

# **MCKESSON**

*Empowering Healthcare*

## **2003 Investor Day**

**June 18, 2003**

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# **John Hammergren**

**Chairman and  
Chief Executive Officer**

# Company and Financial Review

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- **Historical Perspective**
- **Company and Business Unit Strategy**
- **Financial Review**
- **FY04 Goals and Expectations**
- **One McKesson Customer Strategy**

# Fiscal 2003 Summary

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- **Another solid year of improving financial results**
- **Pharmaceutical Solutions and domestic Information Solutions momentum continued**
- **Information Solutions international contracts and Medical-Surgical Solutions issues did not prevent overall positive results**
- **A.L.I. Technologies was acquired and rapidly integrated into the Horizon Clinical suite**
- **Strengthened balance sheet**

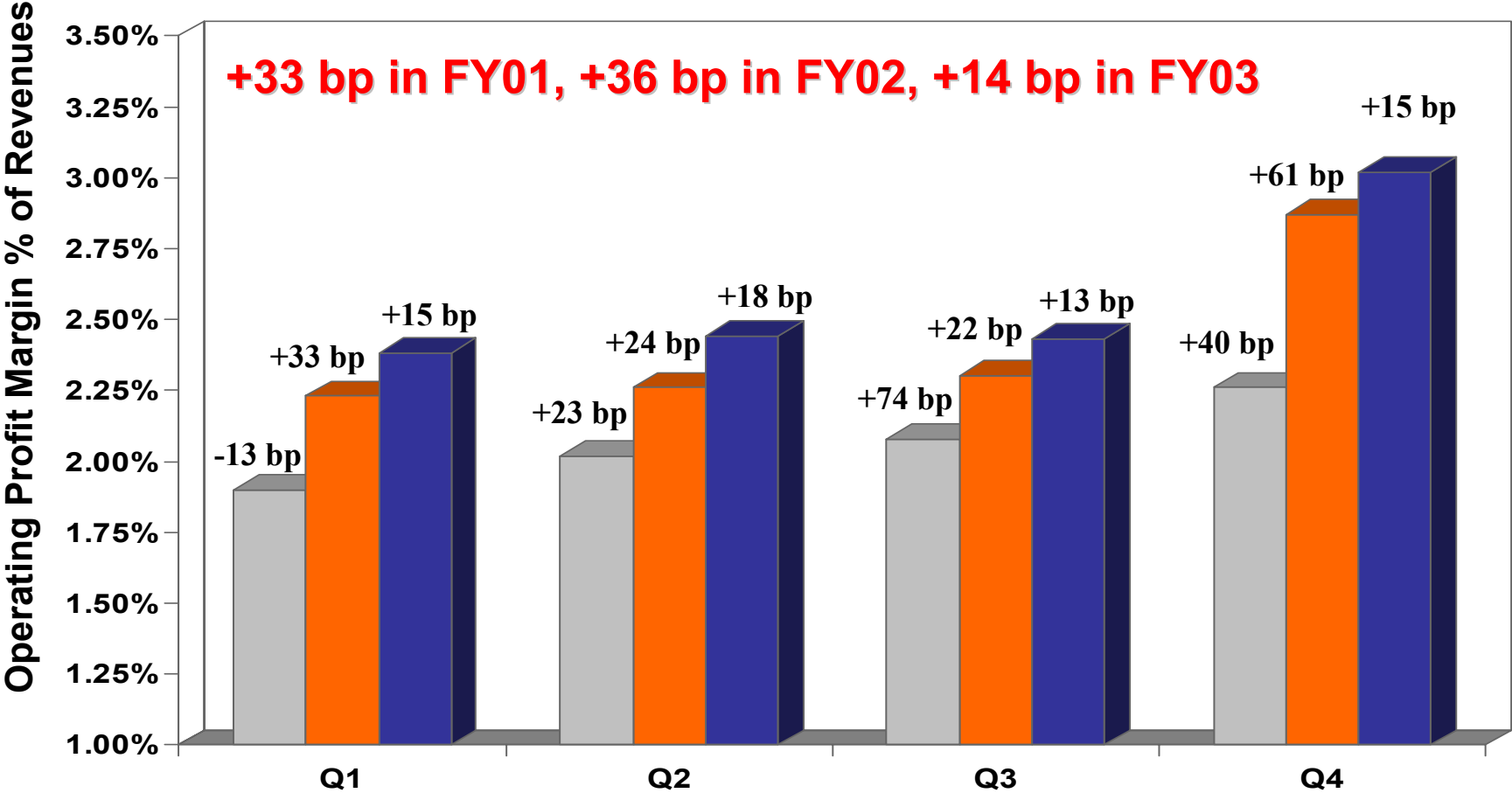
# Pharmaceutical Environment Remains Positive

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- Penetration of generics dampens market growth to 10-14% over long term but creates incremental profit opportunities
- New bi-partisan bill increases visibility for Medicare drug benefit
- Drug price increases continue
- Relationships with manufacturers are positive and collaborative
- Increased opportunity for new drugs, especially oncology

# Industry Leading Operating Margin Expansion Continues

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



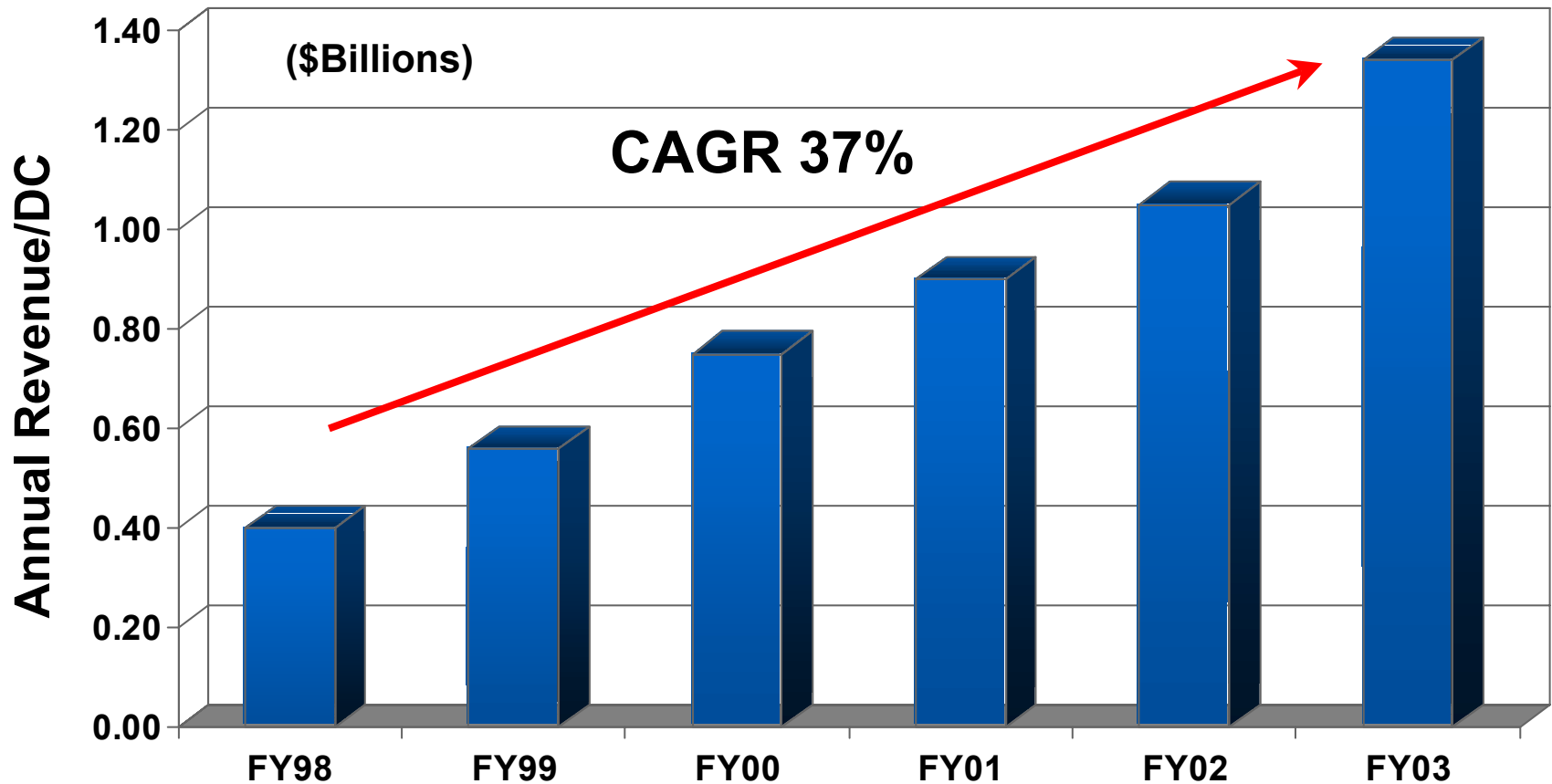
Note: Excluding impact of warehouse sales

■ FY01 ■ FY02 ■ FY03

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# Distribution Center Productivity Increases Continue . . .

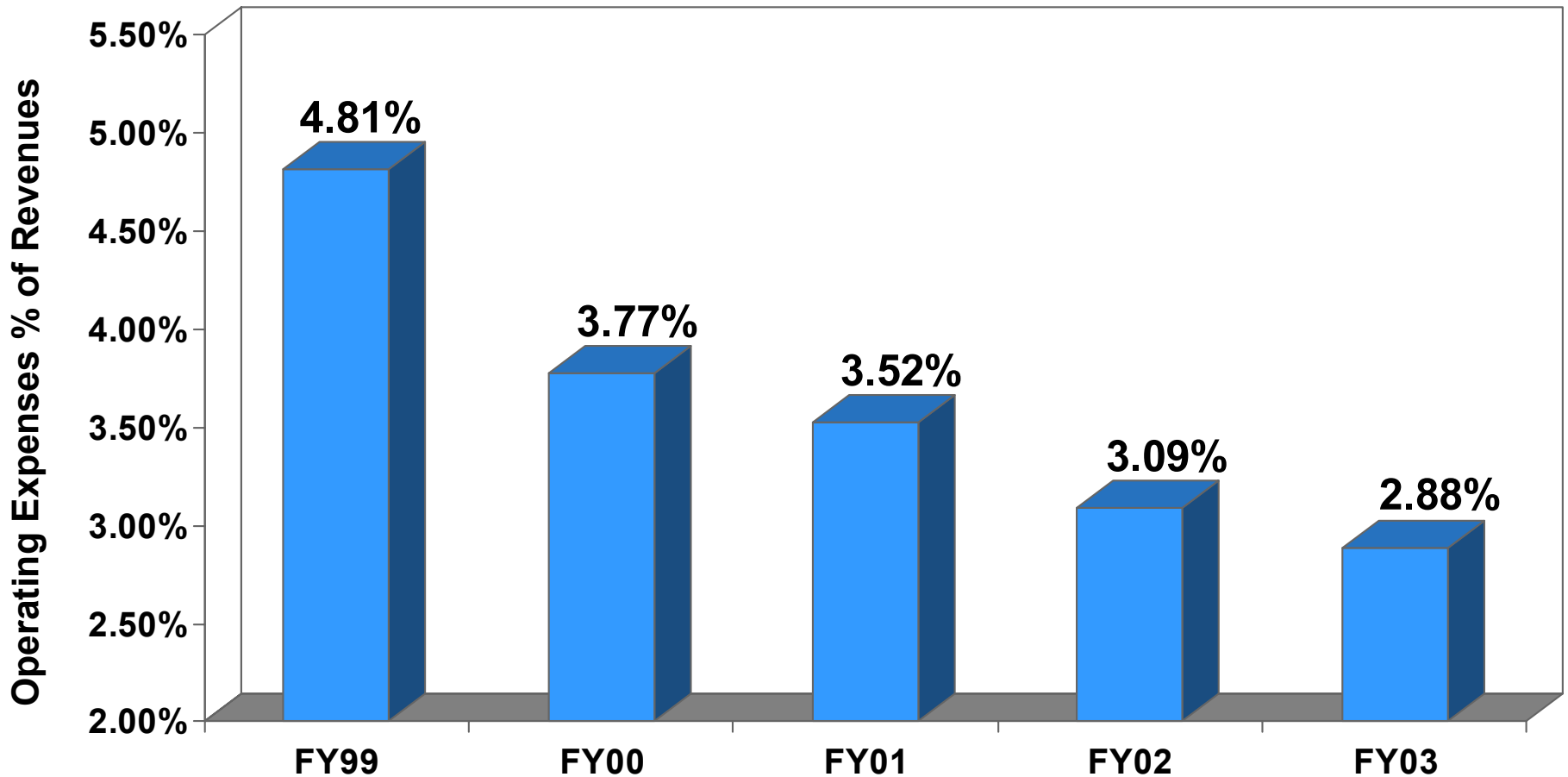


Note: Excludes Alaska and Hawaii and warehouse sales

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# ... Providing Operating Leverage



Note: Excludes impact of warehouse sales

# Long-Term Relationships

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	<u>Customer Since</u>
<b>OTN</b>	<b>2001</b>
<b>Safeway</b>	<b>1999</b>
<b>Rite-Aid</b>	<b>1998</b>
<b>Omnicare</b>	<b>1996</b>
<b>Albertsons</b>	<b>1995</b>
<b>Target</b>	<b>1994</b>
<b>Wal-Mart</b>	<b>1989</b>
<b>Costco</b>	<b>1985</b>

# Levers to Further Expand Operating Margin and Return on Capital

## Inventory Profit

### Branded product sourcing

- Price increases
- Special programs
- Manufacturer collaborative agreements (IMAs)

### 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

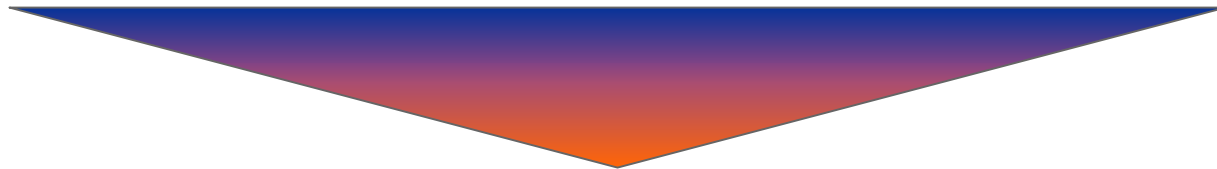
# Future Patent Expirations

<u>2003</u>	<u>2004</u>	<u>2005</u>	
Cardura	Diflucan	Aredia	Zocor
Cipro	Engerix-B	Combivir	Zofran
Flonase	Lovenox	Lamisil	Zoladex
Flovent	Lupron	Paxil	Zoloft
Plavix	Procit	Pravachol	
Serzone	Wellbutrin SR/Zyban	Prevacid	
	Xenical	Zithromax	

Source: GPhA and IMS Health

# FY04 Pharmaceutical Solutions Goals and Expectations

- Continue to leverage cost structure
- Continue to capitalize on generic opportunity
- Continue execution of 3-year operating and technology plan
- Increase Automation sales in U.S. and Canada
- Leverage Specialty Distribution assets



**Revenue growth of at least 10%, operating margin  
improvement of 5-10 bps**

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# Medical-Surgical Solutions Turnaround Underway

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- **New leadership has stabilized the business**
- **DC network consolidation has been completed and ERP system implementation remains on schedule**
- **Fiscal 2003-04: begin to realize benefits of consolidation and ERP system, improve processes and increase McKesson brand sales**

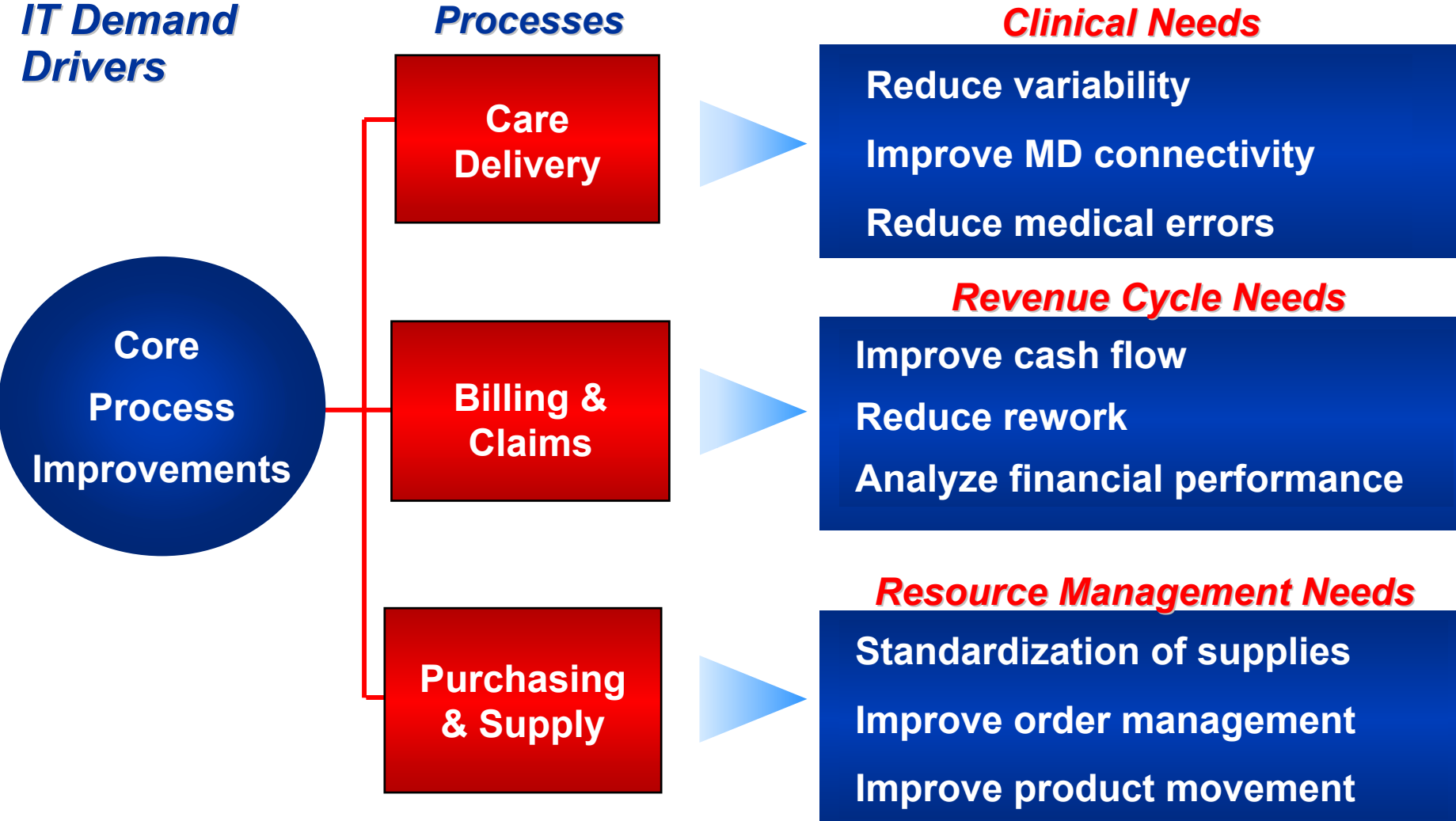
# FY04 Medical-Surgical Solutions Goals and Expectations

- Complete implementation of new ERP system
- Begin to realize benefits from DC network consolidation and ERP system
- Introduce Six Sigma to improve processes
- Expand private label programs and sales
- Develop Closed Loop Supply strategy



**Modest revenue growth and operating margin should  
improve to 3% or better by Q4 FY04**

# Market Opportunity: IT Demand Drivers



# Information Solutions Highlights

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- **Signed 1,900 software contracts, 46 of which had a value more than \$1 million**
- **Delivered Horizon Expert Orders to market on time, with 14 customer implementations currently underway**
- **Completed 500 Horizon Clinicals projects in FY03 and have another 600 scheduled or in progress**
- **Key products during FY03 – Horizon Medical Imaging, Horizon Expert Documentation, Horizon Care Access, Horizon Emergency Care and Horizon Ambulatory Care**

# McKesson Information Solutions Customer Penetration

Bed Size	Total Hospitals	MIS Hospitals*	MIS Market Presence %
500+	422	265	63%
200-500	1,278	594	46%
<200	2,787	634	23%
Total	4,487	1,493	33%

**Primary MIS  
target market =  
51%**

Note: An MIS hospital indicates installed HIS system  
Source: HCFA and BU managers

# FY04 Information Solutions Goals and Expectations

- Continue ramp-up of clinical software installations
- Continue to invest in new product innovations
- Continue to leverage McKesson position in hospital market
- Introduce Six Sigma to improve processes



**Revenue growth of at least 10%, operating margin improvement to 11-12%**

# Company and Financial Review

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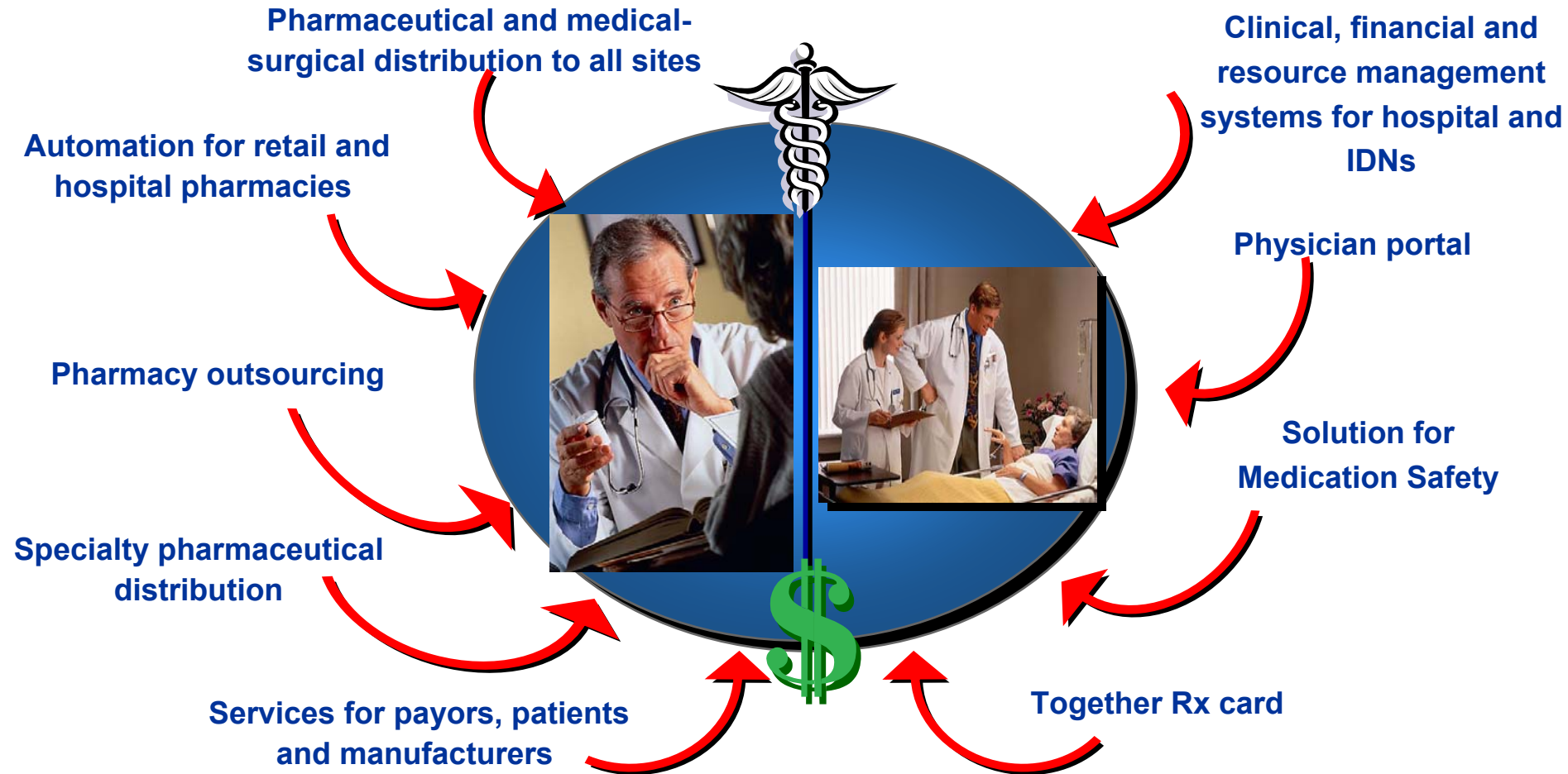
- **Historical Perspective**
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# One McKesson Strategy

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- **Internal: Leverage company size and scope**
- **External: Leverage customer base**
  - **Create long-term customer relationships based on ROI and quality improvements**
  - **Penetrate relationship by selling additional products and services**
  - **Innovate with new offerings that address emerging healthcare challenges faster than the competition**

# One McKesson Solutions Improve Quality and Reduce Cost



**Unique Conversations with Customers At Higher Levels**

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# Agenda For Today's Presentation

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- **Company and Financial Review**

- **Hospital Market Panel**

- **Retail Market Panel**

- **Industry and Legislative Panel**

- **Q&A**

# Hospital Market Panel

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- ***Paul Julian***  
President, McKesson Supply Solutions
- ***Pam Pure***  
Chief Operating Officer, McKesson Information Solutions
- ***Gary Muensterman***  
President, McKesson Medical-Surgical Solutions
- ***Rich Lunak***  
President, McKesson Automation
- ***Thomas Thielke, M.S., R.Ph., FASHP***  
Interim VP, Professional and Support Services,  
University of Wisconsin Hospital and Clinic
- ***Robert Hendricks***  
Vice President, CIO, Atlantic Health Systems

# **McKESSON**

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## **The McKesson Hospital**

**Pamela Pure, Chief Operating Officer  
McKesson Information Solutions**

**Something with the mass and force of a company like ours has the power to create a large and lasting impact**

**25% of the US healthcare dollar goes to waste, inefficiency and administrative cost and not to patient care**

■ **McKesson empowers hospitals to:**

- **Improve patient safety**
- **Reduce medication errors**
- **Increase resource efficiency**
- **Decrease costs**
- **Reduce A/R days**
- **Improve reimbursement**



***Strong clinical and financial return  
on investment***

- **We can create a hospital that operates with surgical precision**
  - **Predictable**
  - **Precise**
  - **Productive**

**Everyone receives the information  
they need without asking for it**

## ■ McKesson is a multiplier of

- Products
- People
- Logistics
- Services
- Experience

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# An Unremarkable Event

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# **It's Happening Today**

# Rapid Physician Adoption Anytime, Anywhere Access



Physician Portal - Microsoft Internet Explorer

Address: [http://e2kportal/portal/index.jsp?pageID=pp\\_results&PID=19750&EID=A77860&XPID=A0107100005](http://e2kportal/portal/index.jsp?pageID=pp_results&PID=19750&EID=A77860&XPID=A0107100005)

**EDIT Results Viewer**

Lab & Rad Show Selected Results

Show All Results Orders from 60 days back

Refresh

<input checked="" type="checkbox"/>	RsltLvl	Collected	Ordered	Item (Order Number)	Dept Status	Priority
<input type="checkbox"/>						

**EDIT Patient Vitals Graph - Temperature**

Temperature ( 02/03/2001 00:00 - 04/04/2001 16:04 )

Pitt ID: 311231 58Y Female

**Normal**  **Capit**  **Discharge**  **Notes**

**History**

This is the first hospital admission for this 54-year-old Hispanic male. He came to the hospital complaining of absence of bowel motions, temperature greater than 102 degrees F for two days, flatulence production, constipation.

Upon examination, patient was awake and alert and found to have wheezes by auscultation in the right lower side of lung. Chest to apex showed paricly, asthma in left lower lobe of the lung. CBC markedly showed elevated white count, normal hemoglobin and HCT. Sputum culture produced growth of gram negative bacilli which was sensitive to ciprofloxacin. Patient was initially started on IV antibiotic and increase antibiotic within 24 hours. Patient was discharged on day 5 with prescriptions for ampicillin 250 mg PO QID 10 days.

**Vitals**

Temp: 101.0	Respiration: 24
Weight: 60 kg	Pulse: 95
Blood pressure: 120/82	

**Demographic Information**

Insurance carrier: Medicaid United	Group number: 07802
Name of insured: Same as patient	

**Diagrams**

Local intranet 4:07 PM

# Rapid Physician Adoption

## Anytime, Anywhere Access

### Momentum

- 275+ hospitals using McKesson physician access solutions
- 390,000 Horizon<sup>WP</sup> Physician Portal log-ins per month
- 20,000+ physicians log on to Horizon Patient Folder every day
- 200 million medical records stored in McKesson systems

# Rapid ROI

## Mississippi Baptist Health Systems

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### ■ Profile

- 564-bed hospital, physician clinics, home health services

### ■ Critical issues

- Physician satisfaction and access to patient information
- High rate of chart deficiencies, delays in billing
- High accounts receivable (AR) days

### ■ McKesson solutions

- Horizon<sup>WP</sup> Physician Portal
- Horizon Patient Folder
- Horizon Business Folder

# **Rapid ROI**

## **Mississippi Baptist Health Systems**

### ***Results:***

- **Reduced discharge not final billed (DNFB) from \$7M to \$3M in just 4 months**
- **Reduced AR days from 64 days to 57 days**
  - **Cash value: More than \$1M per day**
- **Reduced medical records staff by 7 FTEs**
- **Eliminated \$100K in annual microfilm costs**
- **ER records available within 4-8 hours from discharge, down from 3 days**
- **Created \$250K annual revenue stream by in-sourcing release of information function**
- **Increased physician satisfaction through anytime, anywhere access to patient information**

# Reduce Medication Errors

## Closed-Loop Medication Management



### DISTRIBUTION

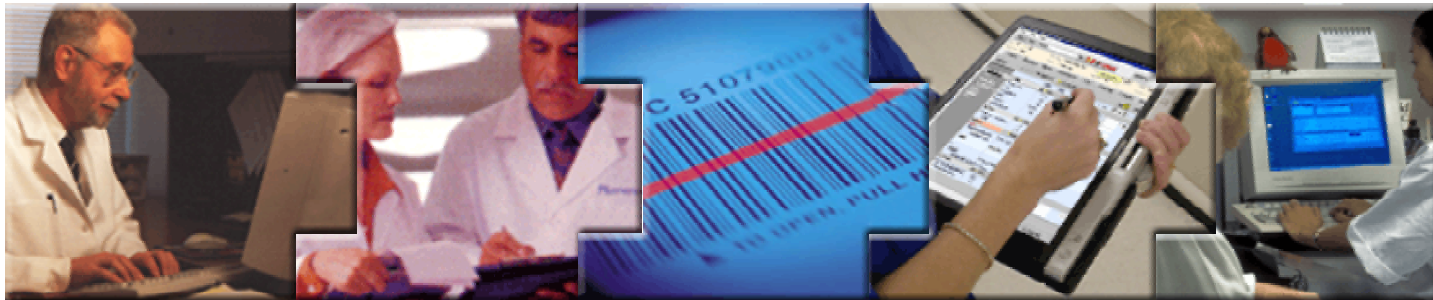
- Product fulfillment
- Usage analysis



### CONSULTING

- Analysis
- Process Improvement

## Solutions At Every Point of Care



### PRESCRIBING

- Improved Physician Workflow
- Clinical Screening

### TRANSCRIBING

- Pharmacist Verification
- Intervention tracking

### DISPENSING

- Bar-coding
- Robotics
- Centralized & Decentralized Dispensing

### ADMINISTERING

- Point of Care
- Check "5" rights
- Care Team Communication

### MONITORING

- Quality & Outcomes
- Clinical Alerts
- Longitudinal Record

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# **Reduce Medication Errors**

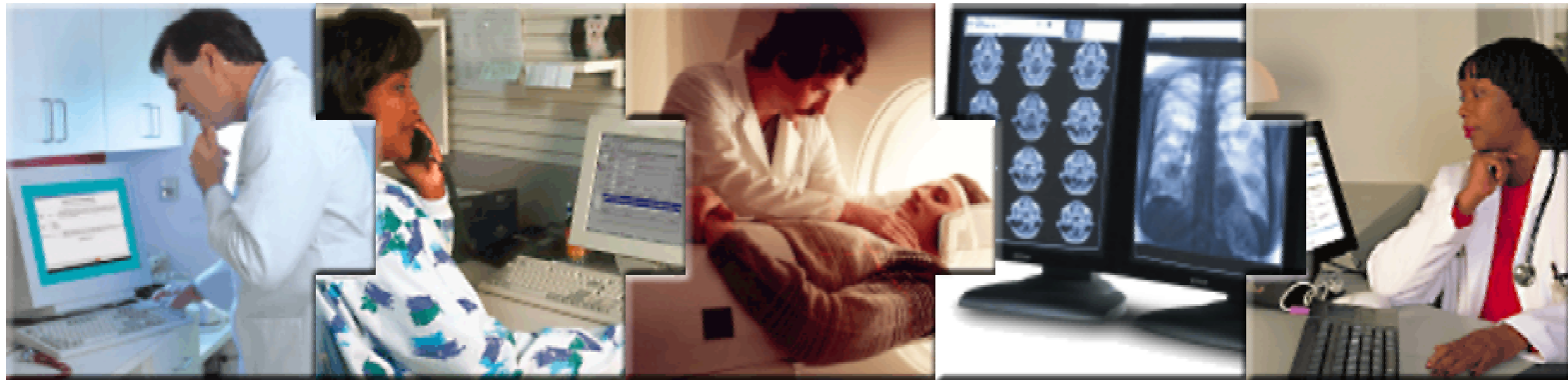
## **Closed-Loop Medication Management**

### **Momentum**

- **253 facilities committed to medication safety strategy**
- **300 pharmacy robots nationwide**
- **250 hospital pharmacies managed in 28 states**
- **1,300 pharmacist users**
- **92,000+ medication orders processed daily**

# Manage Diagnostic Testing

## Closed-Loop Medical Image Management



### ORDER ENTRY

- Evidence-based guidelines
- Interactive clinical decision support

### SCHEDULING

- Optimized utilization of equipment and clinicians
- Maximizing patient convenience

### PERFORM STUDY

- Improved patient safety
- Enhanced scanning protocols

### DIAGNOSTIC INTERPRETATION

- Enhanced diagnostics
- Remote access
- Access to complete medical record

### INFORMATION DISTRIBUTION

- Faster time to patient treatment
- Improved result access
- Longitudinal record
- Improved quality & outcomes

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# Manage Diagnostic Testing

## Closed-Loop Medical Image Management

### Momentum

- **No. 1 ranking in KLAS**
- **Handling 10 million radiology exams per year**
- **Creates new business cross-selling opportunities**
- **Turnkey installation in 90 days**

# Achieve Operational Excellence

## Closed-Loop Supply Chain Management



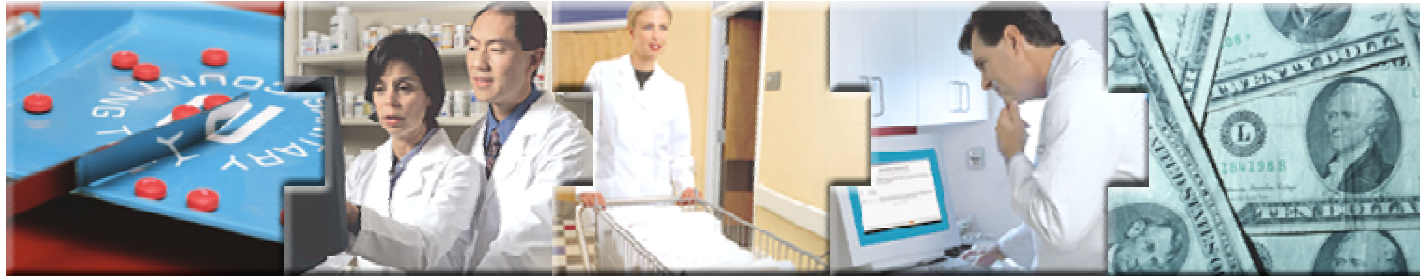
### DISTRIBUTION

- Product fulfillment
- Usage analysis



### CONSULTING

- Analysis
- Process Improvement



### PRODUCT SELECTION/ UTILIZATION

- Financial/outcome information linked
- Contract compliance
- Targeted monitoring & review
- Product standardization

### ORDER MANAGEMENT

- E-requisitioning
- Workflow/ approvals
- e-commerce
- Procedure-based ordering
- Product substitution

### LOGISTICS

- Point-of-use inventory mgmt.
- Demand forecasting
- Bar coding

### DECISION SUPPORT

- Data repository
- Reporting
- Decentralized access
- Data modeling tools

### PAYMENT

- Workflow routing
- eCommerce
- Contract pricing controls

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# **Achieve Operational Excellence**

## **Closed-Loop Supply Chain Management**

### **Momentum**

- **300 million appointments scheduled annually**
- **841 facilities use McKesson decision support**
- **375 million lines of PO code processed annually in MIS systems**
- **Supply distribution network of 31 warehouses across U.S.**
- **26,000 different items in average DC, total pool of 50,000 items**
- **Software linkage to McKesson Medical-Surgical in development**

# McKesson Differentiators

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- **Comprehensive product, technology and service offering across the spectrum of healthcare**
  - Improve medication management
  - Improve supply chain management
  - Improve revenue cycle management
- **Uniquely positioned to automate key healthcare processes and create dollars to fund strategic investment**
- **Broadest customer base in healthcare**
- **Breadth and depth of experience**
- **Financial strength**

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## **Atlantic Health Systems**

**Robert C. Hendricks Jr., Vice President of Information  
Systems and Solutions, CIO  
Atlantic Health System**

# Atlantic Health System Profile

**The hospitals of Atlantic Health System serve nearly five million people in 11 counties in northern and central New Jersey, making Atlantic one of the largest health care systems in the state. Morristown Memorial Hospital Overlook Hospital in Summit Mountainside Hospital in Montclair/Glen Ridge The General Hospital Center at Passaic. Together these hospitals offer a total of 1,662 beds. Atlantic Health System ranks among the top 100 integrated health care networks nationwide according to the SMG Marketing Group.**



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# Strategic Goal



*To meet the needs of these people*

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# Where to start?

## Meet the needs of physicians

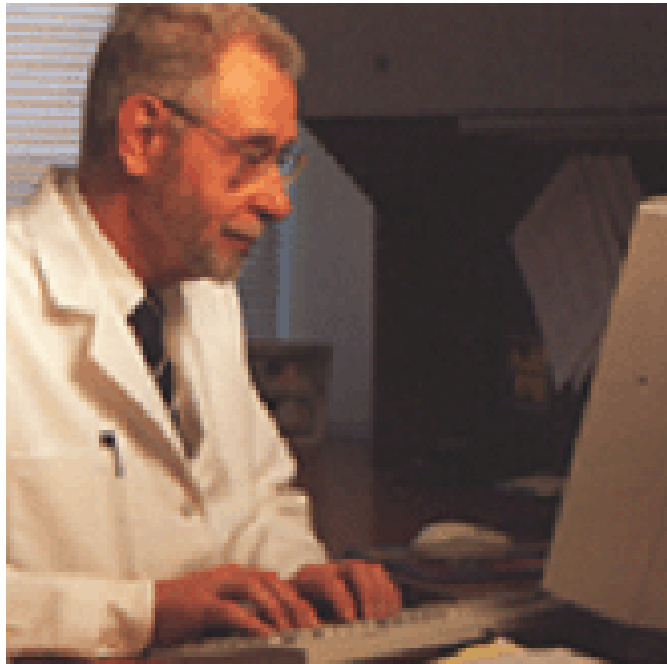
### Physician Adoption

#### 1<sup>st</sup> Priority

Provide access to results anywhere, anytime

#### 2<sup>nd</sup> Priority

Extend access to new devices like PDA's and cell phones



### Improve Care Delivery

#### 3<sup>rd</sup> Priority

Extend functionality to clinical decision support for better patient care

Continuously add new functionality

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# Why McKesson

- **Pharmaceutical Distribution:** Our total pharmaceutical with McKesson Pharmaceutical Distribution is \$36 million a year. They deliver daily to our 4 hospitals and have maintained consistent 99% service levels. Ordering is electronic and their system tools allow us to track usage, pricing and contract compliance.
- **Medication Management:** Medication Management is a division that helps customers manage their pharmacies and pharmaceuticals through consulting and PACT. PACT is an acronym for Purchasing Alliance for Clinical Therapeutics. It is, in effect, an alternative contracting source for customers to leverage McKesson's purchasing power with the drug companies. We also utilize a central McKesson Pharmaceutical Robot for our Pharmacies.
- **Integrated Information Solutions:** Our hospitals utilize McKesson products for Scheduling, Registration, Pharmacy, Nursing Documentation, Physician Portal, and Surgical.

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## **UW Health/University of Wisconsin Hospitals and Clinics**

**Thomas S. Thielke, M.S., R.Ph., FASHP**  
**Vice President Professional and Support Services**  
**and**  
**Clinical Professor, UW School of Pharmacy**



# University of Wisconsin Hospitals and Clinics

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- **UW Health System: UWHC, UW Medical Foundation (900 MD's), Unity Health Plan, UHC Inc.**
- **Two inpatient facilities – 520 beds**
- **Ambulatory clinics on site**
- **Ambulatory clinics off site – Hospital owned – 8**
- **Ambulatory clinics off site – Foundation owned – 24**
- **Affiliated hospitals - 7**

# **UW Health: A Blueprint for Success**

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**F** inancially sound

**O** perationally safe, efficient and effective

**C** ustomer driven and oriented

**U** ltimate healthcare employer

**S** trategic clarity

Automation

Asset Management

Information Solutions

UWHC/McKesson Strategic Corporate Partnership

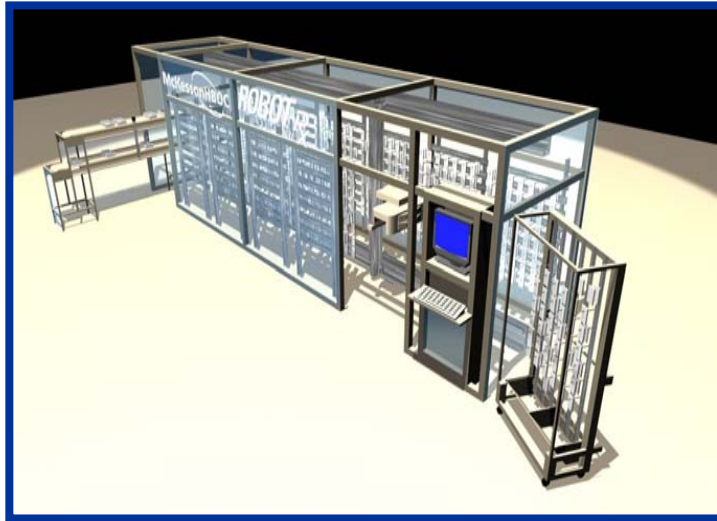
Showcase Site, Research, & Product Development

Retail Pharmacy Services

**UW Health Goals**

**(Safety, Growth, Service, Efficiency, Savings)**

# Inpatient Automation



# Pharmacy 2000 Technology



- Automate manual tasks such as counting, pouring, and filling of individual patient prescriptions
- Barcoded checking process assures accuracy
- A virtual image of the prescription will appear throughout the filling process
- Telepharmacy mail order business and central fill concept

# Alaris Medley with Guardrails

## - Beta site partnership with Admin-Rx



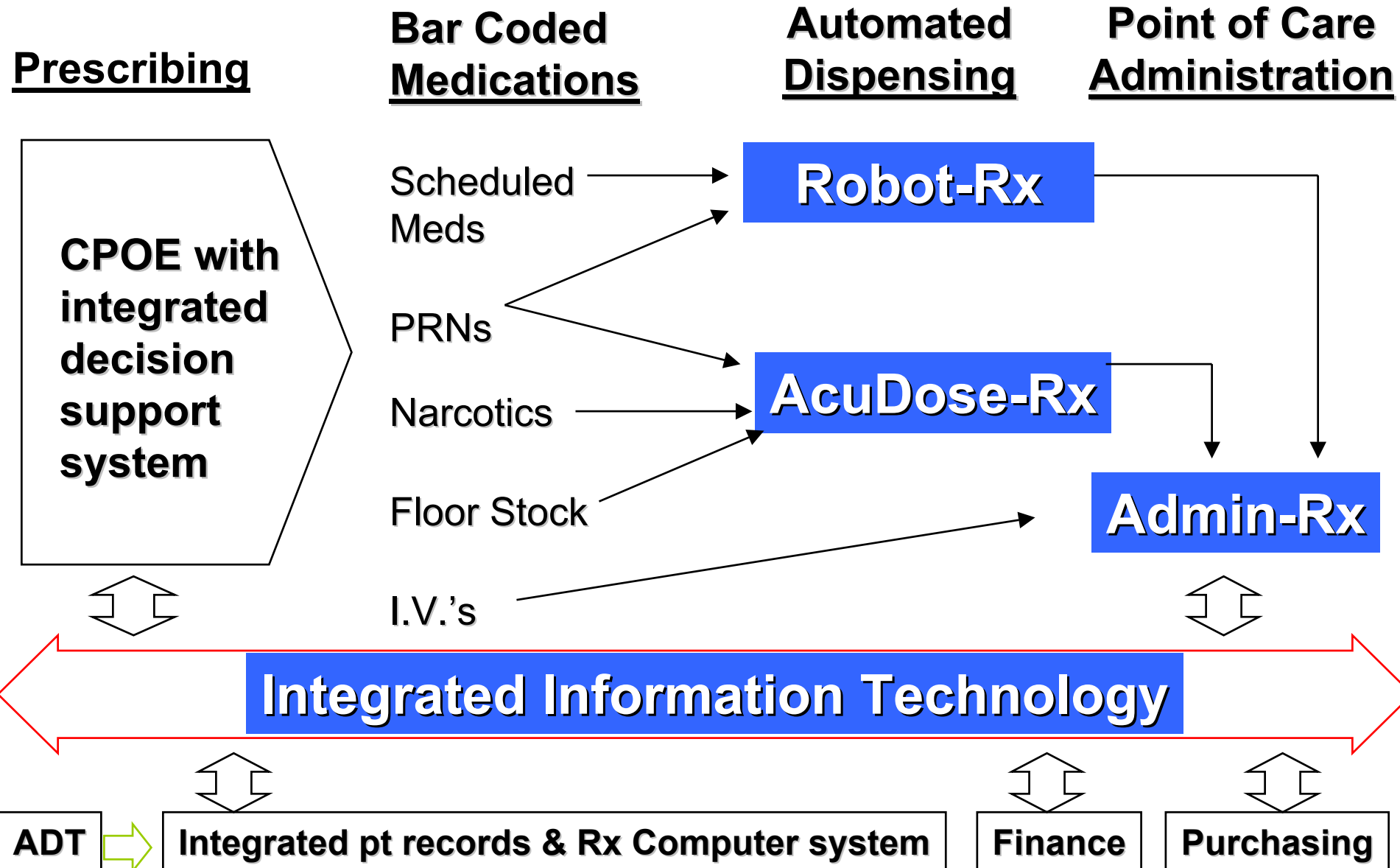
- Patient safety
  - Guardrails (upper dose limits)
  - Admin-Rx assures “right drug, right pump channel”
- Avoided litigation expenses
- Improved IV administration documentation
- UWHC showcase site for this new partnership

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# UWHC Medication Use Process

## Vision



# Information Solutions

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- **Horizon Laboratory Information System**
- **Closed Loop Medical Image Management**
  - **Largest user of Horizon Medical Imaging PACS System**
  - **Integrated image management across health system**
  - **Filmless diagnostic interpretation and information distribution**