

MCKESSON

Empowering Healthcare

Merrill Lynch Healthcare Services Conference

December 1, 2004

John H. 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. 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**
- **How Our Businesses Are Currently Performing**

Who We Are

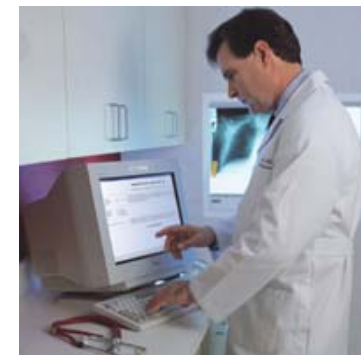
McKesson's Solutions ... Building on Distribution Strength



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

MCKESSON

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



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	

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

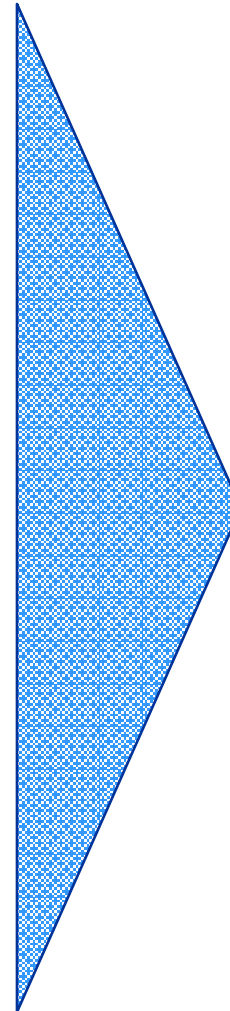
**Informed clinical
practice**

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.



How Our Businesses Are Currently Performing

Pharmaceutical Solutions

FY05 Financial Results – Pharmaceutical Solutions

(\$ in millions)

	Q2			Six Months		
	FY04	FY05		FY04	FY05	
Revenues						
U.S. direct distribution & services	\$ 9,655	\$ 11,638	21%	\$ 18,990	\$ 22,649	19%
U.S. sales to customers' warehouses	5,058	6,021	19%	10,222	11,938	17%
Subtotal	14,713	17,659	20%	29,212	34,587	18%
Canada distribution & services	1,070	1,258	18%	2,114	2,510	19%
Total Pharmaceutical Solutions	\$ 15,783	\$ 18,917	20%	\$ 31,326	\$ 37,097	18%
Gross Profit	509	432	-15%	1,027	992	-3%
Gross Profit Margin	3.22%	2.28%	(94) bp	3.28%	2.67%	(61) bp
Operating Expense	294	287	-2%	553	562	2%
Operating Profit	222	151	-32%	487	441	-9%
Operating Profit Margin	1.40%	0.80%	(60) bp	1.55%	1.19%	(36) bp

Pharmaceutical Solutions

Q2 Highlights

- **Above market U.S. revenue growth of 20%**
 - **First full quarter of VA business with annualized revenues in excess of \$3.5B, better than expected profitability**
 - **AdvancePCS volume of Caremark implemented in August with annualized revenues of \$2B**
- **Continued strong growth in Canada of 18%**
- **Fewer than expected price increases significantly reduces operating profit**

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**

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

Value of Drug Distribution

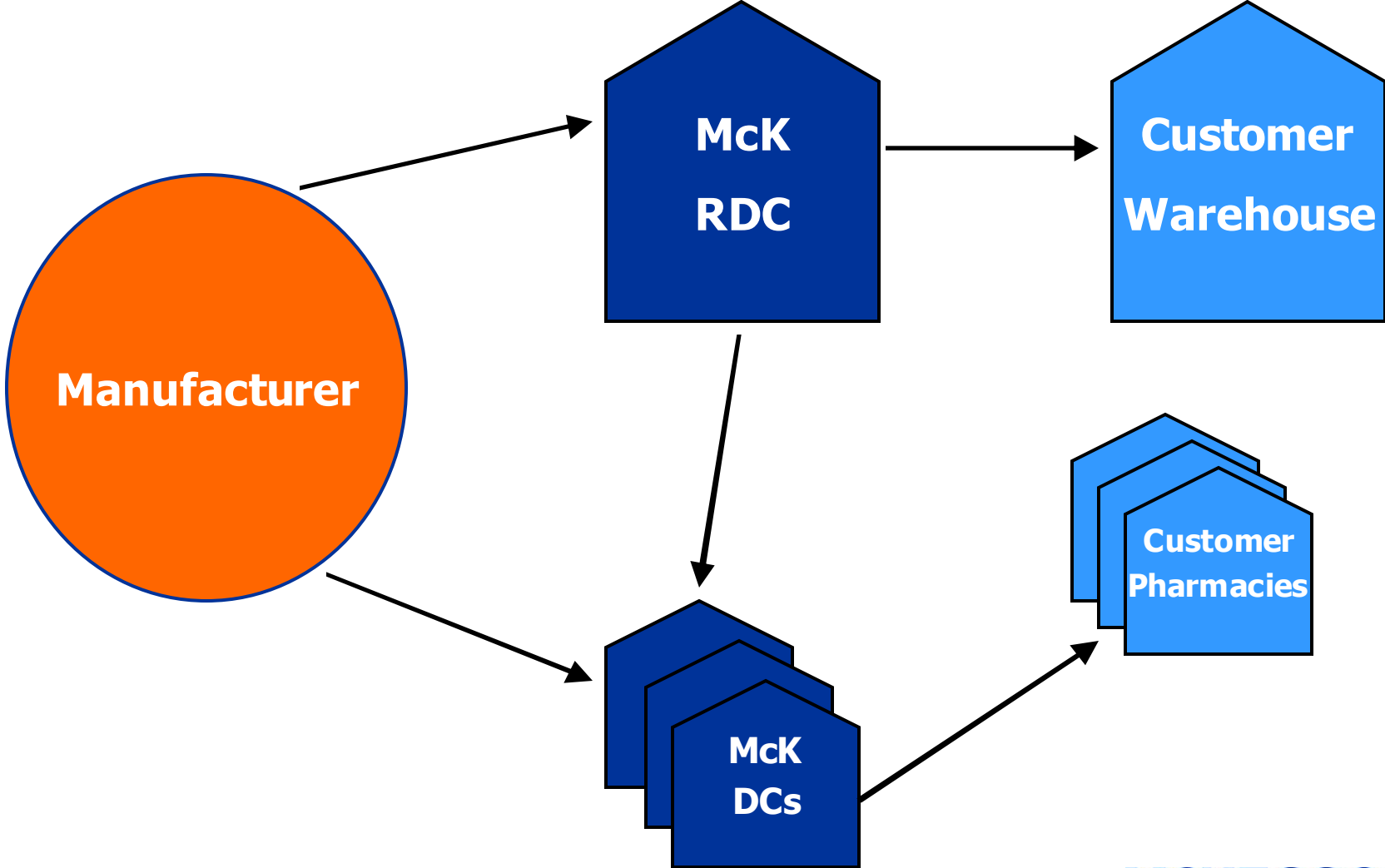
Industry

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

McKesson

- 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

McKesson Pharmaceutical Product Flow



Pharmaceutical Distribution Margin Drivers

+

2% Cash Discount

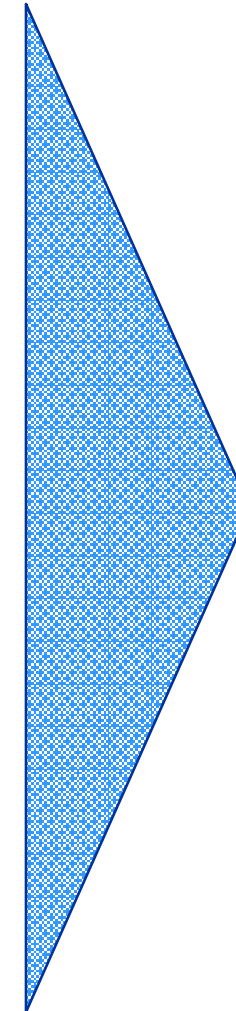
Generics

Buy Profit*

-

Sell Margin

Operating Expenses



Margin has fluctuated very little over the past 35 years

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.)**

Pharmaceutical Solutions

Operating Margin

- Over the past 15 years, U.S. has experienced significant changes in the marketplace, price increases ranging between 1.7% and 8.5%, yet McKesson's operating margin has fluctuated little between a narrow range
- Non-U.S. distributors that face entirely different market factors have similar operating margins



Target operating margin 1.5% to 2% including warehouse sales = between 2% and 2.5% for direct store sales

Medical-Surgical Solutions

FY05 Financial Results – Medical-Surgical Solutions

(\$ in millions)	Q2			Six Months		
	FY04	FY05		FY04	FY05	
Revenues	\$ 716	\$ 714	--	\$ 1,426	\$ 1,421	--
Gross Profit	151	162	7%	297	321	8%
Gross Profit Margin	21.13%	22.69%	156 bp	20.85%	22.57%	172 bp
Operating Profit	25	18	-31%	51	46	-10%
Operating Profit Margin	3.53%	2.45%	(108) bp	3.58%	3.24%	(34) bp

Medical-Surgical Solutions

Q2 Highlights

- Continued strong growth from alternate site customers
- Quarter's results impacted primarily by increased litigation reserve – settlement of enteral products investigation
- New 3-year, \$150 million agreement with Adventist Health includes Optyx state-of-the-art analytical service

McKesson Provider Technologies

FY05 Financial Results – Provider Technologies

(\$ in millions)

	Q2			Six Months		
	FY04	FY05		FY04	FY05	
Revenues						
Software & software systems	\$ 67	\$ 50	-26%	\$ 113	\$ 101	-11%
Services	217	228	5%	421	451	7%
Hardware	27	26	-7%	48	52	9%
Total Provider Technologies	\$ 311	\$ 304	-2%	\$ 582	\$ 604	4%
Gross Profit	152	141	-7%	274	274	--
Gross Profit Margin	48.65%	46.48%	(217) bp	47.04%	45.42%	(162) bp
Operating Profit	37	19	-48%	42	34	-20%
Operating Profit Margin	11.95%	6.32%	(563) bp	7.20%	5.55%	(165) bp

Provider Technologies

Q2 Highlights

- **Software bookings up strongly**
- **Revenues reflect continued strong demand for clinical solutions but complexity of installations**
- **Percentage of Completion (POC) is increasing as a percent of revenue**
- **Demand for revenue cycle and resource management solutions remains flat**
- **Government focus on HIT may drive future growth opportunities**

Summary

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**
 - **Consistent annual EPS growth despite challenges**
 - **Increasing cash flow**
 - **Strong balance sheet provides financial flexibility**
 - **Commitment to financial transparency**

Outlook

- **FY05 expectation: \$2.00 to \$2.20 per share**
 - **Pharmaceutical Solutions earnings continue to depend on price increases through fiscal year end**
 - **Expectation assumes that volume-weighted U.S. pharmaceutical price increases in Q3 and Q4 will be within the historical range, and that the magnitude of price increases will be comparable to the recent past**



Create Value for Suppliers, Customers and Shareholders

MCKESSON

Empowering Healthcare