

# **MCKESSON**

*Empowering Healthcare*

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## **Merrill Lynch Global Healthcare Conference**

**February 8, 2005**

# 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. Financial information is presented here in summary form. Full details are provided in the Company's most recent 10-Q report. All of this information is available at [www.mckesson.com](http://www.mckesson.com).**

# Overview

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- **Who We Are**
- **Business Update**
- **Summary**

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# Who We Are

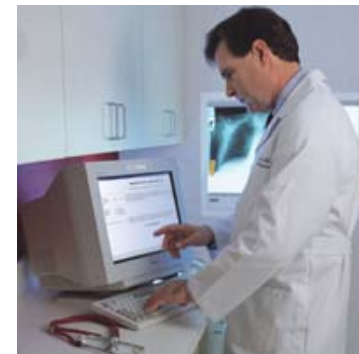
# McKesson's Solutions ... Building On Distribution Strength Since 1833



**Pharmaceutical & medical-surgical distribution to all sites**



**Solutions for medication safety**



**Clinical, financial & resource management for hospitals & IDNs**



**Retail pharmacy automation**



**Inpatient automation**



**Specialty pharmaceuticals**



**Disease management**



**Drug cards for seniors**



**Pharmaceutical repackaging**

# Our Business Today

# MCKESSON

## McKesson Pharmaceutical

**#1 in U.S., Canada, and Mexico**

**Large Rx repackaging**

**Leading generics provider**

**#1 in retail pharmacy automation**

**Specialty distribution & patient services for manufacturers**

**#1 in medical management software and services for payors**

**#1 in disease management for Medicaid agencies**

## McKesson Medical-Surgical

**#1 in primary care**

**#1 in extended care**

**Total supply solution in acute care**

**Private label product offerings**

**Rapid growth in physician office pharmaceuticals and equipment**

## McKesson Provider Technologies

**63% of health systems**

**51% of hospitals with 200+ beds**

**Leader in clinical, revenue cycle, and resource management solutions**

**More "Best in KLAS" products than any other vendor**

**#1 in robotic hospital pharmacy dispensing**

**#1 in bedside scanning**

# Strong, Long-term Customer Relationships with Market Leaders



Vanderbilt University Medical Center



DUKE UNIVERSITY  
MEDICAL CENTER



Omnicare



Empowering Healthcare

# FY05 Consolidated Financial Highlights

(\$ and shares in millions, except EPS)

	Q3			Nine Months		
	FY04	FY05		FY04	FY05	
Revenues	\$ 18,232	\$ 20,782	14%	\$ 51,566	\$ 59,903	16%
Net Income (Loss)	120	(665)	-	432	(416)	-
Earnings (Loss) Per Share	\$ 0.41	\$ (2.26)	-	\$ 1.46	\$ (1.42)	-
Weighted Ave Shares	299	294		299	293	
Net Debt to Net Capital Ratio	23.1%	7.9%				

# Securities Litigation Settlement

- Agreement reached January 12 to settle consolidated securities class action
- \$1.2 billion charge in Q3, \$810 million after tax:
  - Class action settlement for \$960 million plus \$240 million reserve for remaining related cases
- Decisions on financing as we near funding later this calendar year



**Increased financial flexibility to continue to execute our strategy**

# FY05 Consolidated Financial Results\*\*

(\$ and shares in millions,  
except EPS)

	Q3			Nine Months		
	FY04	FY05		FY04	FY05	
Revenues	\$ 18,232	\$ 20,782	14%	\$ 51,566	\$ 59,903	16%
Net Income**	120	145	20%	432	394	-9%
Diluted EPS**	\$ 0.41	\$ 0.49	20%	\$ 1.46	\$ 1.33	-9%
Diluted Weighted Ave Shares	299	301	**	299	300	**
Net Debt to Net Capital Ratio	23.1%	7.9%				

\*\* Excluding the impact of \$1.2B pre-tax securities litigation charge, net of tax \$810M  
See Schedule 1 from 1/27/05 press release and reconciliation slide for complete reconciliation.

# EPS Reconciliation

(\$ and shares in millions except EPS)	Q3			Nine Months		
	FY04	FY05		FY04	FY05	
Net income (loss) - as reported	\$ 120	\$ (665)	- %	\$ 432	\$ (416)	- %
Exclude:						
Securities litigation charge	-	(1,200)	-	-	(1,200)	-
Estimated income tax benefit	-	390	-	-	390	-
	-	(810)	-	-	(810)	-
Net income, excluding securities litigation charge	\$ 120	\$ 145	20 %	\$ 432	\$ 394	(9) %
Diluted earnings per common share, excluding securities litigation charge	\$ 0.41	\$ 0.49	20 %	\$ 1.46	\$ 1.33	(9) %
Shares on which diluted earnings per common share were based	299	301	1 %	299	300	- %

For the quarter and nine months ended December 31, 2004 and 2003, interest expense, net of related income taxes, of \$1.5 million and \$4.6 million has been added to net income, excluding the securities litigation charge, for purposes of calculating diluted earnings per share. This calculation also includes the impact of dilutive securities (stock options, convertible junior subordinated debentures and restricted stock).

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# Business Update

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# Pharmaceutical Solutions

# FY05 Financial Results – Pharmaceutical Solutions

(\$ in millions)

	Q3			Nine Months		
	FY04	FY05		FY04	FY05	
<b>Revenues</b>						
U.S. direct distribution & services	\$ 10,197	\$ 12,130	19%	\$ 29,187	\$ 34,779	19%
U.S. sales to customer warehouses	5,827	6,180	6%	16,049	18,117	13%
Subtotal	16,024	18,310	14%	45,236	52,896	17%
Canada distribution & services	1,200	1,405	17%	3,314	3,915	18%
Total Pharmaceutical Solutions	17,224	19,715	14%	48,550	56,811	17%
Gross Profit	481	520	8%	1,508	1,512	0%
Operating Expense	281	281	0%	834	844	1%
Operating Profit	205	245	19%	692	686	-1%
Operating Profit Margin	1.19%	1.24%	5 bp	1.43%	1.21%	(22) bp

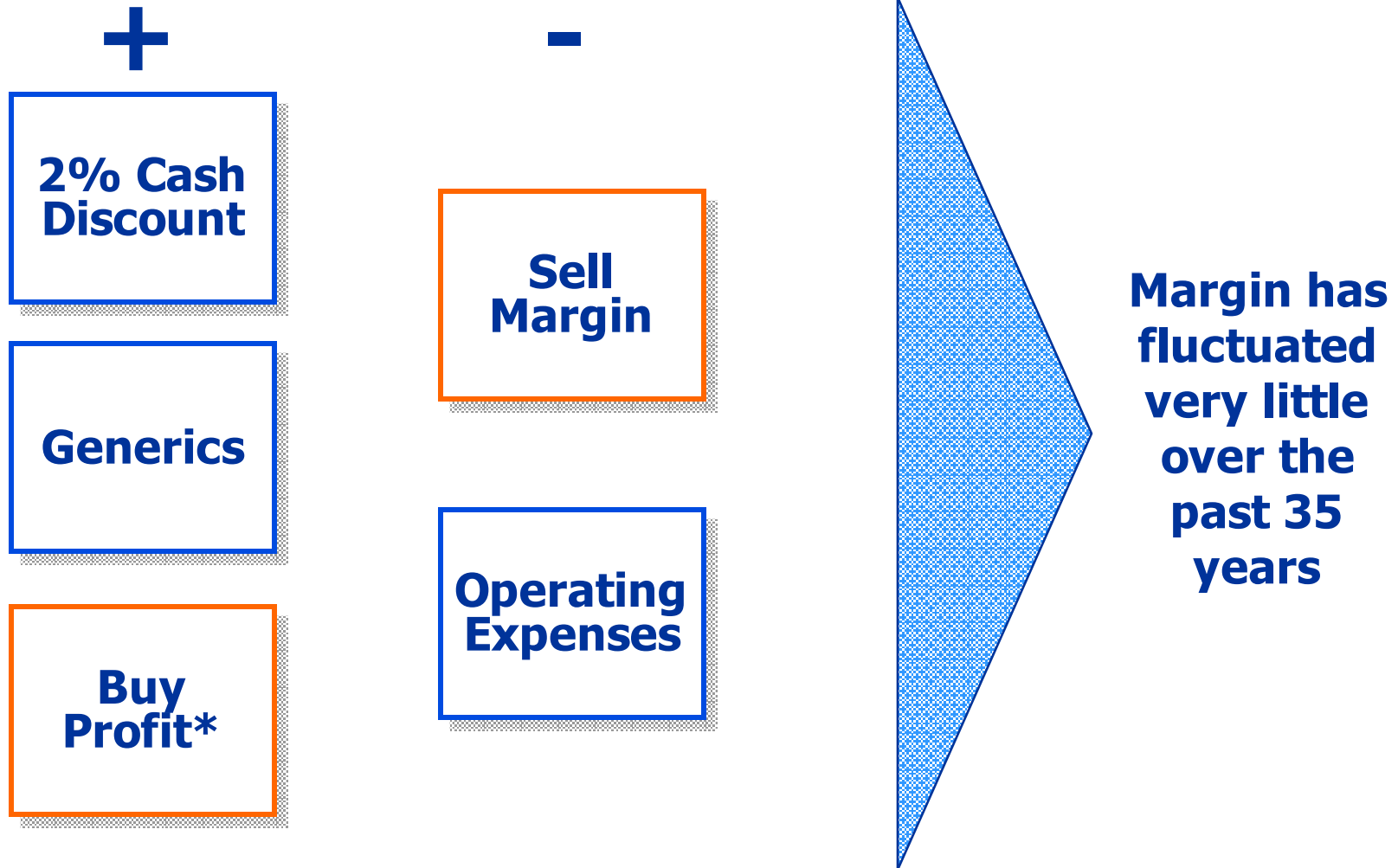
# Pharmaceutical Solutions

## Q3 Highlights

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- **McKesson now largest drug distributor across North America**
  - **#1 position in U.S., Canada and Mexico**
- **McKesson is prime vendor to 6 of 10-largest mail order providers**
- **Continued progress with agreements to deliver appropriate and predictable compensation from manufacturers**
  - **90% of all companies, finalizing agreements with additional 50% of largest companies**

# Pharmaceutical Distribution Margin Drivers



\* Buy profit includes speculative buying, IMAs, FFS

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# Medical-Surgical Solutions

# FY05 Financial Results – Medical-Surgical Solutions

(\$ in millions)

	Q3			Nine Months		
	FY04	FY05		FY04	FY05	
Revenues	\$ 714	\$ 736	3%	\$ 2,140	\$ 2,157	1%
Gross Profit	153	162	6%	451	483	7%
Operating Expense	128	138	8%	376	414	10%
Operating Profit	26	25	-5%	77	71	-8%
Operating Profit Margin	3.63%	3.36%	(27) bp	3.60%	3.28%	(32) bp

# Medical-Surgical Solutions

## Q3 Highlights

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- **HCA transition will be lapped in Q4**
- **Signed long-term distribution agreement to access flu vaccine from ID Biomedical, when approved**
- **Adventist experience validates value proposition of Optyx system**
- **Continuing to invest in technologies that will differentiate McKesson**

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# McKesson Provider Technologies

# FY05 Financial Results – Provider Technologies

(\$ in millions)

	Q3			Nine Months		
	FY04	FY05		FY04	FY05	
<b>Revenues</b>						
Software & software systems	\$ 47	\$ 66	41%	\$ 160	\$ 166	4%
Services	221	235	7%	641	686	7%
Hardware	26	31	15%	75	83	11%
<b>Total Provider Technologies</b>	<b>294</b>	<b>332</b>	<b>13%</b>	<b>876</b>	<b>935</b>	<b>7%</b>
<b>Gross Profit</b>	<b>121</b>	<b>158</b>	<b>30%</b>	<b>395</b>	<b>432</b>	<b>9%</b>
<b>Operating Expense</b>	<b>121</b>	<b>133</b>	<b>9%</b>	<b>359</b>	<b>377</b>	<b>5%</b>
<b>Operating Profit</b>	<b>3</b>	<b>28</b>	<b>962%</b>	<b>45</b>	<b>61</b>	<b>37%</b>
<b>Operating Profit Margin</b>	<b>0.88%</b>	<b>8.33%</b>	<b>745 bp</b>	<b>5.08%</b>	<b>6.53%</b>	<b>145 bp</b>

# Provider Technologies

## Q3 Highlights

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- Demand remains strong for clinical solutions
- Go-live of Horizon Expert Orders at Duke University Hospital demonstrates viability of product and provides valuable experience to accelerate other installations
- Top 20: 2004 Best in KLAS year-end report –
  - 12 MCK products in top 3 in category, #1 among all companies
  - Two “Best in KLAS” #1 rankings
  - Two other Specialty Niche Category Leaders
- Government focus on HIT continues to be positive

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# Summary

# Fiscal 2005 Outlook

- **FY05 expectation: \$2.05 to \$2.15 per share**
  - **Have executed according to plan to meet challenges and are now narrowing guidance**
  - **Results continue to be somewhat dependent on price increases through fiscal year end**
  - **Expectation assumes that magnitude and timing of pharmaceutical price increases remain within their historical ranges for the balance of the fiscal year**

# What McKesson Represents

- Core pharmaceutical business positioned for sustained growth and is executing strategy to address industry evolution
- Additional businesses poised to take advantage of new and expanding opportunities in healthcare
- Track record of financial performance and strong balance sheet
- Securities settlement removes uncertainty and increases financial flexibility



**Create Value for Suppliers, Customers and Shareholders**

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