

MCKESSON

Empowering Healthcare

Merrill Lynch Healthcare Services Conference

December 2, 2003

John Hammergren


**Chairman and
Chief Executive Officer**

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.

McKesson Corporation Mission

**To use the power of One McKesson 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**

One McKesson: 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

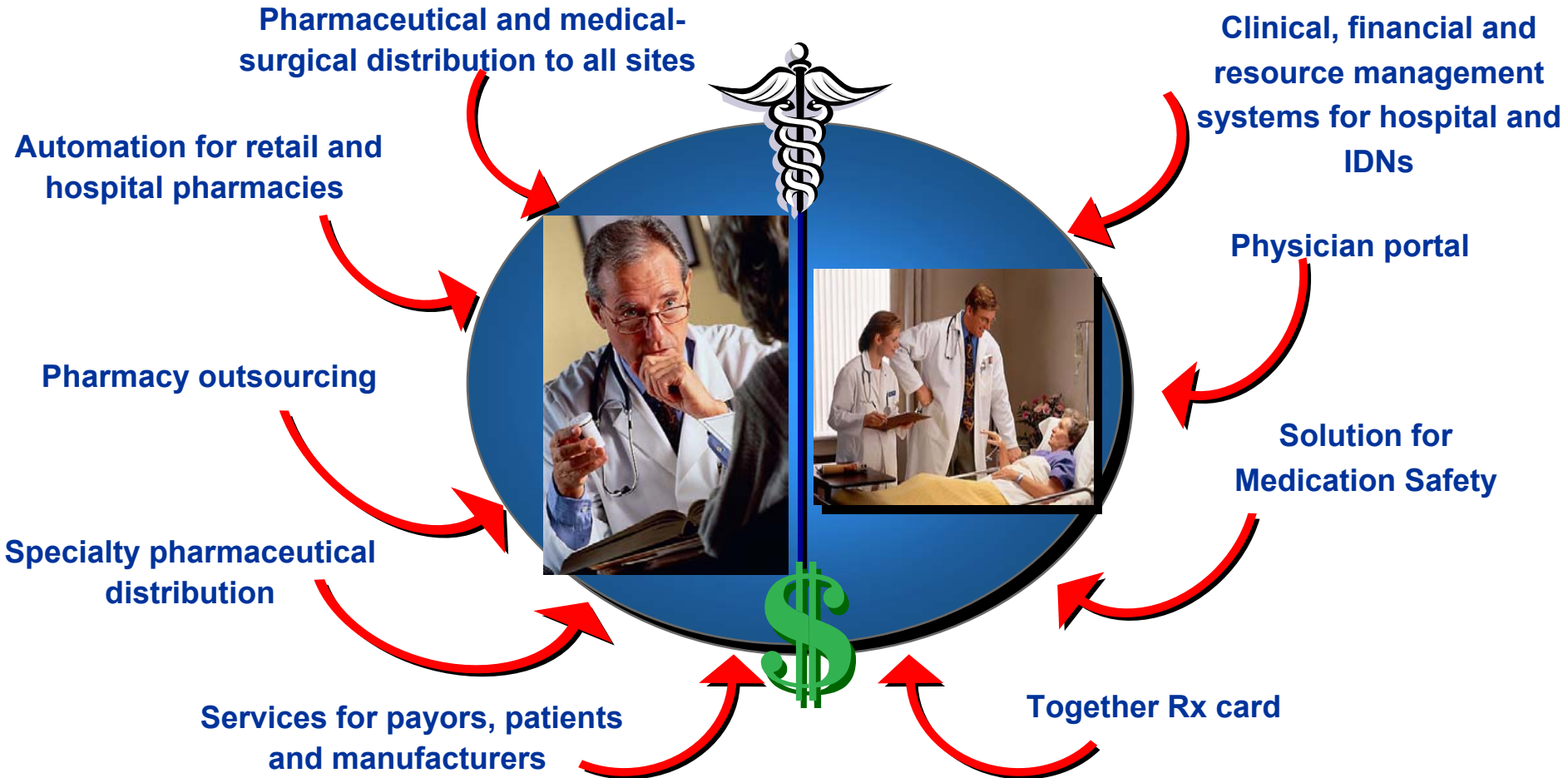
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One McKesson Strategy

- **Internal: Leverage company size and scope**
- **External: Leverage customer base**
 - **Create long-term customer relationships based on ROI and quality improvements**
 - **Sell McKesson's comprehensive solutions**
 - **Innovate with offerings that address emerging healthcare challenges**

One McKesson Solutions Improve Quality and Reduce Cost



Unique Conversations with Customers At Higher Levels

One McKesson Strategy to Reduce Medication Errors



PRESCRIBING

TRANSCRIBING

DISPENSING

ADMINISTERING

MONITORING



DISTRIBUTION

Solutions at Every Point of Care



CONSULTING

McKESSON

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One McKesson Supply Chain Management



**PRODUCT
SELECTION/
UTILIZATION**

**ORDER
MANAGEMENT**

LOGISTICS

**DECISION
SUPPORT**

PAYMENT



DISTRIBUTION



CONSULTING

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One McKesson Patient Care Anytime, Anywhere Physician Access



Physician Portal - Microsoft Internet Explorer

Address: 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"/>						

Normal Capital Discharge Notes

Miss Hospital - Pitt of Blood Throat System
311 Pitt Street, Suite 500, Pitt
Patient Name: Missy 311
Address: 2414 Highland Trail
Patient ID: 01101402

Admission Department: Ambulatory
Attending Doctor: Andrew Clark, MD

Summary
This is the first hospital admission for this 54-year-old Hispanic male. He came to the hospital complaining of difficulty breathing, temperature greater than 102 degrees F for two days. He had productive sputum.

Upon examination, patient was awake and alert and found to have wheezes by auscultation in the right lower lobe of lung. Chest x-rays showed patchy infiltrate in left lower lobe of the lung. CBC markedly showed elevated white count, normal hemoglobin and HCT. Sputum culture produced penicillin sensitive Streptococcus which was sensitive to ampicillin. Patient was initially started on IV ampicillin and because of allergic within 24 hours. Patient was discharged on day 5 with prescriptions for ampicillin 250 mg PO QID 10 days.

Vitals
Height 5'10"
Weight 165 lbs
Blood pressure 120/82

Temperature Substitutions
Temperature sensor: Mediatek Limited
Name of sensor: None reported Group number: 00002

EDIT Patient Vitals Graph - Temperature

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

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

105.0
104.5
104.0
103.5
103.0
102.5
102.0
101.5
101.0
100.5
100.0
99.5
99.0
98.5
98.0

3/12/01 3/13/01 3/14/01 3/15/01 3/16/01

Date Vital was taken

Pitt ID: 311231 58Y Female

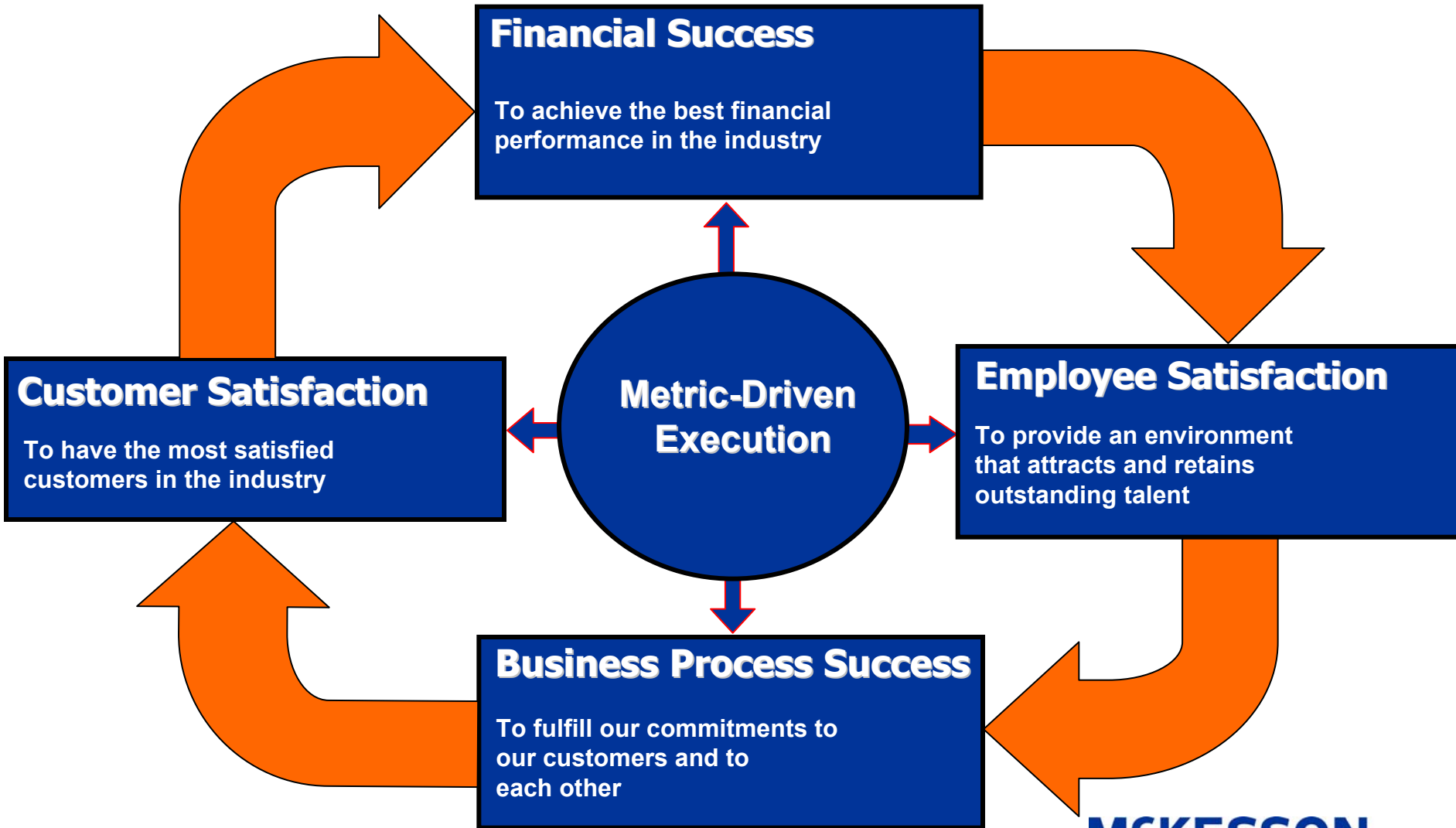
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McKesson Solutions Performance

- **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 customers¹**
- **88 of 100 hospitals on “Most Wired” list are McKesson customers²**
- **Wal-Mart 2003 Supplier of the Year**



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

Business Metrics Drive Results



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>	
Revenues	\$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%
Income	\$ 157	\$ 128	+22%	\$ 312	\$ 246	+27%
Diluted Earnings per Share	\$ 0.53	\$ 0.43	+23%	\$ 1.05	\$ 0.83	+27%
Return on Committed Capital	24.7%	21.9%	+280bp			
Net Debt/Net Capital Ratio	18.6%	24.3%	-570bp			

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

Pharmaceutical Solutions Q2 Results

- U.S. revenues up 14%, warehouse sales up 48%
- Strong growth from independents and institutions plus new institutional business
- Canadian revenues up 31% ... 15% excluding currency
- Decline of 40 bp in operating margin reflects \$30 million bad debt provision in Q2 and fewer product sourcing opportunities

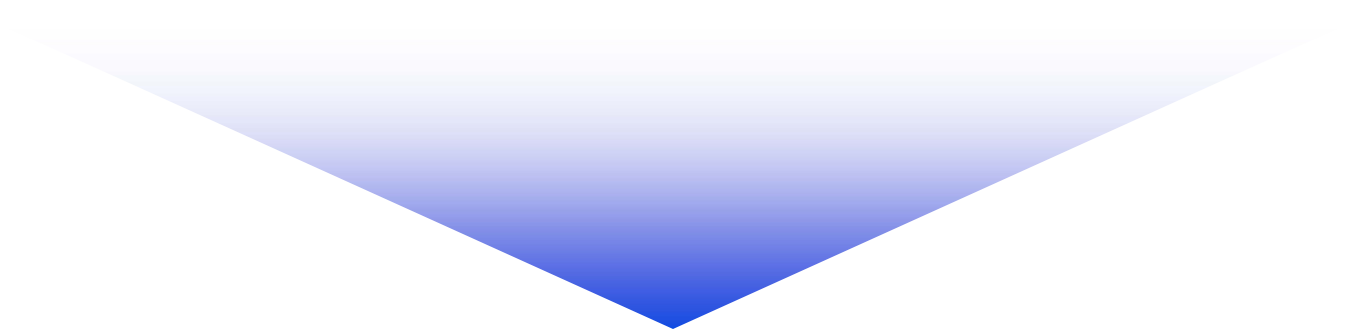
Note: Excluding sales to customers' warehouses

Pharmaceutical Demand Factors Remain Positive

- 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

What's Changed?

- **Increased manufacturer visibility to supply channel**
- **Concern about counterfeit drugs**

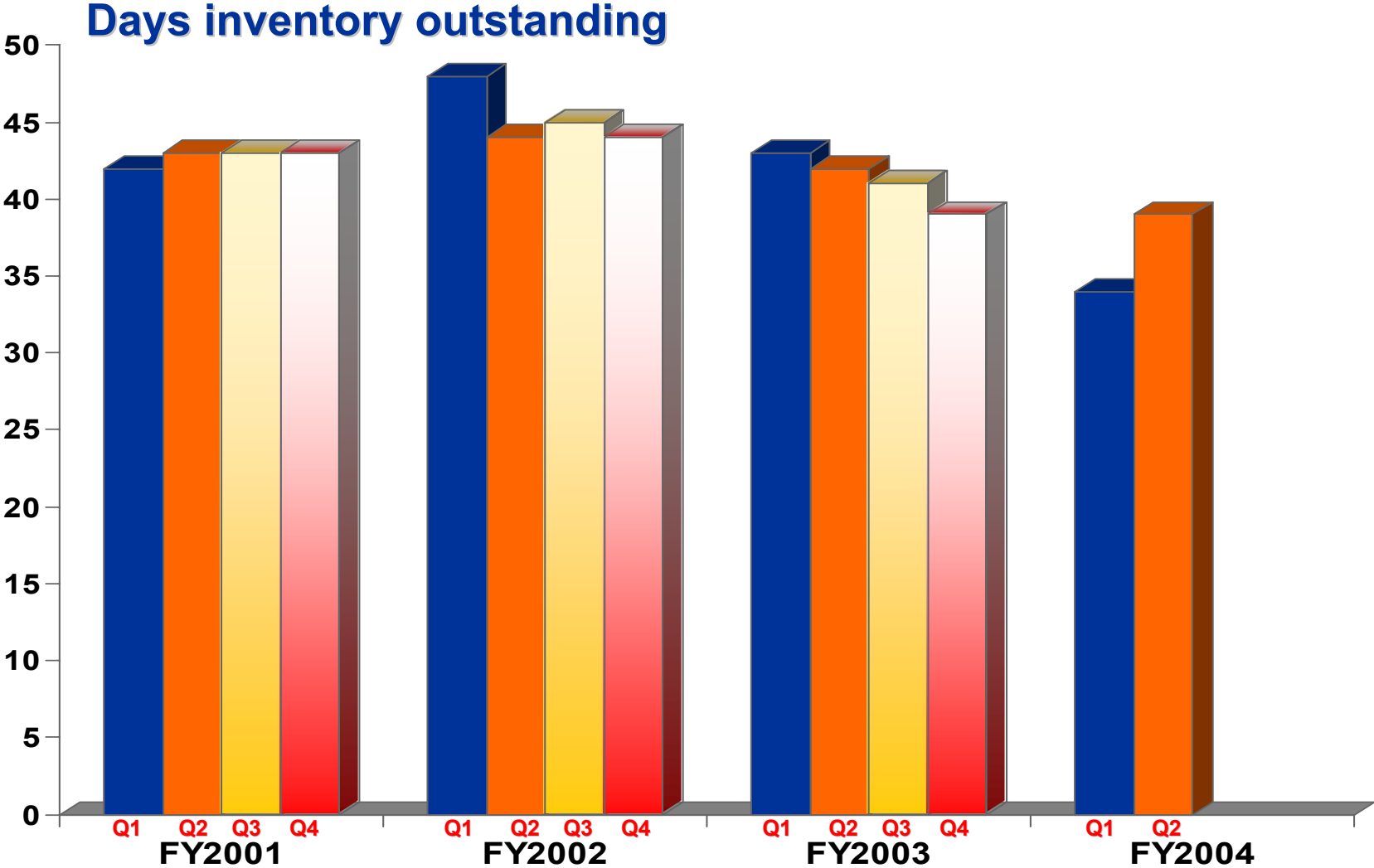


- **Focus on managing inventory across supply chain**
- **Focus on improving safety**

Inventory Management Agreements -- IMAs

- **Collaborative, formal agreement that recognizes value and role of distributor**
- **Matches product flow to end-user demand and allows better manufacturing planning**
- **Streamlines working capital investment for distributors**
- **Fee-for-service or compensation tied to price increases**

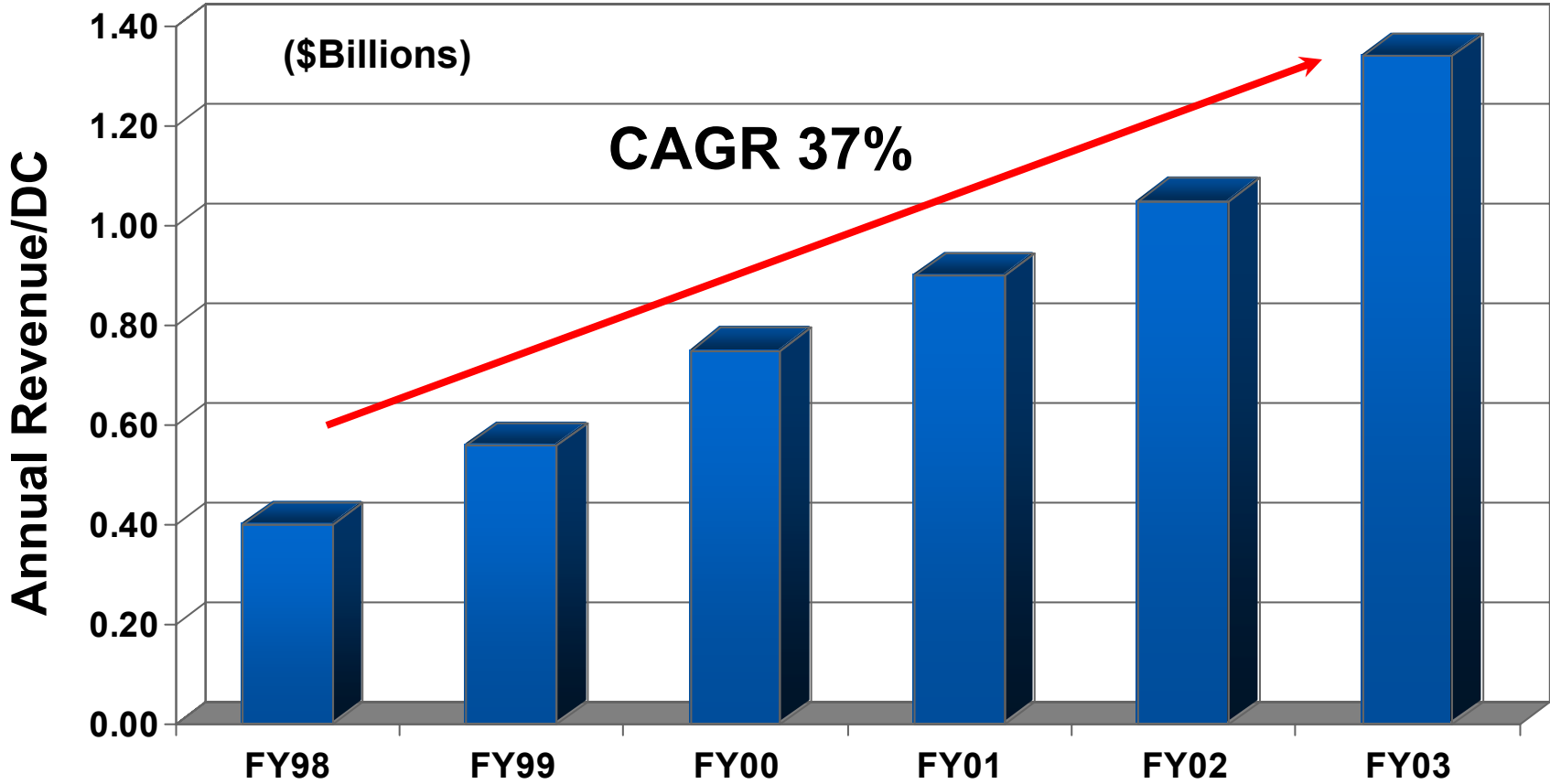
Improving Inventory Turns



Operating Strategies to Drive U.S. Pharmaceutical Efficiencies

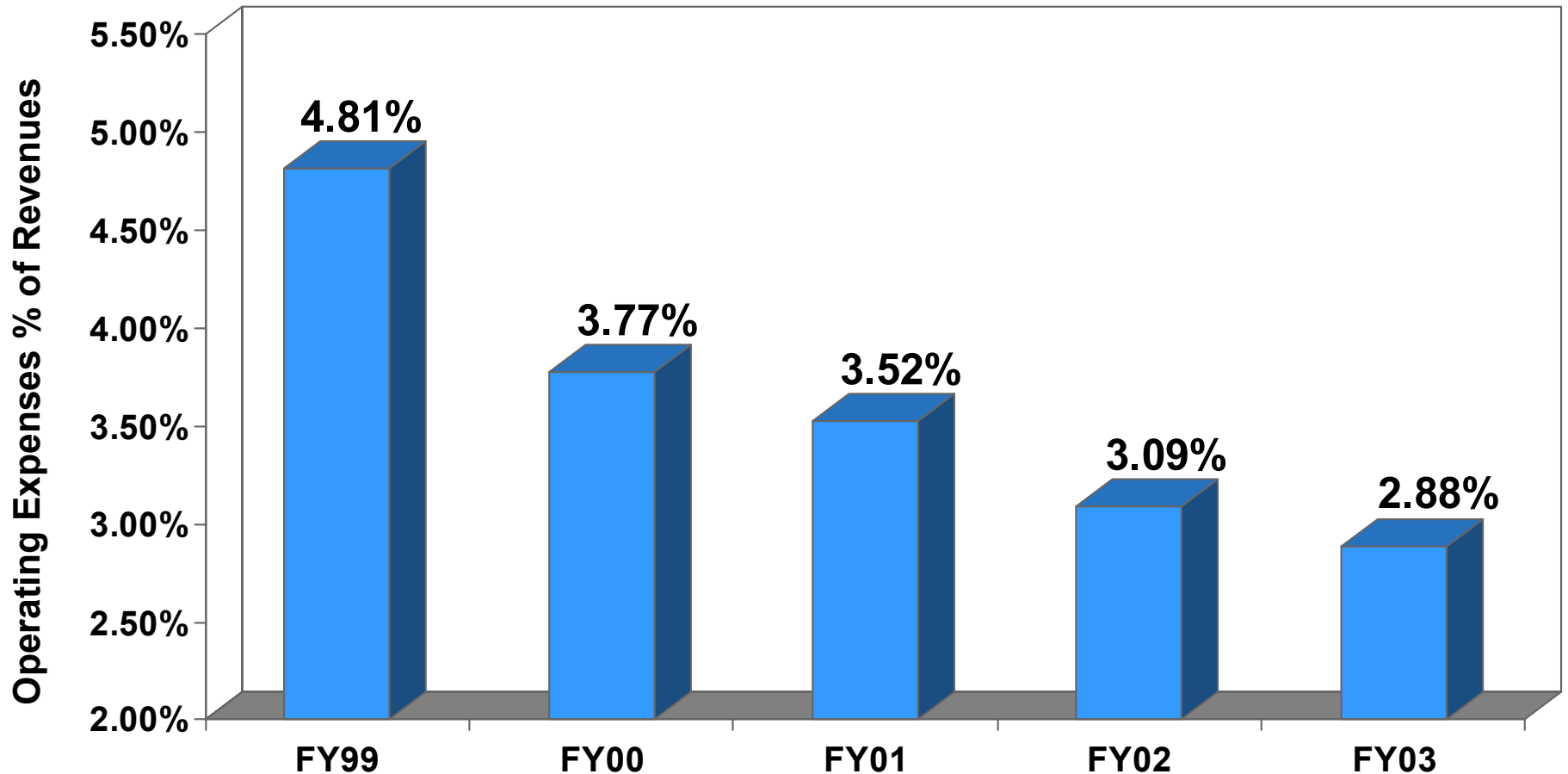
- **Comprehensive IT system to manage U.S. pharmaceutical business and reduce costs**
- **Streamline and automate U.S. pharmaceutical distribution center network**
 - **Opened 2 new DCs since 2001**
 - **Closed 5 older DCs since 1999**
- **Continue to execute Six Sigma process improvements**

Distribution Center Productivity Increases Continue . . .



Note: Excludes Alaska and Hawaii and warehouse sales

. . . Providing Operating Leverage



Note: Excludes impact of warehouse sales

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Pharmaceutical Solutions Summary

- **Strong growth expected in U.S. and Canada**
- **No product deal opportunities in Q3 and Q4**
- **Transition in customer pricing model to reflect changed environment**
- **October 1 change in Automation contracting**
- **\$30 million bad debt provision in Q2**

Medical-Surgical Solutions Q2 Results

- **Operating profit up 70% with operating margin of 313 bp**
- **DC network consolidation has been completed and ERP system implementation is on schedule**
- **Transitioning HCA acute care medical-surgical business**

Medical-Surgical Solutions Summary

- **Continue to realize benefits from DC network consolidation and new ERP system**
- **Scale back expenses and restructure in response to loss of HCA volume**
- **Focus on growth in alternate site business**
- **Refine Closed Loop Supply strategy**

Information Solutions Q2 Results

- Revenues up 8%, software revenues up 22%
- Operating profit up 71%
- Clinical software up 57%
- Implementation revenues up strongly with slower demand for other services
- \$20 million credit to reverse a portion of customer settlement reserves, \$10 million severance charge

Information Solutions Summary

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

Goals for Delivering Sustained Financial Performance

- 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



Drive One McKesson Strategy to Create Value for Customers and Shareholders

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