care
- Rapid growth in physician office pharmaceuticals and equipment

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Healthcare 2004: Opportunities

- **Variable clinical quality with too many preventable errors**
- **Known clinical best practices applied sporadically**
- **Administrative costs are very high and processes are not efficient**
- **Coordination of care is poor**

McKesson Corporation Mission

**To use the power of One McKesson
to advance the health of the healthcare system
by advancing the success of our partners**



- **Improve productivity/reduce labor**
- **Lower administrative and supply costs**
- **Improve clinical outcomes**
- **Reduce errors and inappropriate care**

One McKesson Strategy

- **Internal: Leverage company size and scope**
 - Invest in new technologies, R&D
 - Use Six Sigma methodology to drive quality
- **External: Leverage customer base**
 - Create long-term customer relationships based on custom solutions that deliver ROI and quality
 - Sell McKesson's comprehensive solutions
 - Innovate with offerings that address emerging healthcare challenges

One McKesson Solutions Improve Quality and Reduce Cost

Pharmaceutical and medical-surgical distribution to all sites

Clinical, financial and resource management systems for hospital and IDNs

Automation for retail and hospital pharmacies

Pharmaceutical repackaging

Pharmacy outsourcing

Solution for Medication Safety



Specialty pharmaceutical distribution

Services for payors, patients and manufacturers

Together Rx card

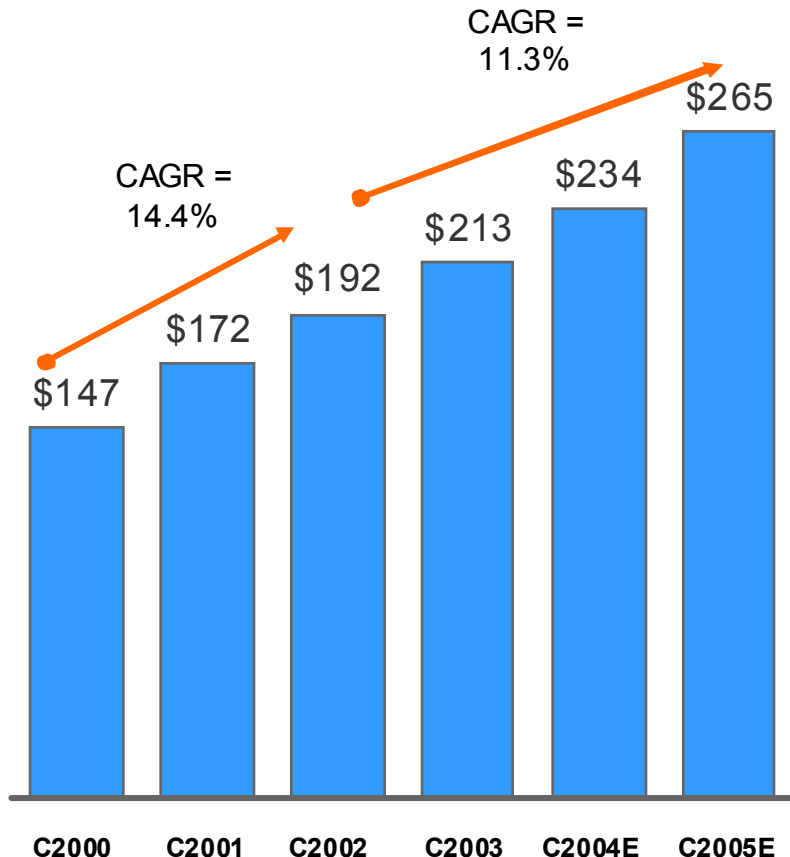
Opportunity to Create Unique Solutions

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Pharmaceutical Revenue Growth Has Slowed, But Remains Strong

U.S. Market Pharmaceutical Sales (\$ Billions)



Drivers of growth

- Aging Baby Boomers driving drug demand
- Generic usage continues to grow
 - 2003-05 patent expirations for \$30 billion in U.S. sales
- Improving pace of FDA approvals and expanding pipeline
 - 26 new launches in 2003 vs. 17 new launches in 2002
- Medicare Bill expands market beginning in 2006

What's Changed?

- **Increased manufacturer visibility to supply channel**
- **Concern about counterfeit drugs**



- **Focus on managing inventory across supply chain**
- **Focus on improving safety**

New Agreements With Manufacturers

- **Collaborative, formal agreements that recognize role and value of distributor**
- **Match product flow to end-user demand and allow better manufacturing planning**
- **Streamline working capital investment for distributors**
- **Fee-for-service or compensation related to price increases**

New Contracts and Renewals

- Department of Veterans Affairs
- Caremark
- Omnicare
- Rite Aid



**Meet or Exceed Target Returns
Foundation for Growth**

Rational & Analytical Pricing

- **Highly detailed and analytical approach to contracts**
- **Committed to retaining existing business at target returns**
- **Will only bid selectively for new business when value proposition goes beyond price only**

Operating Strategies to Drive U.S. Pharmaceutical Efficiencies

- **Comprehensive IT system to manage U.S. pharmaceutical business and reduce costs**
- **Streamline and automate U.S. pharmaceutical distribution center network**
 - **Opened 2 new DCs since 2001**
 - **Closed 5 older DCs since 1999**
- **Aggressive OTC SKU reduction program**
- **Continue to execute Six Sigma process improvements**

McKesson Differentiation and Opportunities for Value Creation

Generic product sourcing

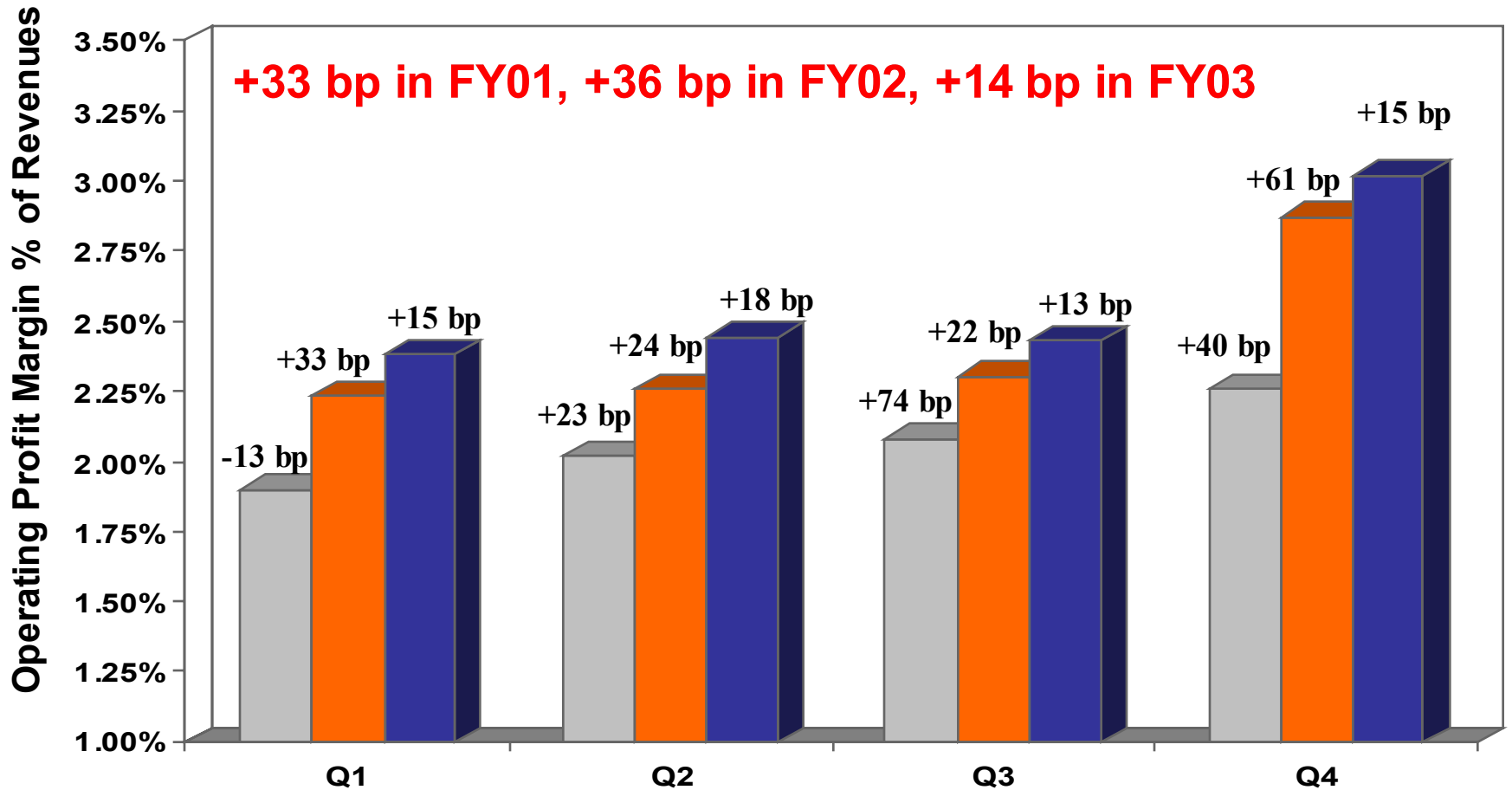
- McKesson One Stop Program
- 20,000 total pharmacy outlets
- One Stop FY03 revenues +61%
- Generic Rx GP\$ and margin higher than that of branded Rx

Related products and services

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

Track Record For Expanding Operating Margin

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



Note: Excluding impact of warehouse sales

■ FY01 ■ FY02 ■ FY03

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Pharmaceutical Solutions Summary

- **Well-positioned for continued strong growth in U.S. and Canada**
- **Continued commitment to expanding returns**
- **Working with manufacturers to ensure adequate compensation for value provided**
- **Transition in customer pricing model to reflect changed environment**

Financial Review

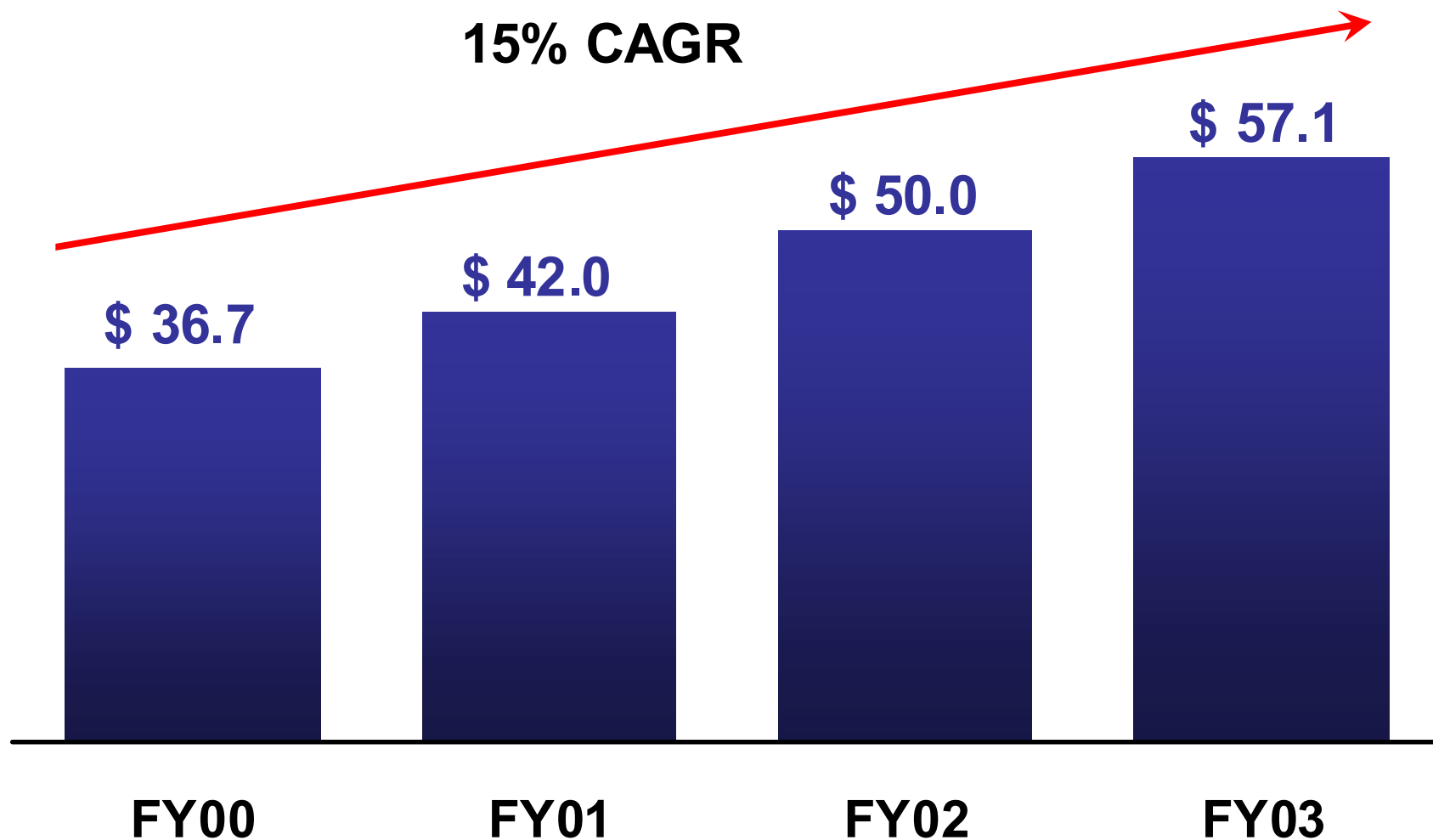
Jeff Campbell

**Senior Vice President
Chief Financial Officer**

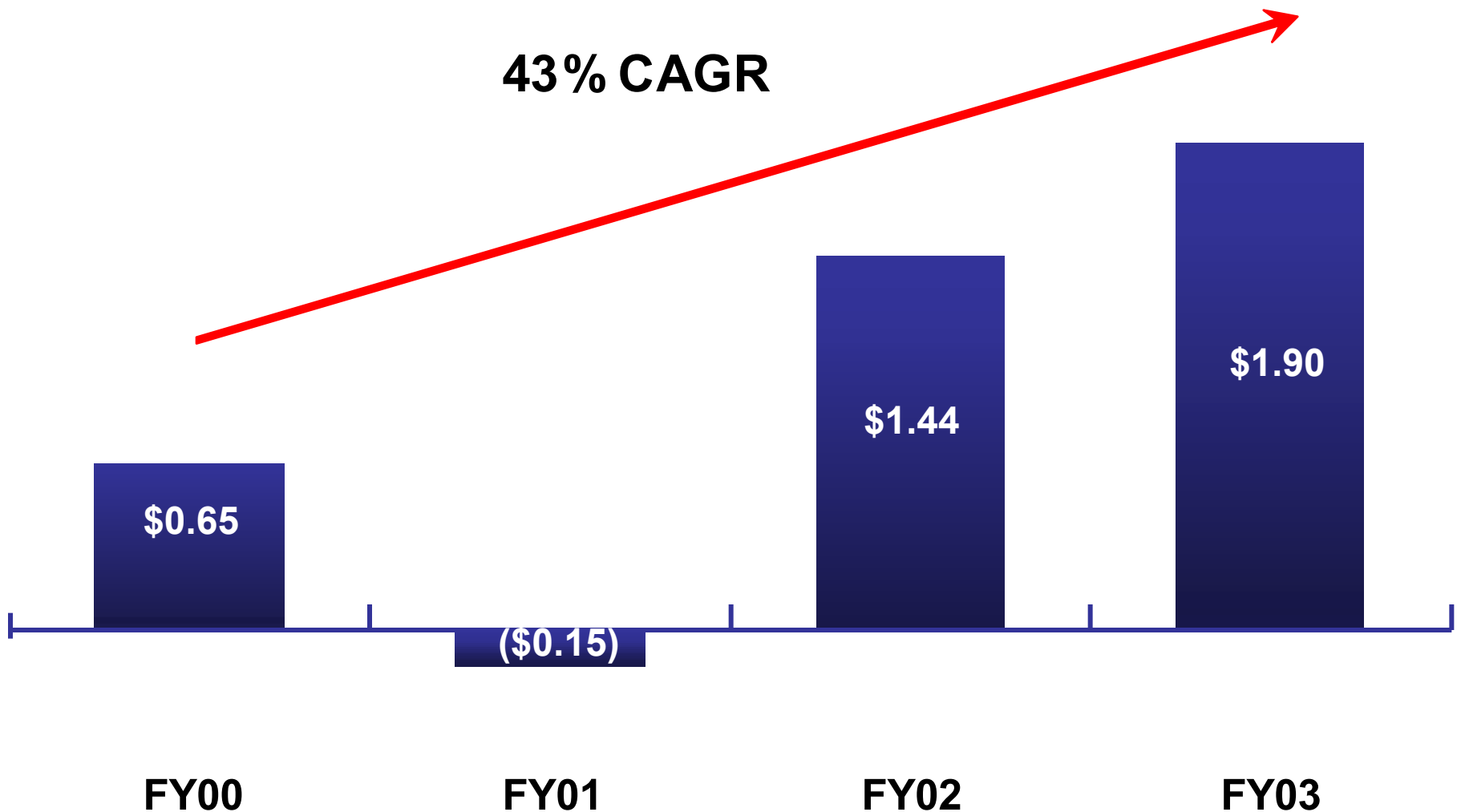
Excellent Industry Fundamentals

- **Aging population drives revenue growth significantly higher than GDP growth**
- **Focus on improved patient outcomes drives demand for technology**

Revenues *(excluding warehouse sales, \$ in billions)*

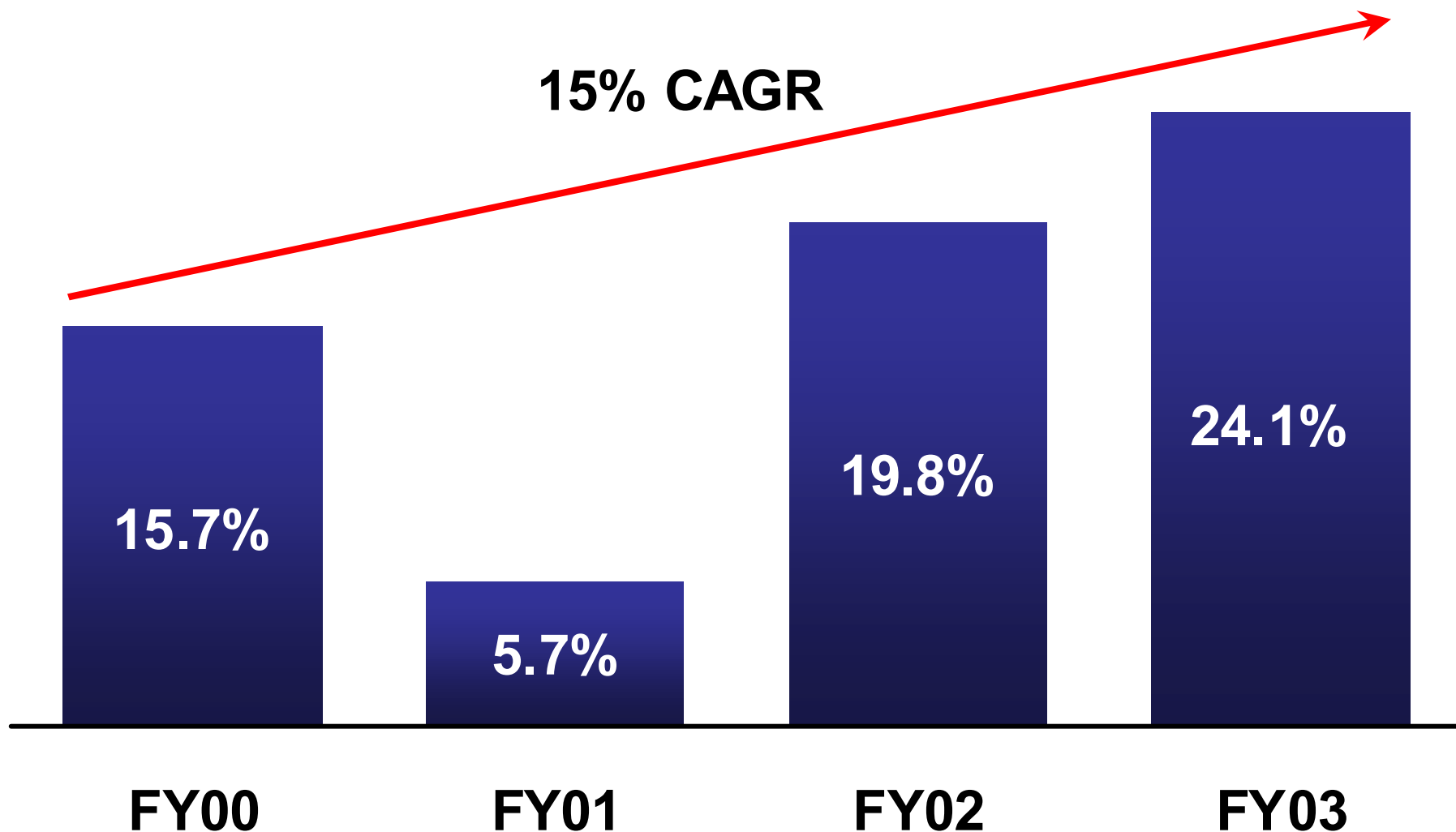


EPS *(from continuing operations)*



Note: Reflects the impact of reserve provisions for customer settlements of \$74 million in FY00 and \$161 million in FY01.

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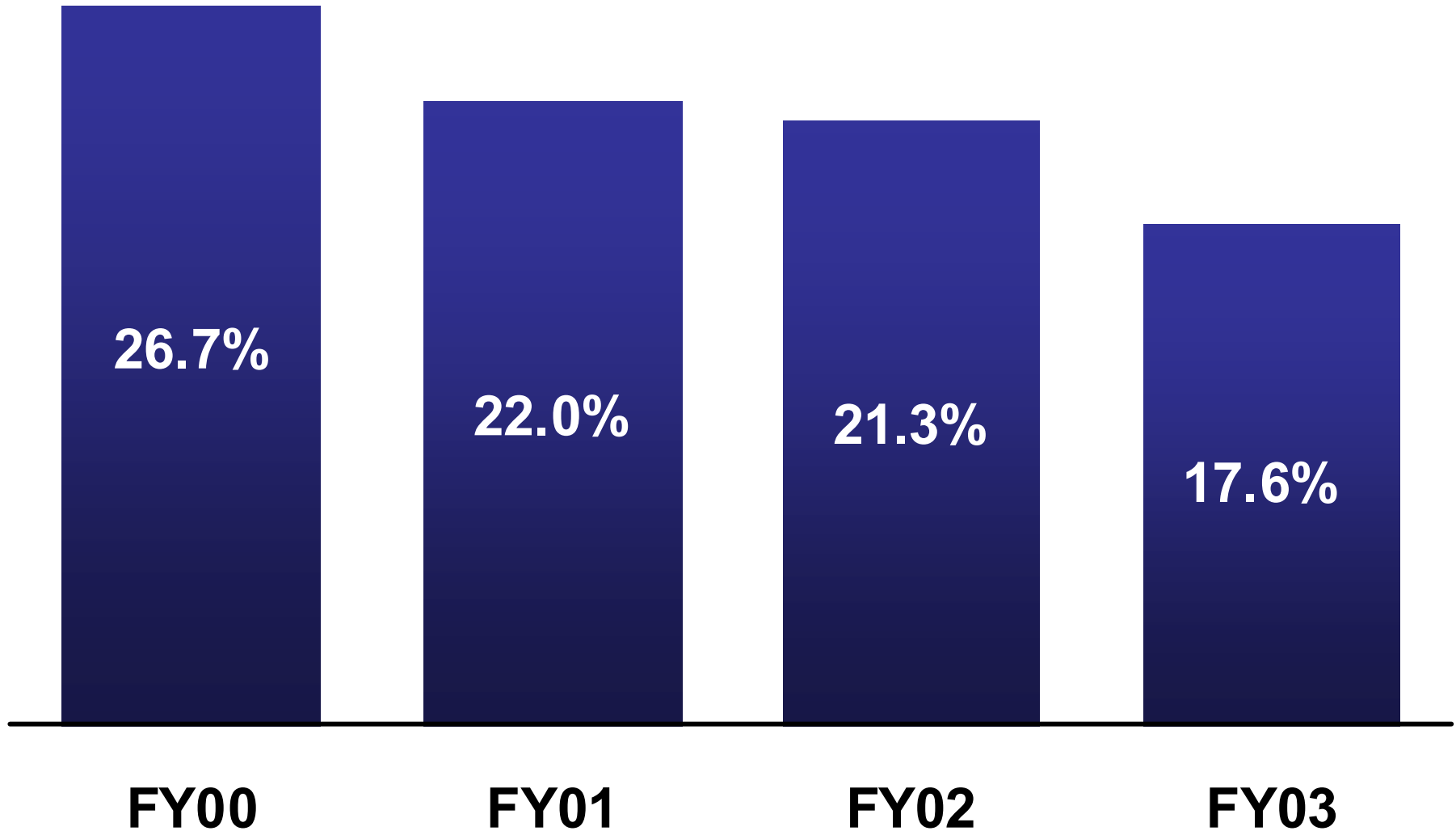


Note: Reflects the impact of reserve provisions for customer settlements of \$74 million in FY00 and \$161 million in FY01.

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Net Debt to Net Capital





Note: FY00 ratio calculated prior to the 2/29/00 sale of McKesson Water Products. All ratios reflect reclassifications resulting from FIN 46.

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FY04 Financial Results

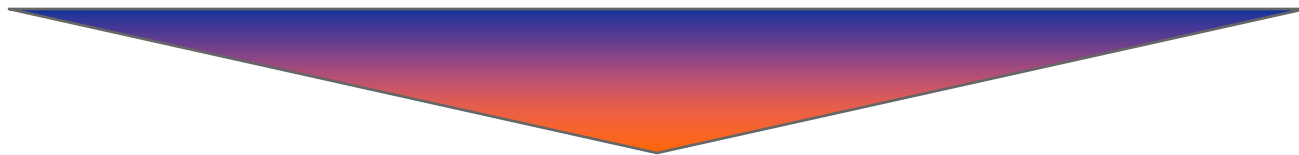
(\$ in millions, except EPS)

| | <u>3rd Quarter</u> | | | <u>Nine Months</u> | | |
|----------------------------------|--------------------|-----------------|---|--------------------|-----------------|---|
| | <u>FY04</u> | <u>FY03</u> |  | <u>FY04</u> | <u>FY03</u> |  |
| Revenues | \$18,232 | \$14,921 | +22% | \$51,566 | \$42,235 | +22% |
| Revenues (excl. warehouse sales) | | | | | | |
| Pharmaceutical Solutions | \$11,421 | \$ 9,926 | +15% | \$32,597 | \$28,437 | +15% |
| Medical-Surgical Solutions | 689 | 693 | -1% | 2,064 | 2,060 | --% |
| Information Solutions | 294 | 295 | --% | 856 | 825 | +4% |
| Total | <u>\$12,405</u> | <u>\$10,914</u> | +14% | <u>\$35,517</u> | <u>\$31,322</u> | +13% |
| Net Income | \$ 120 | \$ 134 | -10% | \$ 432 | \$ 381 | +14% |
| Diluted earnings per Share | \$ 0.41 | \$ 0.46 | -11% | \$ 1.46 | \$ 1.28 | +14% |

Note: Results from continuing operations

McKesson Goals for Delivering Sustained Financial Performance

- Industry-leading solutions and profit growth in Pharmaceutical Solutions
- Clinical leadership, continued new product innovation and profit growth in Information Solutions
- Improving profit in Medical-Surgical Solutions



Create Value for Customers and Shareholders

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