

MCKESSON

Empowering Healthcare

JP Morgan Healthcare Services Conference

January 10, 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.

Overview

- **Who We Are**
- **Our View of Healthcare**
- **Business and Innovation Update**

Who We Are

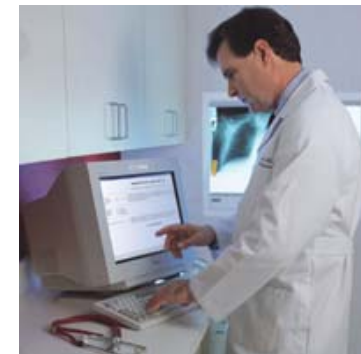
McKesson's Solutions ... Building On Distribution Strength Since 1833



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

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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

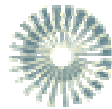
Strong, Long-term Customer Relationships with Market Leaders



Vanderbilt University Medical Center



DUKE UNIVERSITY
MEDICAL CENTER



Omnicare



Empowering Healthcare

FY05 Consolidated Financial Results

(\$ and shares in millions, except EPS)

	Q2			Six Months		
	FY04	FY05		FY04	FY05	
Revenues	\$ 16,810	\$ 19,934	19%	\$ 33,334	\$ 39,121	17%
Gross Profit	812	735	-9%	1,598	1,587	-1%
Gross Profit Margin	4.83%	3.69%	(114) bp	4.79%	4.06%	(73) bp
Operating Income	227	129	-43%	479	390	-19%
Operating Income Margin	1.35%	0.65%	(70) bp	1.44%	1.00%	(44) bp
Net Income	157	86	-45%	312	250	-20%
Diluted EPS	\$ 0.53	\$ 0.29	-45%	\$ 1.05	\$ 0.84	-20%
Weighted Average Shares	300	300		299	300	
Net Debt to Net Capital Ratio	19%	8%				

Our View of Healthcare

Trends Driving Healthcare Growth

Focus on quality of care

- Reduce medical errors
- Adopt clinical protocols/ evidence-based medicine

Increased pressure on payors

- Payors taking on more risk
- Limitations on use of managed care tools
- Employer pressures on double-digit premium increases

Outpatient and chronic disease management

- Chronic disease management
- Case management
- Manage high-cost diseases in small populations

Continued improvements in operational and administrative efficiency

- Automation to overcome labor shortages
- Electronic claims and eligibility
- Online prescription and lab transmissions
- Streamlined pre-authorization

Continued use of new drugs, but increased pricing scrutiny

- Biotech pipeline expansion
- New drug delivery mechanisms
- Rapid growth in generics
- Regulatory pressures on pricing

Increased consumerism

- Unhappy consumers
- Better informed consumers

Improved U.S. Healthcare by 2010

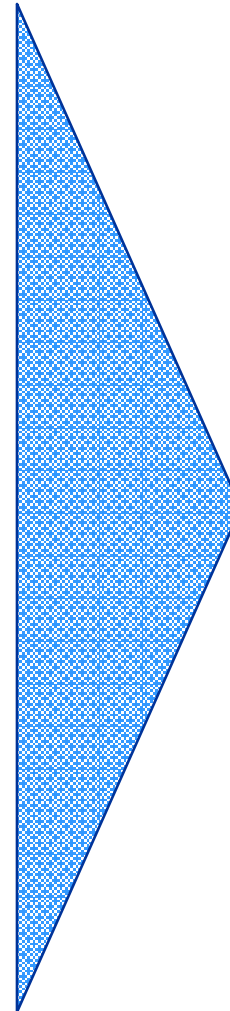
**Informed clinical
practice**

Interconnection

**Improved safety
and efficiency**

Personalized care

**Population health
initiatives**



**CULTURE
CHANGE
in the
delivery of
healthcare**

McKesson's Strategy

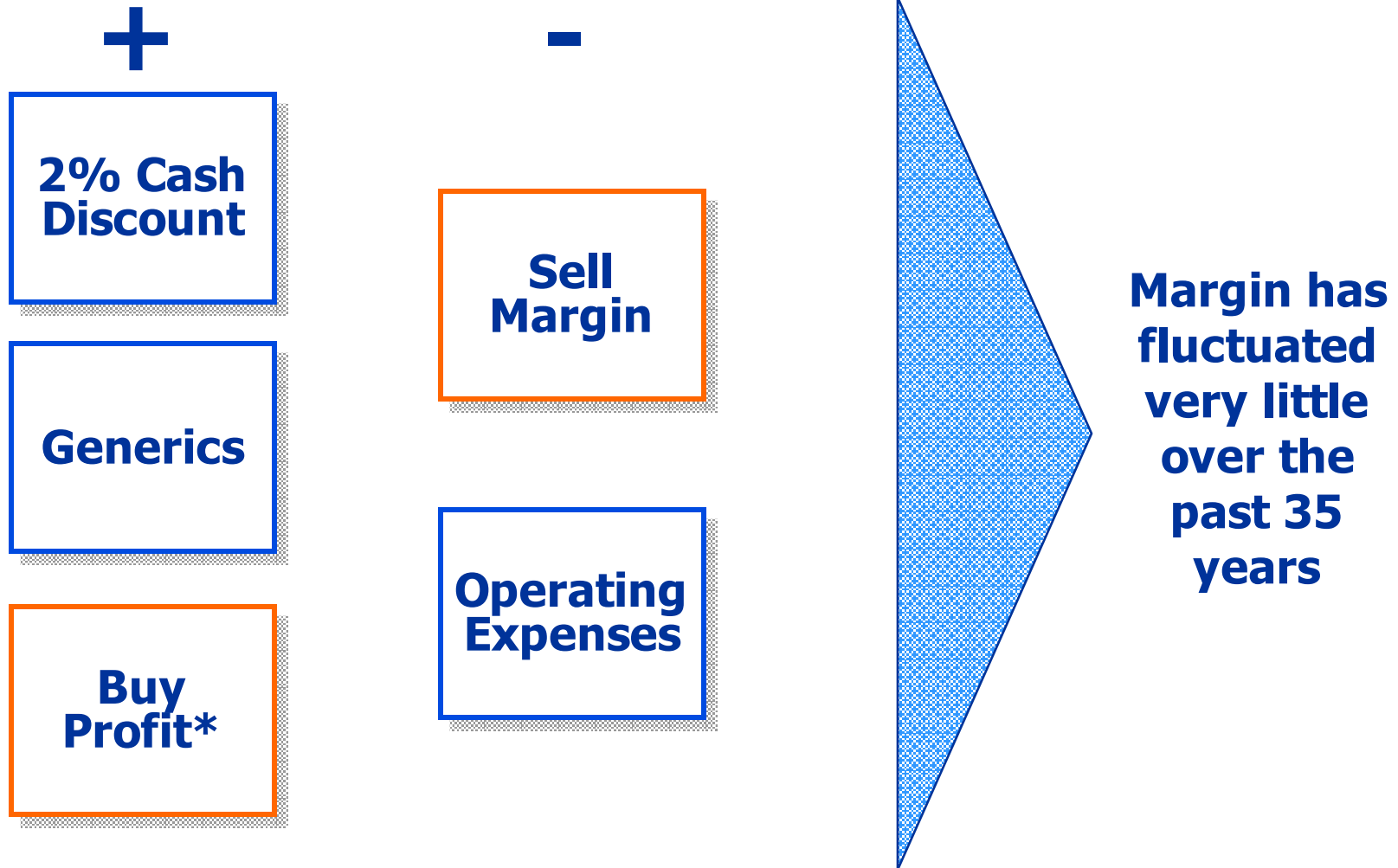
To bring together clinical knowledge, process expertise, technology, and the resources of a *Fortune 16* company to fundamentally change the cost and quality of healthcare.



Business and Innovation Update

Pharmaceutical Solutions

Pharmaceutical Distribution Margin Drivers



* Buy profit includes speculative buying, IMAs, FFS

U.S. Pharmaceutical Distribution Environment

- **35-year evolution in manufacturer economics**
 - **Historical economics evolved to dependence on pharmaceutical price inflation for major source of compensation**
 - **Changes underway in healthcare may impact pharmaceutical pricing**
- **Customer pricing model established on inflation-based profit opportunities**

Value of Drug Distribution

Industry

- Booz-Allen study shows \$10.5 B in added annual expense to replicate distributor network/service

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- Next day delivery to 23,000 pharmacies with 99.1% fill rate
- 45,000 SKUs
- 129,000 invoices per day
- 150,000 contracts involving \$20 B in annual chargebacks
- >\$400 M additional invested over the past 4 years

Behavioral Changes Drive Evolution in Manufacturer Economics

- Financial reporting issues and counterfeit concerns reduce traditional profit opportunities
- Phase 1: Focus on securing an appropriate level of compensation with less product sourcing
 - Compensation from largest manufacturers still tied to the timing and magnitude of price increases
- Fewer price increases dislocate earnings
- Phase 2: Focus on maintaining appropriate compensation while gaining predictability by reducing dependence on price inflation
- Goal: collaborative approach to achieve significant progress by January 1 and substantially complete the process by March 31, 2005 fiscal year end

Improve Existing Customer Profitability

- **Improving compliance and efficiency across customer base**
 - **Focus on securing prime vendor relationships exclusively**
 - **Enforce contract terms (e.g., generic compliance)**
 - **Charge for additional services (e.g. emergency shipments, minimum order size, etc.)**
- **Target renewal of existing customers at or above current pricing**

Chronic Care Management Leader

- **Core competency in addressing the needs of vulnerable populations**
 - Medicaid Fee-For-Service – 85% of the outsourced market
 - Medicare Fee-for-Service – one of nine awardees in Chronic Care Improvement Project
 - Veteran’s Administration – demonstration project
- **Accredited and certified by major quality assessment groups**
- **Comprehensive service offering:**
 - Asthma, diabetes, congestive heart failure (CHF), coronary artery disease, chronic obstructive pulmonary disease (COPD), schizophrenia, pain management
 - 24 x 7 Nurse Advice Line

Medical-Surgical Solutions

Medical-Surgical: Acute Care Technology-driven Supply Chain



**OPTYXsm gaining momentum in Acute Care marketplace.
Distinguishing itself as the solution for data management,
driving costs out of the supply chain.**

Medical-Surgical Physician Office Solutions

**Expanding Rx Portfolio:
Long-term agreement with ID
Biomedical to distribute flu vaccine**



eCOMETS™ PDA:
Bar code inventory
management solution

McKesson Provider Technologies

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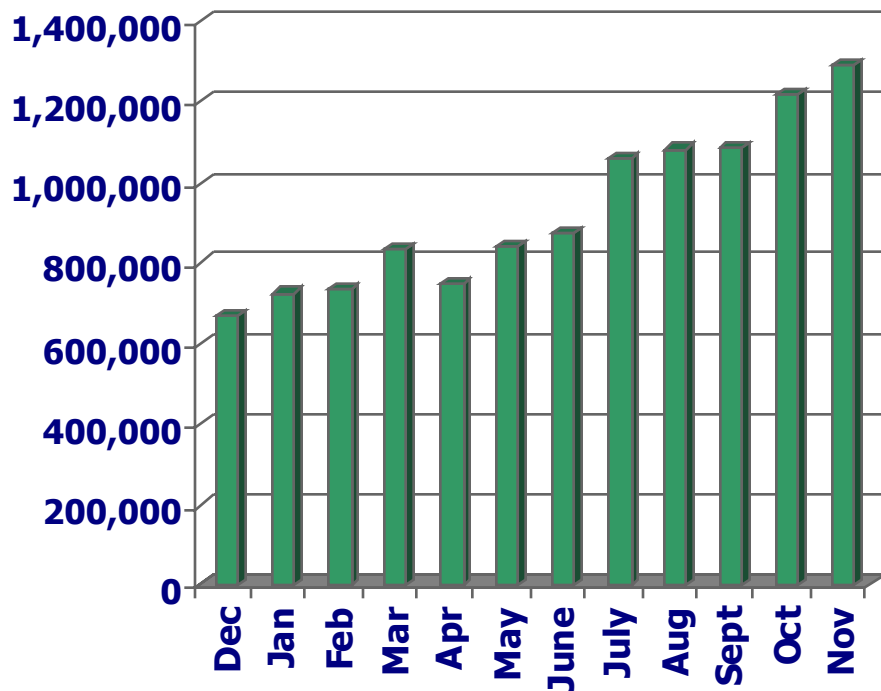
- Clinical/Medication Management
- Resource/Supply Chain Management
- Revenue Cycle Management
- Digitizing – Eliminating Paper & Film

- End user adoption
- Automating end-to-end workflow
- Providing measurable improvements

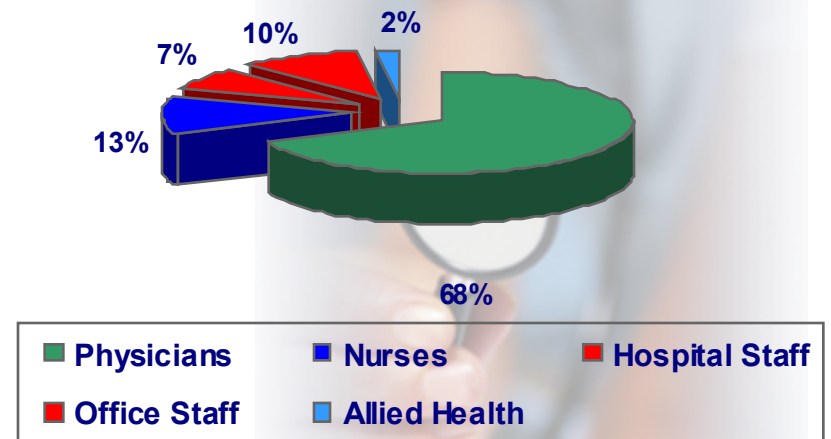
Physician Adoption

Physician Portal

1.3+ Million Log-Ins per Month



45,000+ Active Users across 450+ Facilities



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Physician Adoption

Expert Orders

Heart Center at Duke University Hospital, Durham NC

- All 80 beds live in less than 60 days
- 100+ active physicians
- 70,000+ orders placed each month, 83% by physicians
- 1,000+ physicians planned for roll-out by this summer



Physician Adoption

Computerized Physician Order Entry

The choice of more than 35 health systems, representing 70+ hospitals

- Rapid response time
- Intuitive, efficient workflow
- Proactive alerts and guidance
- Clinically relevant and proven content

McKesson's ambulatory care solutions

- 80,000+ electronic prescriptions processed each month



Pharmacy Adoption

Information Technology

- 240+ live facilities

Automation Technology

- 1.2+ billion bar-coded medication doses processed/year
- 300+ robots dispensing 325+ million doses/year
- 10,000+ medication cabinets; 1.6+ million doses dispensed/year in each decentralized facility



Nursing Adoption

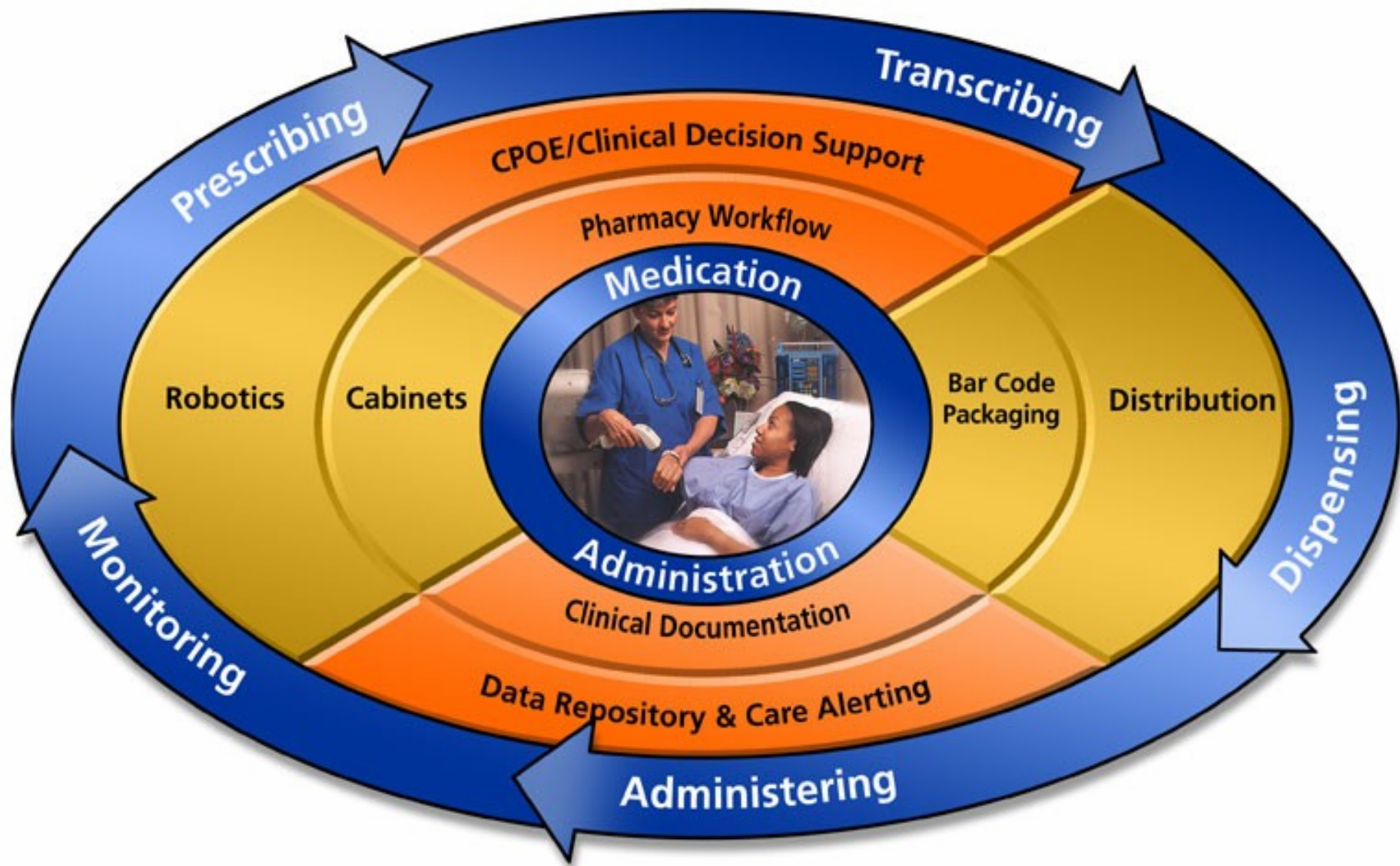
Point-of-Care Documentation

- 340+ live facilities
- 534,000+ clinical users
- 15+ million transactions every week

Point-of-Care Medication Administration

- 65+ live facilities
- 29+ thousand med errors prevented/week
- 36+ million doses administered safely/year





McKesson's Medication Safety Advantage

Software • Automation • Packaging • Distribution • Consulting

Digitizing – Eliminating Paper & Film

Document Imaging

- 300+ live facilities
- 25,000+ active physician users
- 3+ billion stored documents

Medical Imaging

- 600+ live medical imaging departments
- 15,000+ clinicians per day access images



What McKesson Represents

- Core pharmaceutical business positioned for sustained growth with a strategy in place 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



Create Value for Suppliers, Customers and Shareholders

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