

# MCKESSON

*Empowering Healthcare*

## **2002 Salomon Smith Barney Healthcare Conference**

**October 29, 2002**

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# **John Hammergren**

**Chairman and  
Chief Executive Officer**

# Safe Harbor Clause

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**Some of the information in this presentation may constitute forward-looking statements which are subject to various uncertainties and could cause actual results to differ materially from those projected or implied. These uncertainties are described in the Company's reports and exhibits filed with the Securities and Exchange Commission.**

# Agenda For Today's Presentation

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- **Market and Strategy Overview**

- **Business Unit Review**

- **Summary**

# Largest Healthcare Services Company

## Pharmaceutical Solutions

- ◆ \$46 billion in revenues
- ◆ US and Canadian pharma distribution
- ◆ Hospital and retail automation
- ◆ Pharmacy outsourcing
- ◆ Health Solutions

## Medical-Surgical Solutions

- ◆ \$2.7 billion in revenues
- ◆ Acute care
- ◆ Physician offices
- ◆ Nursing homes

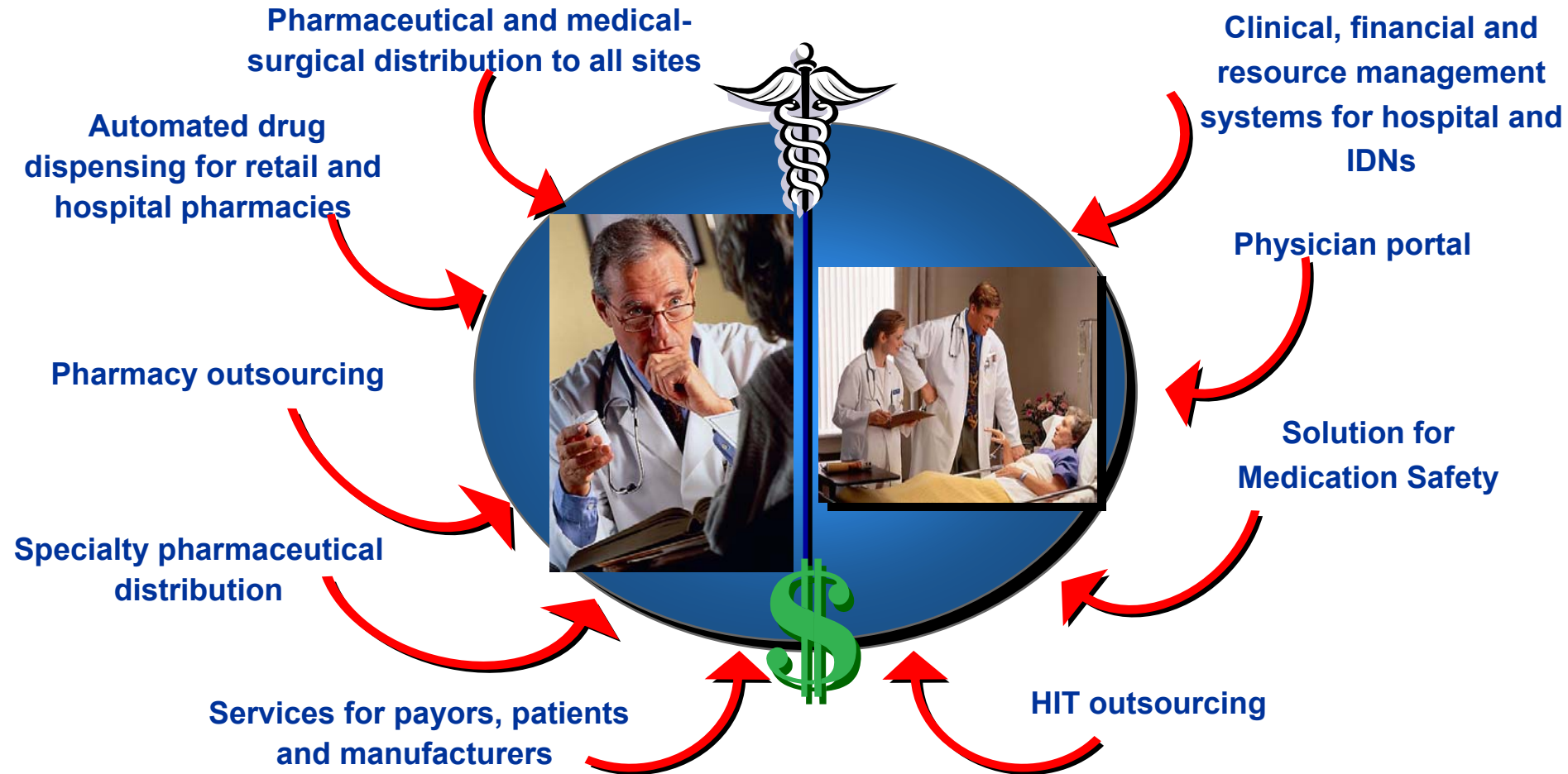
## Information Solutions

- ◆ \$1 billion in revenues
- ◆ Most comprehensive HIT product line: software, services, outsourcing
- ◆ New clinical offering includes decision support, order entry and digital medical imaging

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# McKesson Solutions Improve Quality and Reduce Cost



**Unique Conversations with Customers At Higher Levels**

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# Favorable Market Factors Drive McKesson Growth

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- Aging population consumes more drugs, supplies
- More sophisticated population demands higher quality
- Employer and government focus on higher quality
- Costs and incentives drive increased use of generics
- Pharmacist and nurse shortage widens
- Costs and quality concerns lead to increased disease management
- Expanding pipeline of higher-tech drugs

# Strong Q2 FY03 Results

	<u>2nd Quarter</u>		
	<u>FY03</u>	<u>FY02</u>	
<i>(\$ in millions, except EPS)</i>			
Revenues	\$10,282	\$8,915	+15%
Operating Profit			
Pharmaceutical Solutions	\$ 227	\$ 179	+27%
Medical-Surgical Solutions	2	24	- 92%
Information Solutions	24	14	+79%
Net Income	\$ 124	\$ 96	+29%
Diluted Earnings per Share	\$ 0.42	\$ 0.32	+31%

*Note: Before special items and discontinued operations,  
not including sales to customers' warehouses*

# Seven Quarters of Momentum

	FY01		FY02			FY03	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue Y-O-Y	17%	16%	19%	20%	16%	19%	15%
EPS Y-O-Y	41%	41%	45%	58%	55%	35%	31%

*All results exclude warehouse sales, special items and discontinued operations and include impact of FAS 142 in FY02*

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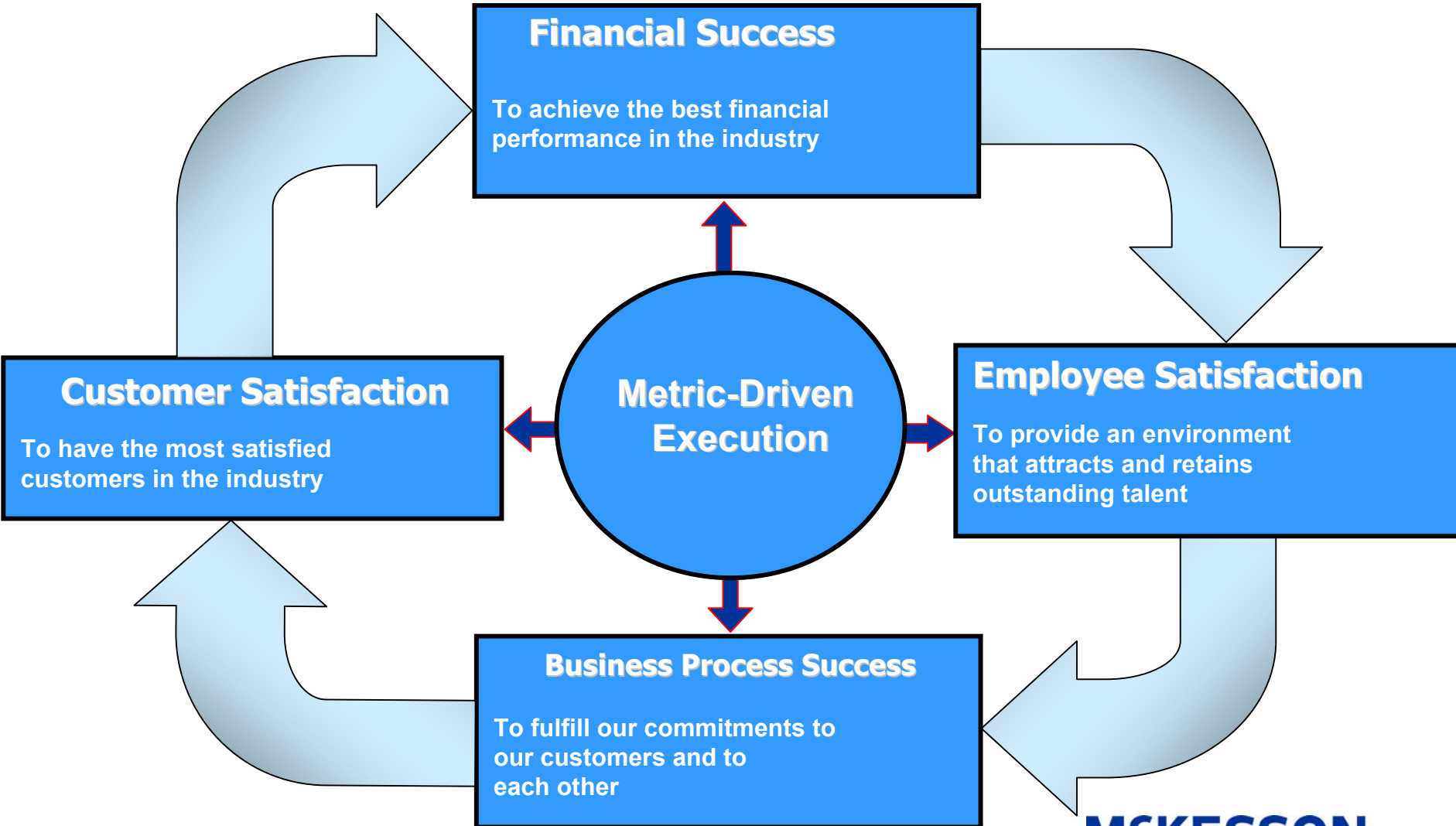
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# Business Metrics Drive Results



# Supply Businesses Across All Sites

McKesson  
Pharmaceutical

- Distribution
- Repackaging
- Informatics
- International

McKesson  
Automation

- Retail Pharmacy
- Hospital /  
Institutional

McKesson Health  
Solutions

- Medical  
Management  
Software and  
Services
- Specialty  
Pharmaceutical  
Services

McKesson  
Medication  
Management

- Pharmacy and  
Medication  
Management  
Services

McKesson  
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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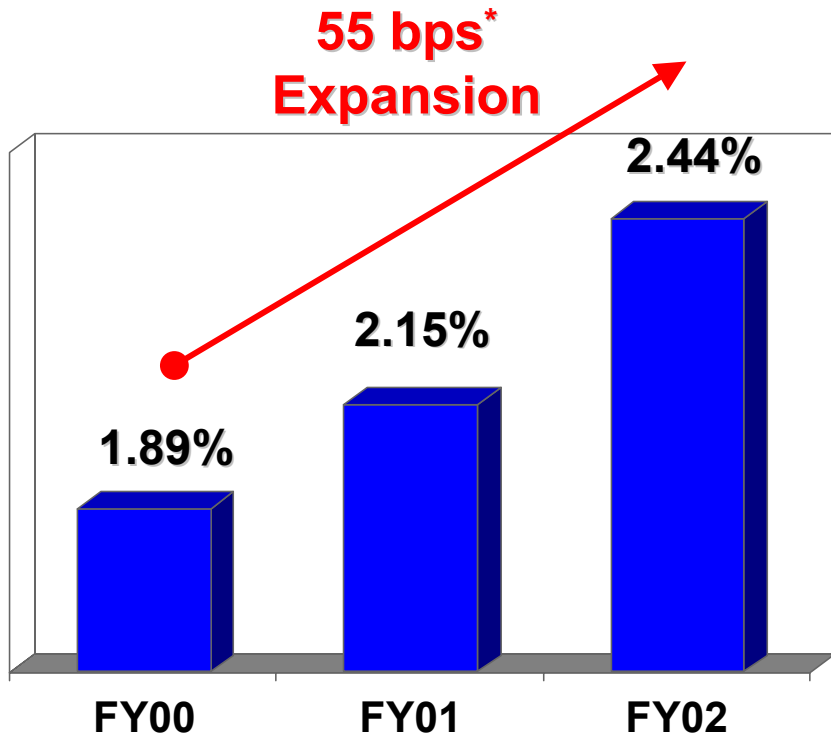
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# Pharmaceutical Solutions: Strong Growth and Expanding Margins

- U.S. pharmaceutical distribution revenues up 17%
- Generic sales slow market growth but drive margin expansion
- Operating margin up 20 bp driven by generics, strong pricing and increased sales of related products and services
- McKesson Canada revenues up 14% with margin expansion

# Pharmaceutical Solutions Margin Momentum

## Pharmaceutical Solutions Operating Margin



**+20 bp in Q2 FY03 =  
9 Consecutive Quarters  
of Operating Margin  
Expansion**

*\*FY02 includes 3 bps from discontinuation of goodwill amortization  
and all years reflect impact of discontinued operations*

# Balanced Profit Components in Pharmaceutical Solutions

## Inventory Profit

## Branded product sourcing

Price increases

Special programs

Collaborative agreements

## Generic product sourcing

## Related products and services

McKesson Canada

Nadro

Specialty Pharmaceuticals

Automation

Repackaging

Disease Management

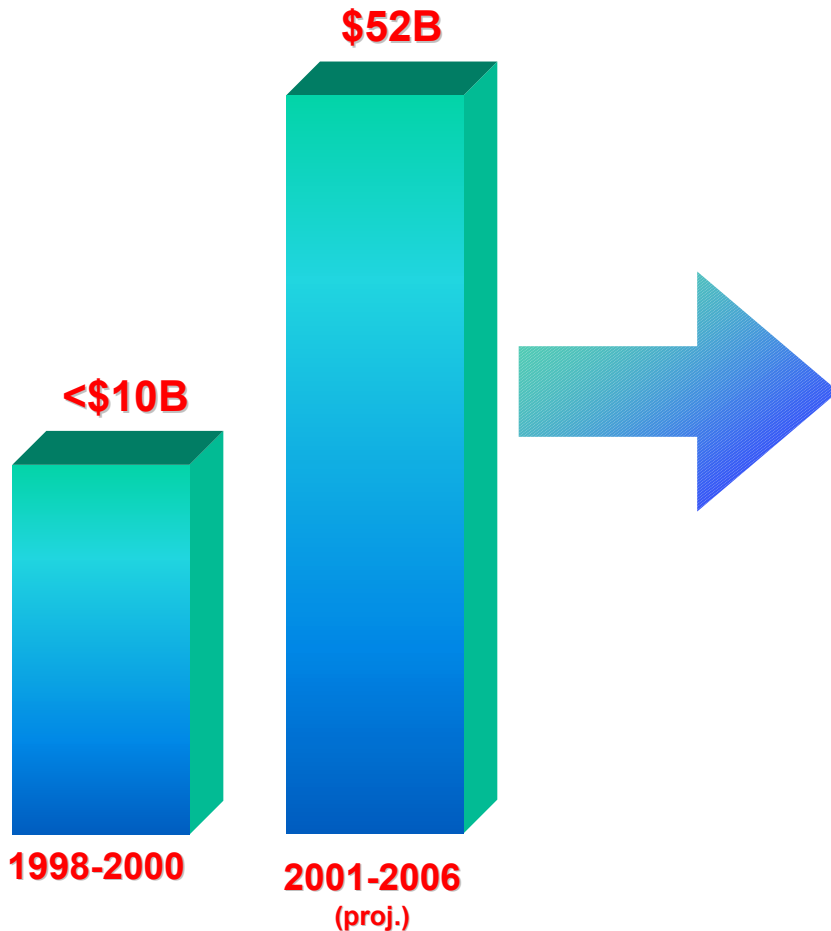
Pharmacy Outsourcing

Payor Services

Zee Medical

# Significant Generics Opportunity

Branded pharmaceuticals going off patent



**Should drive significant generic growth and margin expansion**

- McKesson OneStop program
- 20,000 pharmacy outlets
- Generic Rx GP\$ and margin higher than that of branded Rx

# Generics Gross Profit Drivers

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- **Better sell margin**
- **Margin expansion through buying leverage**
- **“Formulary” fees**
- **Portfolio opportunities with manufacturers**
- **Free goods/credits**

# Pharmaceutical Solutions: Levers to Expand Operating Margins in FY03

- Product Sourcing
- Six Sigma
- Increased Generics Sales
- Grow Packaging Capabilities and Penetration
- Automation Market Expansion and Cross Selling



**Significant Momentum in FY03**

# Medical-Surgical Solutions

## Strategic Value

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- **Strategic role delivering supply chain solutions**
- **Potential for shareholder value creation**
- **Strategic presence in alternate site market**

# McKesson Medical-Surgical: What We're Doing

- Install experienced leadership with track record for successful turnaround and augment with resources
- Improve financial and operating processes
- Execute DC network consolidation
- Complete ERP system implementation
- Increase private brand sales



**Stabilize this year with margin improvement**

**expected in FY04**

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# Information Solutions Market Leadership

## Financial Strength

- ◆ \$1 billion revenues
- ◆ 15% of revenue goes to R&D investment

## Market Share

- ◆ 60% of health systems
- ◆ 82% of covered lives
- ◆ Largest / most profitable International HIT business

## Solution Portfolio

- ◆ Most comprehensive
- ◆ Best-of-class
  - Software
  - PACS
  - Services
  - Outsourcing
  - Consulting
  - Content
  - Connectivity

## Employee Expertise

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

# Customer Needs Drive Demand for IT Solutions

## IT Demand Drivers

### Processes

### Clinical Needs

Reduce variability  
Improve MD connectivity  
Reduce medical errors

Care Delivery

### Revenue Cycle Needs

Improve cash flow  
Reduce rework  
Analyze financial performance

Billing & Claims

### Resource Management Needs

Standardization of supplies  
Improve order management  
Improve product movement

Purchasing & Supply

Core  
Process  
Improvements

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# Information Solutions: Expanding Margin and Clinical Momentum

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- Revenues up 16%, software up 20%
- Operating margin up 309 bp to 8.78%
- Software bookings up 43%
- Horizon Expert Orders GA on schedule by 12/31/02
  - 20 Horizon Expert Orders sales to date
  - 10 in implementation by fiscal year end

# Information Solutions Positive Outlook

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- **Growing Demand for Clinical Products**
- **McKesson Positioned for Clinical Leadership**
- **Margin Expansion Strategies**
  - Improving revenue mix
  - Leveraging existing infrastructure

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# Factors Driving Sustained Financial Performance

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- Financial/Customer Momentum
- Positive External & Internal Fundamentals
- Execution-Oriented Strategy
- Strong Leadership Team



**Value Creation for Customers and Shareholders**

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