

**MCKESSON**

*Empowering Healthcare*

**J.P. Morgan  
Healthcare Conference**

**January 12, 2004**

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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 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.**

# State of Healthcare 2004

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- **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**

# Pharmaceutical Demand Factors Remain Positive

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- 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

# Medicare Bill Key Features

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- **Drug coverage for all seniors**
- **Continued use of qualifying drug cards**
- **Quality improvement incentives for providers**
- **Pharmacy Network Access: 90-day senior prescriptions for retail chains**
- **Focus on disease management**
- **Encouragement of e-prescribing**
- **Limited importation -- Canada**

# **McKesson Capabilities for Medicare Bill**

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- ✓ **Drug coverage for all seniors**
- ✓ **Continued use of qualifying drug cards**
- ✓ **Quality improvement incentives for providers**
- ✓ **Pharmacy Network Access: 90-day senior prescriptions for retail chains**
- ✓ **Focus on disease management**
- ✓ **Encouragement of e-prescribing**
- ✓ **Limited importation -- Canada**

# What Is Possible To Improve Healthcare Within a Decade?

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- 80% reduction in medication errors
- Evidence-based guidelines at point of care and clinicians following guidelines
- 50% reduction in administrative costs
- Optimized supply chain with lower capital needs
- Chronic diseases managed in a coordinated way across the continuum of care
- Shift in resources from inpatient to ambulatory settings

# McKesson Corporation Mission

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**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'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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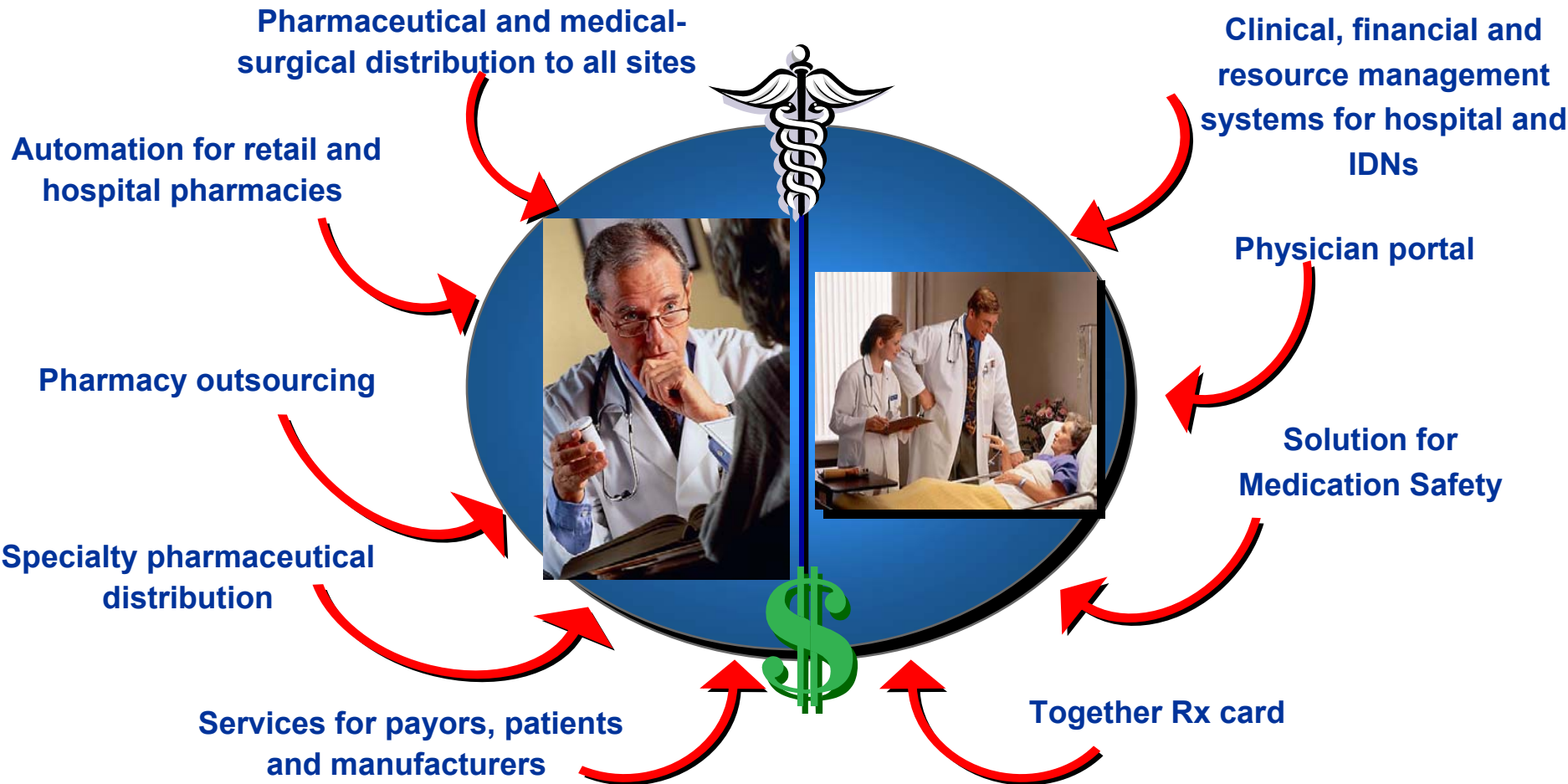
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# McKesson Strategy

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- **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



**Unique Conversations with Customers At Higher Levels**

# Technology and Unique Solutions Address Customer Challenges

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- **HOSPITAL: Changing physician workflow at Mississippi Baptist**
- **HOSPITAL: Improving patient safety and quality at University of Wisconsin**
- **RETAIL: Redesigning the supply chain for Brooks Pharmacy**
- **PAYER: Improving the health of Medicaid patients in Washington State**

# Mississippi Baptist Health Systems: Improve Quality

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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

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# Changing Physician Workflow



Physician Portal - Microsoft Internet Explorer provided by McKesson Corporation

File Edit View Favorites Tools Help

October 14, 2003 my portal suspend sign out help My Portal Options

General Hospital Patient List: ALIGOOD, OBELLE (1407-02,) User: Frank Adair

Worklist Results Flowsheet Orders Meds **Med Records** Reports Home Doc Viewer

**Deficiency Worklist (PIM)**

Deficiency Set: Individual [Help on current screen](#)

Deficiency Type:  Signature (6)  Dictation (2)  Missing Text (4) Total Charts: 5

[Process All](#) | [Process](#) | [Decline](#) | [Print List](#) | [Refresh](#)

✓	Status	Age of Def (Days)	Encounter	Admitted	Discharged	Diagnosis	Document	Patient	Assigned to
<input type="checkbox"/>	Pending Sig	281	0201400009	01/14/02	01/17/02	HEMORRHAGE, RECTUM & ANUS	<a href="#">CONSULTATION</a>	<a href="#">ALVAREZ, JAVIER</a>	COOPER, JOH
<input type="checkbox"/>	Delinquent	274	2491352	01/10/97	01/12/97	BRAIN MASS	<a href="#">HISTORY AND PHYSICAL</a>	<a href="#">WILSON, JUDITH M.</a>	COOPER, JOH
<input type="checkbox"/>	Delinquent	272	0202100031	01/21/02	01/21/02	OLECRANON BURSITIS	<a href="#">EMERGENCY DEPT. RECORD</a>	<a href="#">MORTON, BARBARA</a>	COOPER, JOH
<input type="checkbox"/>	Incomplete	263	2514411	03/01/97	03/07/97	FX, LATERAL MALLEOLUS	<a href="#">PHYSICIAN PROGRESS NOTES</a>	<a href="#">WILSON, JUDITH M.</a>	COOPER, JOH
<input type="checkbox"/>	Incomplete	263	2514411	03/01/97	03/07/97	FX, LATERAL MALLEOLUS	<a href="#">HISTORY AND PHYSICAL</a>	<a href="#">WILSON, JUDITH M.</a>	COOPER, JOH
<input type="checkbox"/>	Incomplete	256	9805400015	02/03/99	02/06/99	FRACTURE, HIP	<a href="#">HISTORY AND PHYSICAL</a>	<a href="#">STEGALL, MARTHA</a>	COOPER, JOH

[Process All](#) | [Process](#) | [Decline](#) | [Print List](#) | [Refresh](#)

**Medical Record View (PIM)**

Patient: None found for criteria entered

**Facesheet**

NAME : ALIGOOD, OBELLE ADM DATE/TIME: 10/09/2003 15:05  
 ADDRESS #1 : 10238 SHAD ROAD STATUS : Admit

Local intranet

# Rapid ROI: Mississippi Baptist Health Systems

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## Results:

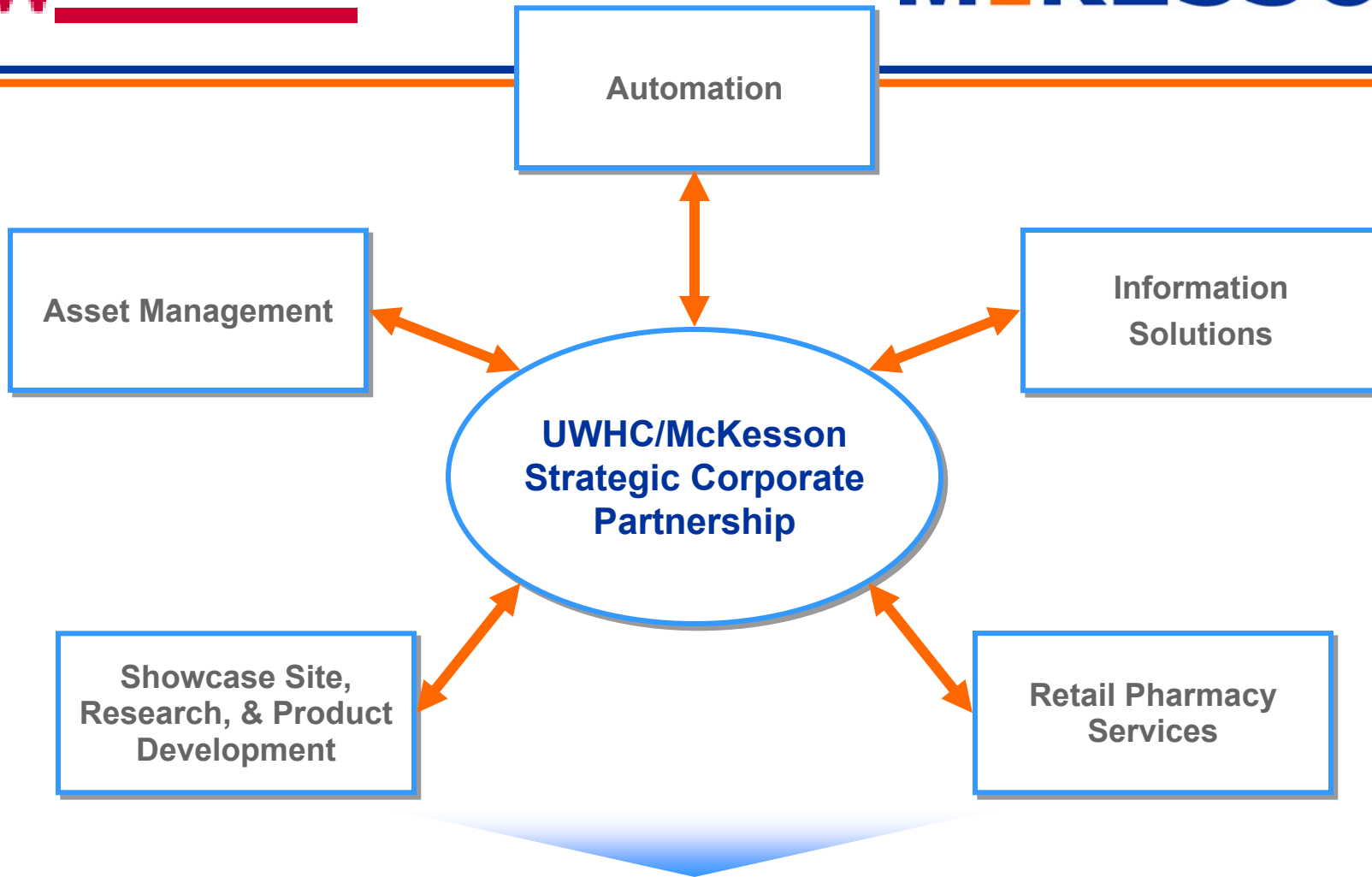
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- Reduced discharge not final billed (DNFB) from \$7M to \$3M in just 4 months
- Reduced AR days from 64 days to 57 days
  - Cash value: More than \$1M per day
- Reduced medical records staff by 7 FTEs
- Eliminated \$100K in annual microfilm costs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

# University of Wisconsin Hospitals and Clinics

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- **UW Health System: UWHC, UW Medical Foundation (900 MDs), Unity Health Plan, UHC Inc.**
- **520 beds in two inpatient facilities**
- **Ambulatory clinics on site**
- **32 ambulatory clinics off site**
- **7 affiliated hospitals**

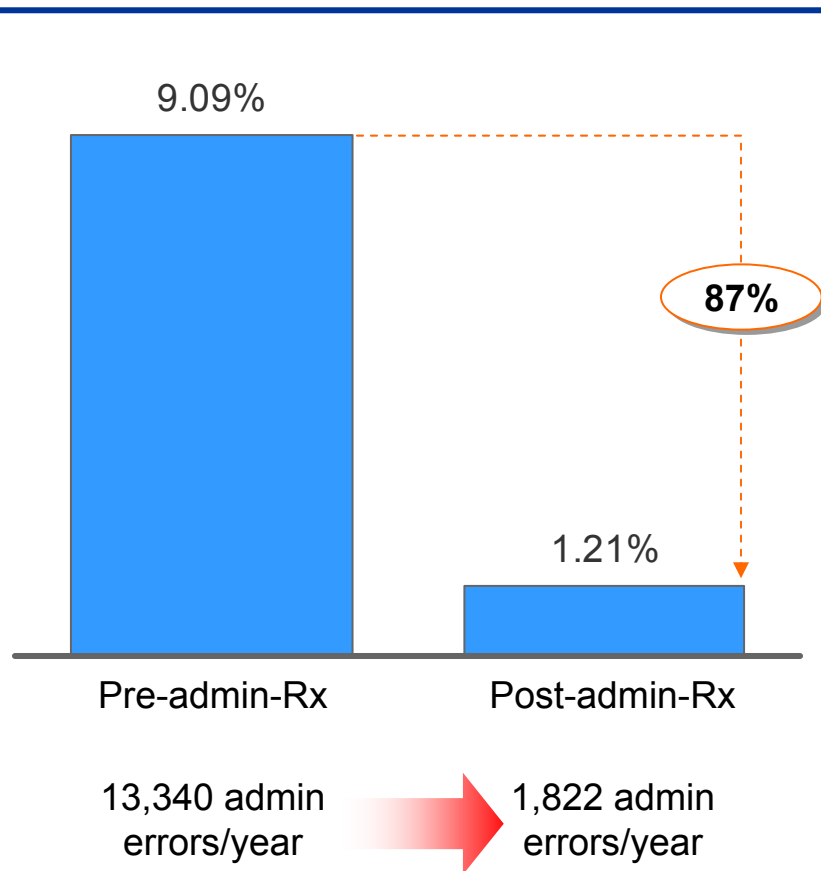


**UW Health Goals**  
**(Safety, Growth, Service, Efficiency, Savings)**

# Medication Error Reduction

## 11,518 errors avoided annually on one unit

### Overall medication error rate



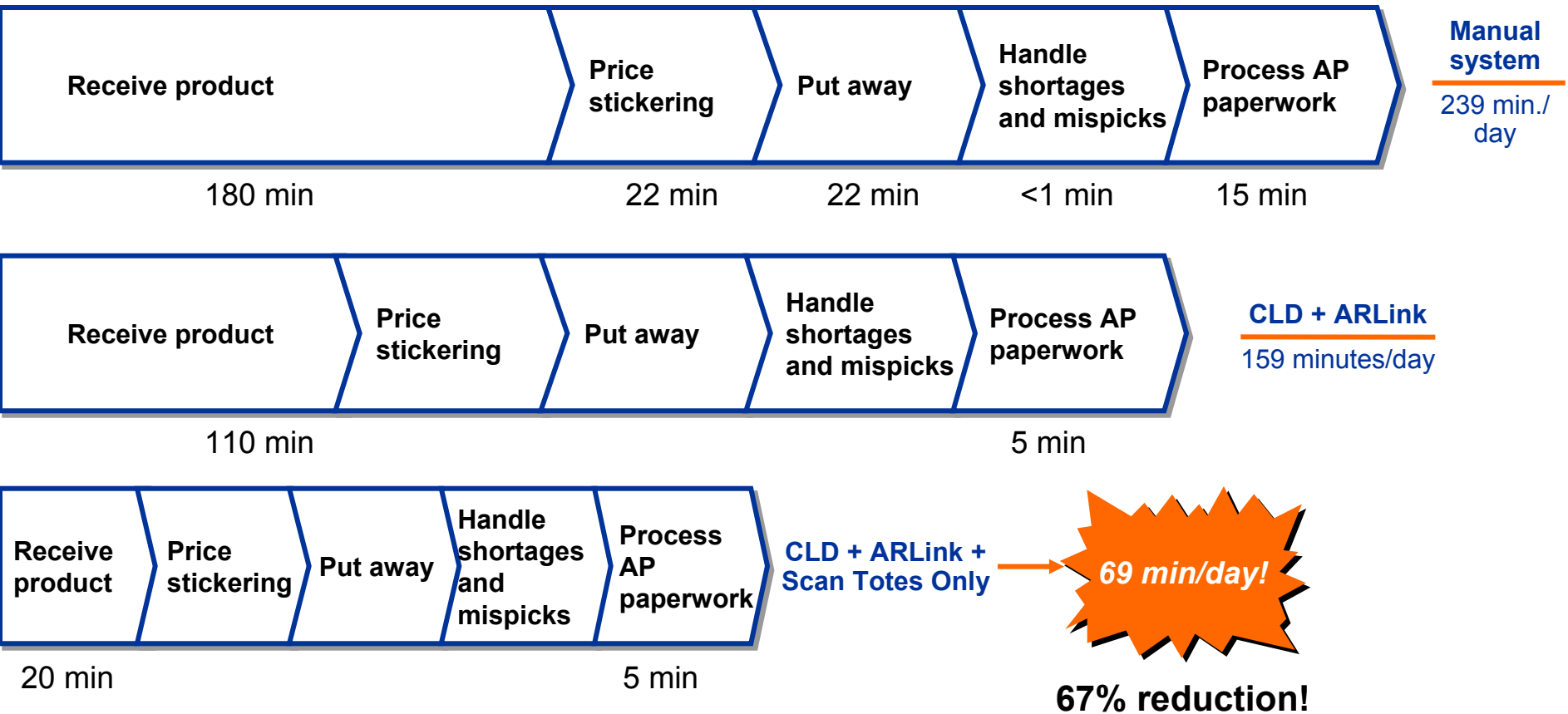
Wrong Dose	100%	↓
Wrong Dosage Form	100%	↓
Omitted doses	92%	↓
Wrong time	77%	↓
Wrong drug/order	51%	↓

Post Admin-Rx data is based on 17 days of data collected in February, 2002

# Closed Loop Distribution®



**UWHC Results:  
3 hours/day of Rx purchasing time freed-up!**



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# Redesigning the Supply Chain for Major Retailers

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## Brooks Pharmacy

- Nation's 9<sup>th</sup>-largest retail drug chain
- Total annual sales: approximately \$2 billion
- Subsidiary of Jean Coutu Group
- 330 stores in the Northeast
- Supply chain challenges related to acquisition of Osco stores

# Redesigning the Supply Chain for Brooks Pharmacy

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- Provided seamless supply chain integration during acquisition which helped Brooks grow its store count by 29%
- Reduced average lead time from 10 days to 48 hours
- Reduced Brooks warehouse inventory by 35%
- Helped Brooks increase service level from its warehouse to its stores to 98%
- Reduced Brooks accounting and ordering staff, warehouse receiving and put-away staff by 25%
- Improved overall financial return

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# Disease Management Strategy

## Goals

- Identify and enroll members who have high cost chronic conditions
- Risk stratify members into stable, at risk and high risk groups
- Provide professional assessment, education, reinforcement, monitoring and modification of goals
- Reinforce consistent clinical guidelines

## Target Members Who

- Have been diagnosed with or filed a claim for asthma, diabetes, heart failure, or chronic pulmonary disease
- Have co-morbid chronic conditions
- Are motivated to get more involved in their health and could benefit from additional support between doctor visits

## Components

- Identify through claims and predictive modeling
- Innovative 24 X7 inbound nurse triage hub for care navigation & referrals
- Outbound and inbound enrollment methods
- Educational materials
- One-on-one nurse counseling
- Online condition centers, trackers, alerts and messaging service
- Mailed & online action plans
- On the ground services

# Disease Management Results for Washington State

## Heart failure behavior change

- 89% increase in ACE-inhibitor prescriptions
- 24% increase in annual flu vaccinations
- 114% increase in patients weighing daily
- 155% increase in patients keeping a weight log
- 44% increase in patients following a low-salt diet

## Asthma behavior change

- 91% increase in patients with action plans
- 85% increase in asthmatics who own peak flow meters
- 34% increase in asthmatics using spacers

## Diabetes behavior change

- 33% increase in use of glucose monitoring
- 70% increase in aspirin use
- 22% report lower blood glucose levels
- 20% show improved functional status

## DM ROI and utilization reduction

- 15% to 53% reductions in inpatient admissions
- 5% to 31% reductions in emergency visits
- ROI of \$1.55 to \$3.00 for every dollar invested

## Member and physician satisfaction

- 96% to 99%% member satisfaction with service
- 92% to 99% would recommend to a friend
- 90% of providers would refer future members



# 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 customers<sup>1</sup>**
- **88 of 100 hospitals on “Most Wired” list are McKesson customers<sup>2</sup>**
- **Supplier of the Year to Wal-Mart 2002 and Rite-Aid in 2003**

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

# Solid Q2 & First Half FY04 Results

(\$ in millions, except EPS)

	<u>2nd Quarter</u>			<u>Six Months</u>		
	<u>FY04</u>	<u>FY03</u>		<u>FY04</u>	<u>FY03</u>	
<b>Revenues</b>	\$11,753	\$10,282	+14%	\$23,112	\$20,408	+13%
Pharmaceutical Solutions	\$10,766	\$ 9,322	+15%	\$21,176	\$18,511	+14%
Medical-Surgical Solutions	\$ 690	\$ 684	+1%	\$ 1,374	\$ 1,367	+1%
Information Solutions	\$ 297	\$ 276	+8%	\$ 562	\$ 530	+6%
<b>Income</b>	\$ 157	\$ 128	+22%	\$ 312	\$ 246	+27%
<b>Diluted Earnings per Share</b>	\$ 0.53	\$ 0.43	+23%	\$ 1.05	\$ 0.83	+27%
<b>Return on Committed Capital</b>	24.7%	21.9%	+280bp			
<b>Net Debt/Net Capital Ratio</b>	18.6%	24.3%	-570bp			

*Note: Results from continuing operations, excluding sales to customers' warehouses*

# McKesson Goals for Delivering Sustained Financial Performance

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- 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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