

MCKESSON

Empowering Healthcare

UBS Healthcare Conference

February 4, 2004

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Merrill Lynch Global Healthcare Conference

February 5, 2004

Business Review

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McKesson Supply Solutions

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
- Rapid growth in specialty distribution
- #1 in Canada
- Large Rx repackaging
- Hospital pharmacy outsourcing business
- Leading generics provider

McKesson Information Solutions

- 63% of health systems
- 51% of hospitals with 200+ beds
- Comprehensive product offering: clinical, revenue cycle and resource management
- Extensive service offering: consulting, technology and outsourcing

McKesson Automation

- #1 in robotic hospital pharmacy dispensing
- #2 in new hospital unit-dose cabinets
- Leading bedside administration scanning
- #1 in retail pharmacy automation
- Med supply scanning and cabinets

McKesson Health Solutions

- #1 in medical management software and services for payors
- Disease management
- Patient relationship services for manufacturers
- #1 in hospital-based call center solutions

McKesson Medical-Surgical

- #1 in primary care and extended care
- Repositioning in acute care
- Rapidly growing eSupply component

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State of Healthcare 2004

- **Variable quality with too many errors**
- **Known clinical best practices applied sporadically**
- **Administrative costs are very high and processes are not efficient**
- **Coordination of care is poor**
- **Double-digit cost/price increases are creating a sense of “crisis” but very little impetus for change**

McKesson Corporation Mission

To use the power and scale of the company 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**

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

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

Physician portal

Pharmacy outsourcing

Solution for Medication Safety



Specialty pharmaceutical distribution

Together Rx card

Services for payors, patients and manufacturers

Unique Conversations with Customers At Higher Levels

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Pharmaceutical Demand Factors Remain Positive

- Aging population drives demand for drugs
- Market growth recovering
- Generic usage continues to grow
- Improving pace of FDA approvals and new drug pipeline
- 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

-- IMAs and Fee-for-Service

- **Collaborative, formal agreement that recognizes value and role of distributor**
- **Matches product flow to end-user demand and allows better manufacturing planning**
- **Streamlines working capital investment for distributors**
- **Fee-for-service or compensation tied to price increases**

Improving Inventory Turns



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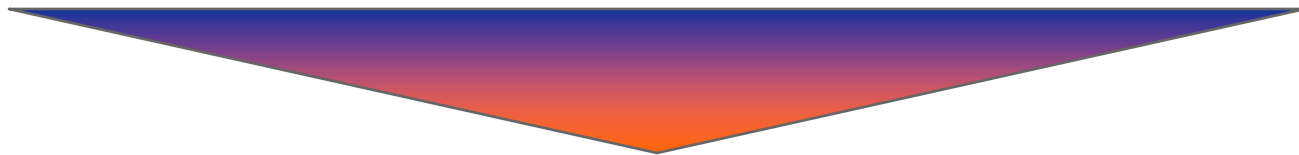
Building on Long-Term Relationships

Customer Since

OTN	2001
Caremark	2001
Safeway	1999
Rite-Aid	1998
Omnicare	1996
Albertsons	1995
Target	1994
Wal-Mart	1989
Costco	1985

New Contracts and Renewals Deliver Targeted Returns

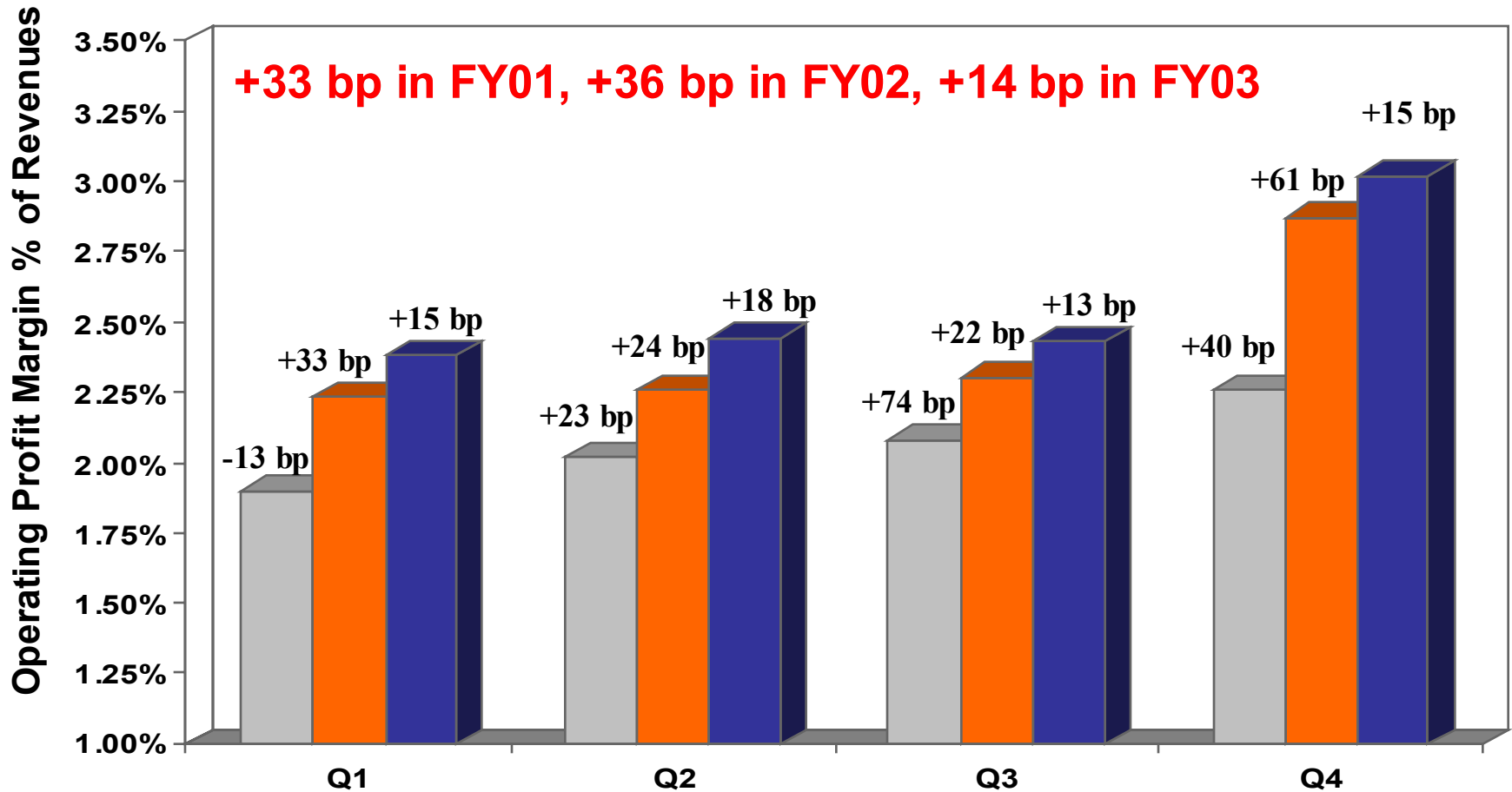
- Department of Veterans Affairs
- Caremark
- Omnicare
- Rite Aid



Meet or Exceed Target Returns

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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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**
- **150,000 SKUs of OTC products removed**
- **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

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

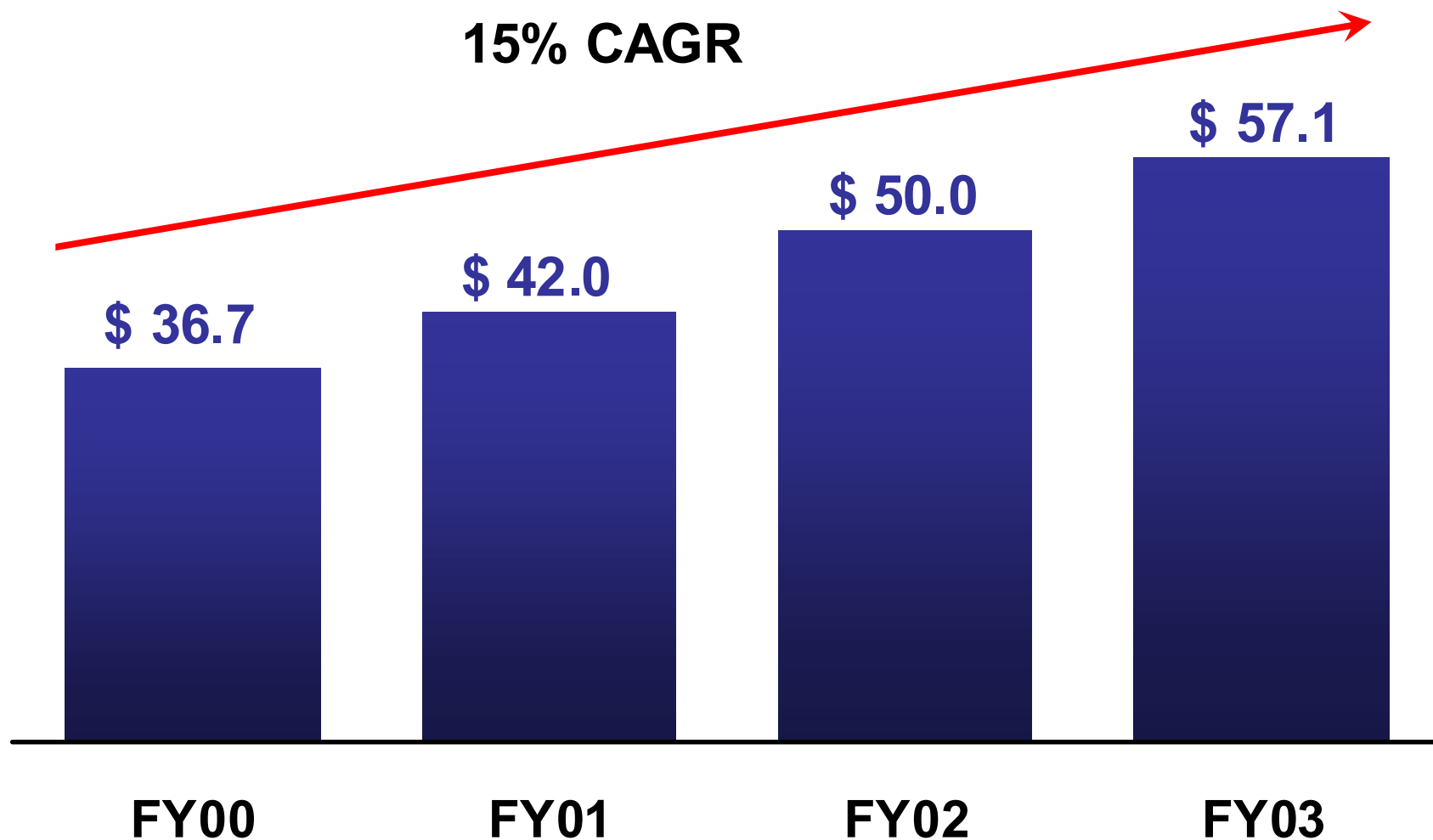
Jeff Campbell

**Senior Vice President
Chief Financial Officer**

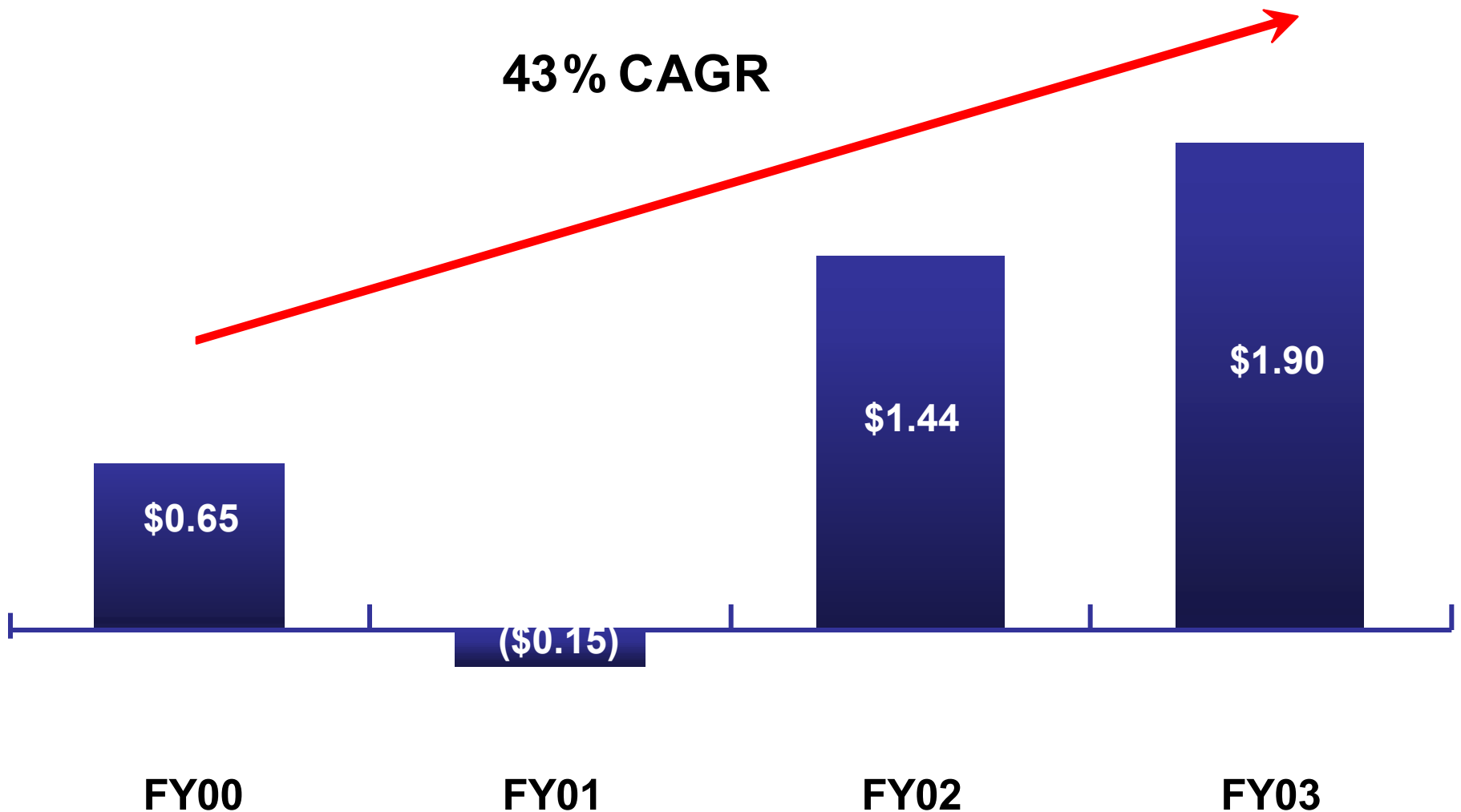
Excellent Industry Fundamentals

- **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)*

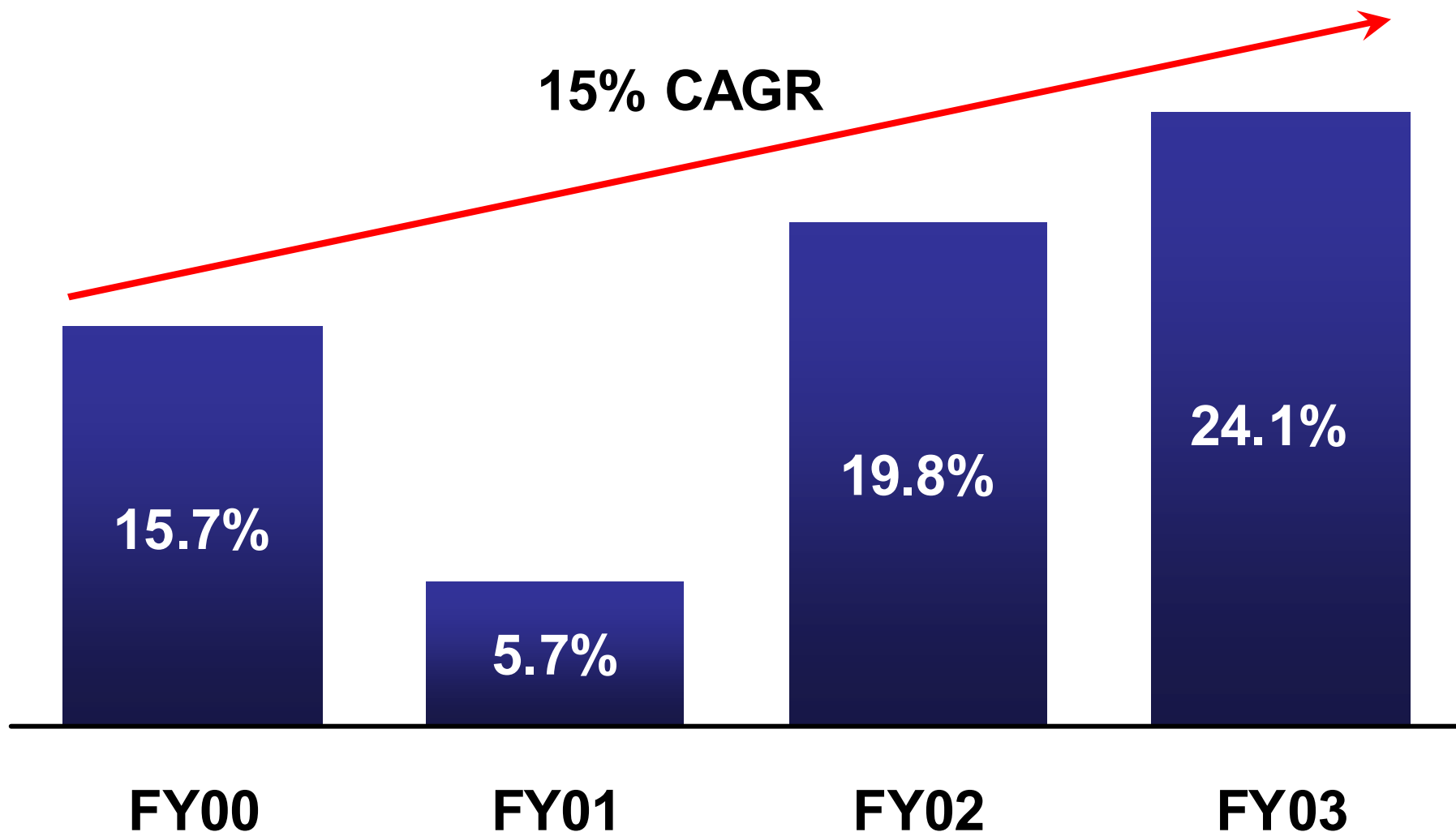


EPS *(from continuing operations)*



Note: FY01 EPS reflects the impact of one-time customer settlement reserve provision of \$252 million.

ROCC

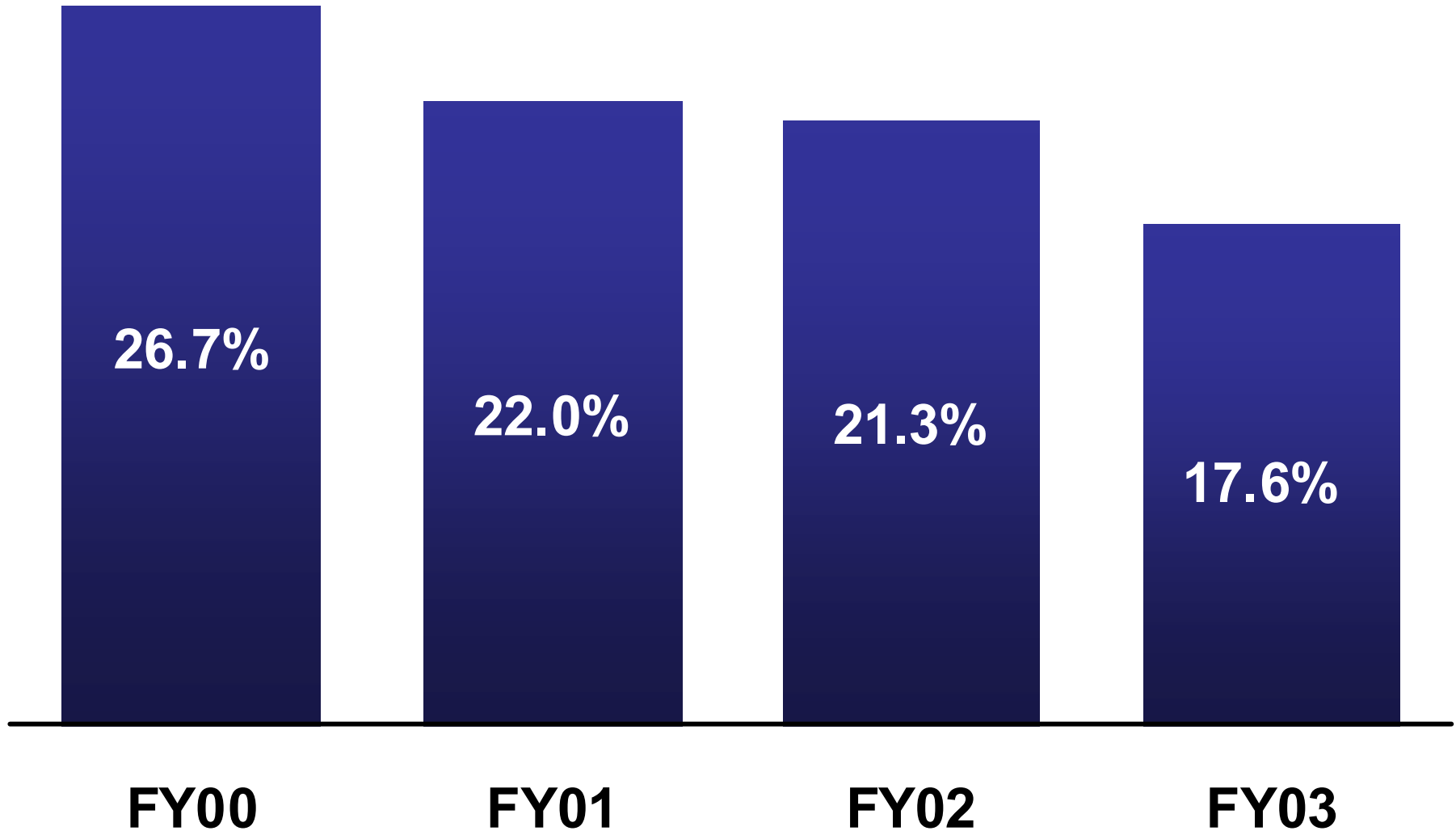


Note: FY01 EPS reflects the impact of one-time customer settlement reserve provision of \$252 million.

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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 reclassification resulting from FIN 46.

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%
Earnings per Share	\$ 0.41	\$ 0.46	-11%	\$ 1.46	\$ 1.28	+14%

Note: Results from continuing operations

Pharmaceutical Solutions Q3 Results

<i>\$ in millions</i>	Quarter Ended December 31		
	FY04	FY03	Change
Revenues			
U.S. Health Care direct revenues	\$ 10,222	\$9,040	13%
Canada	1,199	886	35%
Total direct revenues	11,421	9,926	15%
U.S. Health Care warehouse sales	5,827	4,007	45%
Total revenues	\$ 17,248	\$13,933	24%
Operating profit	\$ 191	\$ 241	(21)%
Operating margin ex-warehouse sales	1.67%	2.43%	(76)bp

Medical-Surgical Solutions Q3 Results

Quarter Ended December 31

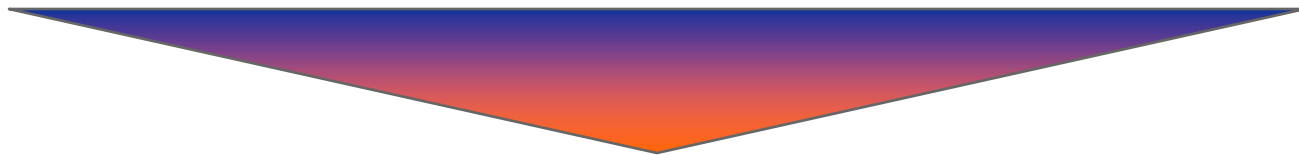
<i>\$ in millions</i>	FY04	FY03	Change
Revenues	\$ 689	\$ 693	(1)%
Operating profit	\$ 22	\$ 18	27%
Operating margin	3.24%	2.54%	70bp

Information Solutions Q3 Results

<i>\$ in millions</i>	Quarter Ended December 31		
	FY04	FY03	Change
Revenues			
Software	\$ 56	\$ 62	-9%
Services	212	206	+3%
Hardware	26	27	-3%
Total	\$ 294	\$295	--%
Operating profit	\$ 21	\$ 15	36%
Operating margin	7.00%	5.11%	189bp

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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Medicare Bill Key Features

- **Drug coverage for all seniors**
- **Continued use of qualifying drug cards**
- **Quality improvement incentives for providers**
- **Pharmacy Network Access**
- **Focus on disease management**
- **Encouragement of e-prescribing**
- **Limited importation -- Canada**

McKesson Capabilities for Medicare Bill

- ✓ **Drug coverage for all seniors**
- ✓ **Continued use of qualifying drug cards**
- ✓ **Quality improvement incentives for providers**
- ✓ **Pharmacy Network Access**
- ✓ **Focus on disease management**
- ✓ **Encouragement of e-prescribing**
- ✓ **Limited importation -- Canada**

McKesson Solutions Performance

- **Corporate Solutions since 2000: 382 agreements for total contract value of \$9.4 billion**
- **All 17 hospitals named to 2003 “Honor Roll of Best Hospitals” are McKesson customers¹**
- **88 of 100 hospitals on “Most Wired” list are McKesson customers²**
- **Supplier of the Year to Wal-Mart 2002 and Rite-Aid in 2003**

Sources: 1 - US News & World Report,
2 – Hospitals and Health Networks

Pharmaceutical Solutions Q3 Results

- **Timing of price increases shifts \$25 million to Q4**
- **Automation contracting change delays \$16 million into future periods**
- **\$19 million pre-tax charge in pharmacy outsourcing business**
- **\$22 million pre-tax benefit from class action settlement**
- **Fewer vendor buying opportunities continues**
- **Operating margin will remain under near-term pressure**

Medical-Surgical Solutions Q3 Results

- DC network consolidation has been completed and ERP system implementation is on schedule
- \$2 million charge to restructure DC network which should mitigate impact of lost business
- Focus on growth in alternate site business

Information Solutions Q3 Results

- **Software revenues down due to decreases in non-clinical solutions and longer installation times**
- **\$20 million additional charge for estimated contract losses in international operations**
- **Strategic role for the business in One McKesson hospital strategy**