

# **McKESSEON**

*Empowering Healthcare*

**Paul Julian**

**President**

**McKesson Supply Solutions**

**June 7, 2002**

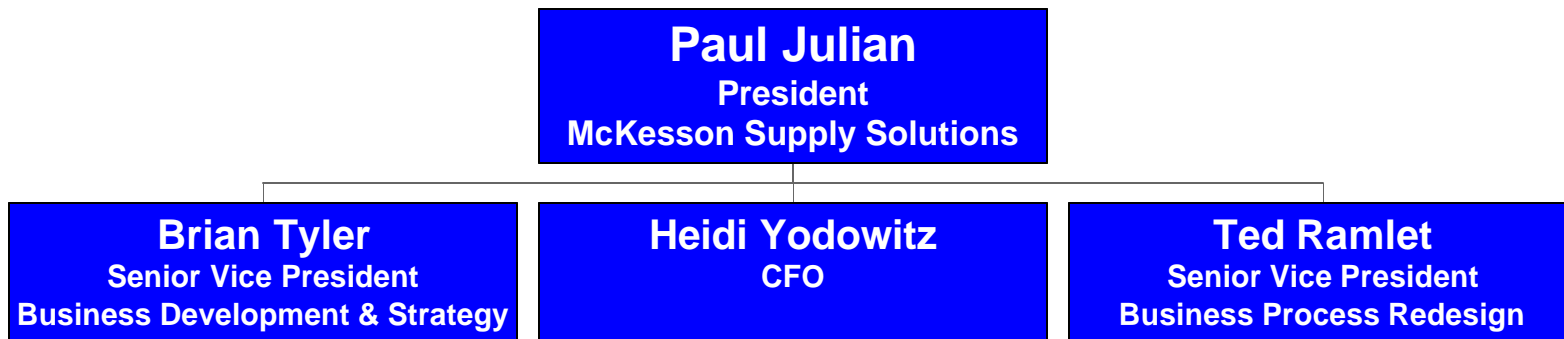
# Agenda

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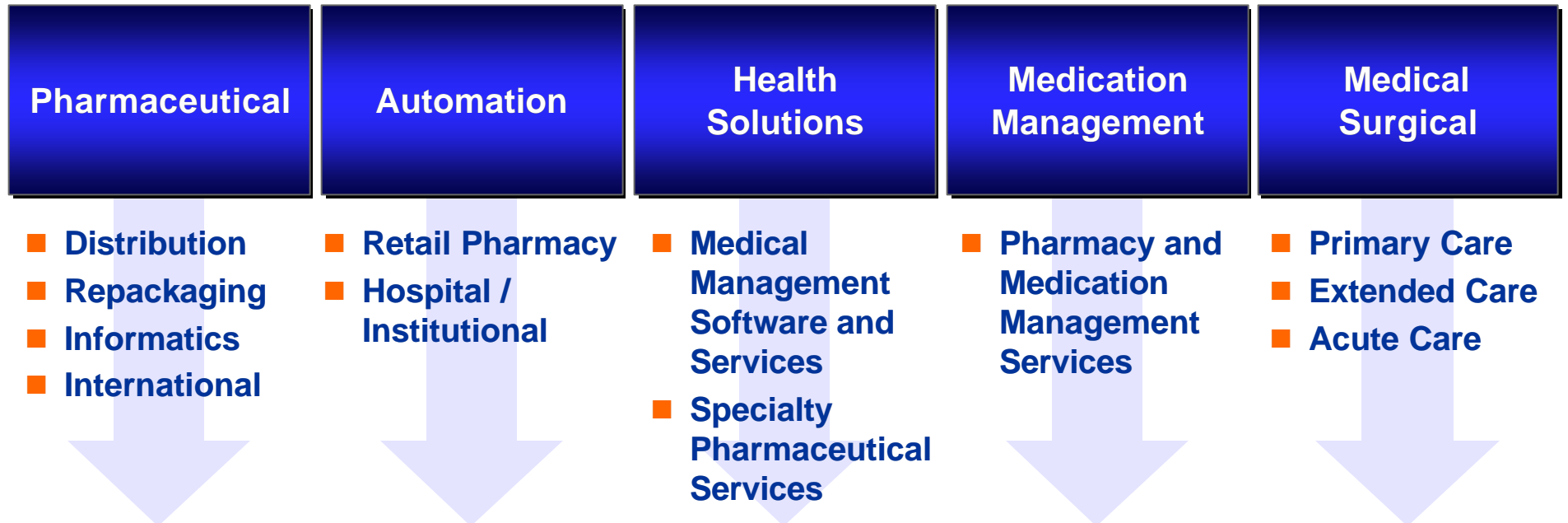
- **Business Overview**
- **Financial Performance**
- **Strategy**
- **McKesson Health Solutions**
- **Summary**

# Supply Solutions Organization

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# Supply Solutions Business



**End to End Continuum of Services**

**Multiple Points of Leverage**

**Comprehensive North American Distribution**

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# Supply Solutions Business



- **Growth Outside Channel**
- **3 year OPS / IT plans**
- **Six Sigma**
- **Verispan Joint Venture**
- **Strong Canadian Growth**

# Supply Solutions Business



- **#1 in Retail Automation**
- **Eight New Product Introductions**
- **Alaris Partnership**
- **Solutions for Medication Safety**
- **Expand into Supply Segment**
- **Retail Small Chain Cross-Sell**

# Supply Solutions Business

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- **VitaRx Acquisition**
- **Together-Rx Card**
- **PEG-Intron Program**
- **Focus on Payor Services**

# Supply Solutions Business

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- **Grew in excess of market**
- **Best demonstrated practice**
- **McKesson manages purchasing**
- **Addresses pharmacist shortage**
- **Pull-through pharmaceutical distribution**

# Supply Solutions Business

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- **Largest Customer Base**
- **Leading Share in Alternate Care**
- **Closed Loop Supply**
- **Focus on McKesson Brand**
- **DC Network Optimization**

# Supply Solutions

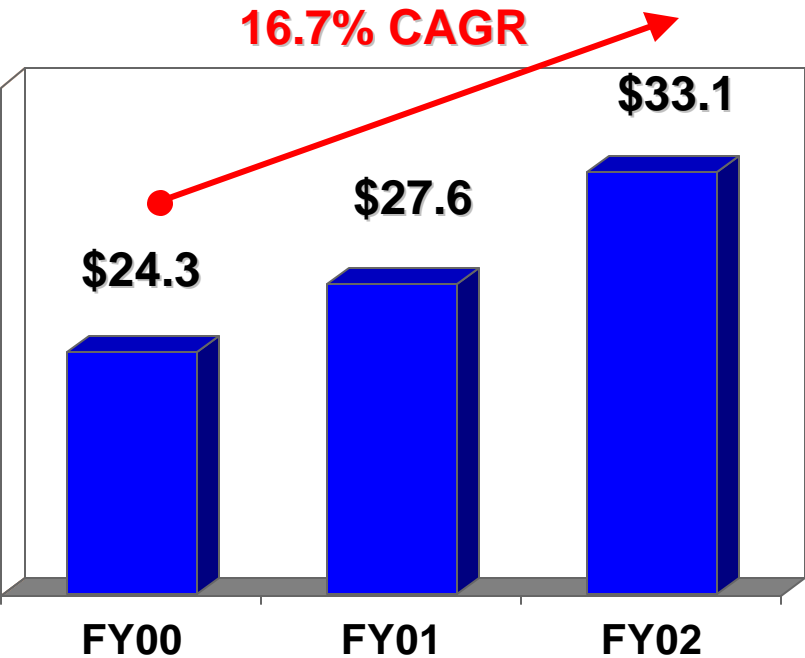
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- **Significant Positive Momentum**
  - **Strong Revenue Growth and Operating Margin Expansion**
  - **Largest North American Distribution Footprint**
  - **Expanded Business Portfolio**
  - **Cross Business Unit Synergies**
- **Sustaining Momentum**
  - **Execute on Business Unit plans**
  - **Specialty Pharmaceutical Services**

# Positive Momentum - Financial Performance

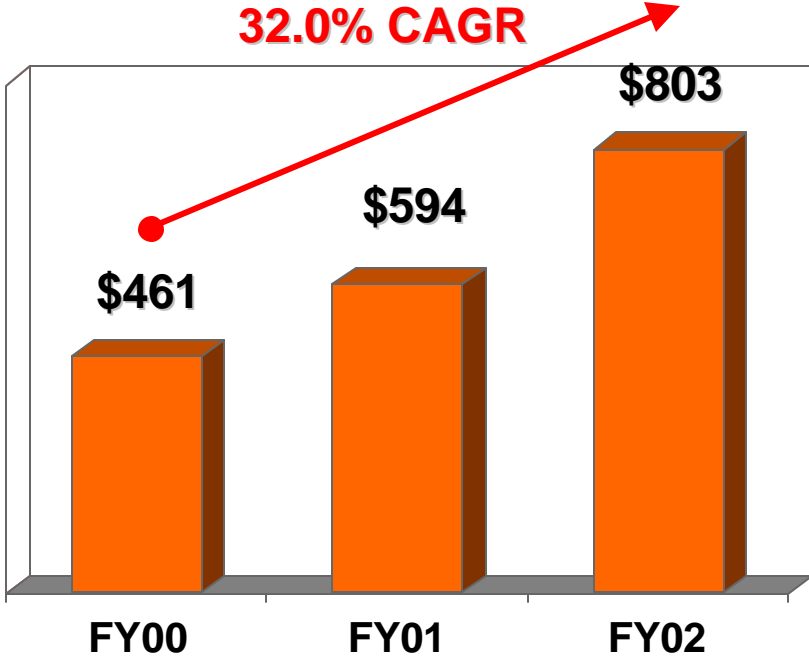
## Supply Solutions Revenue

\$ Billions



## Supply Solutions Operating Profit

\$ Millions

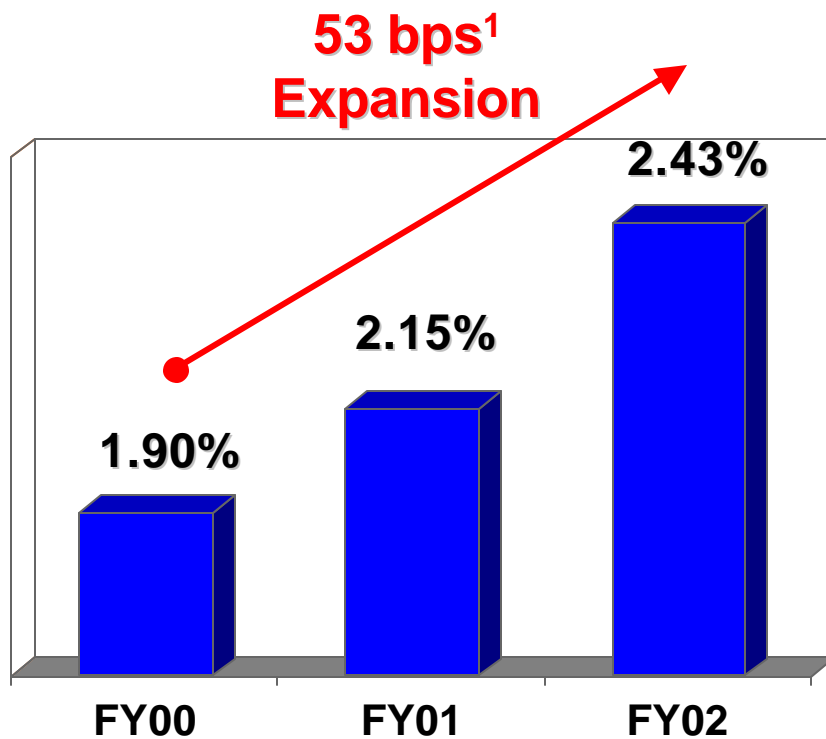


**Excellent Performance**

Note: Excludes Medical-Surgical results and warehouse sales

# Positive Momentum - Operating Margin

## Supply Solutions Operating Margin



**7 Consecutive Quarters  
of Operating Margin  
Expansion**

*Note: 1. FY02 includes 3 bps from discontinuation of goodwill amortization*

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# North America Leads Global Pharmaceutical Growth

## 2001 Global Pharmaceutical Sales

US \$ Billions

	Sales	% Share	% Growth	CAGR 97-00
<b>North America</b>	<b>181.8</b>	<b>49.9%</b>	<b>17.0%</b>	<b>13.1%</b>
Europe	88.0	24.2%	10.0%	6.3%
Japan	47.6	13.1%	4.4%	2.1%
Asia/Africa/Australia	27.9	7.7%	8.7%	9.8%
Latin America	18.9	5.2%	0.1%	4.2%
<b>Total Global Market</b>	<b>364.2</b>	<b>100%</b>	<b>11.9%</b>	<b>8.4%</b>

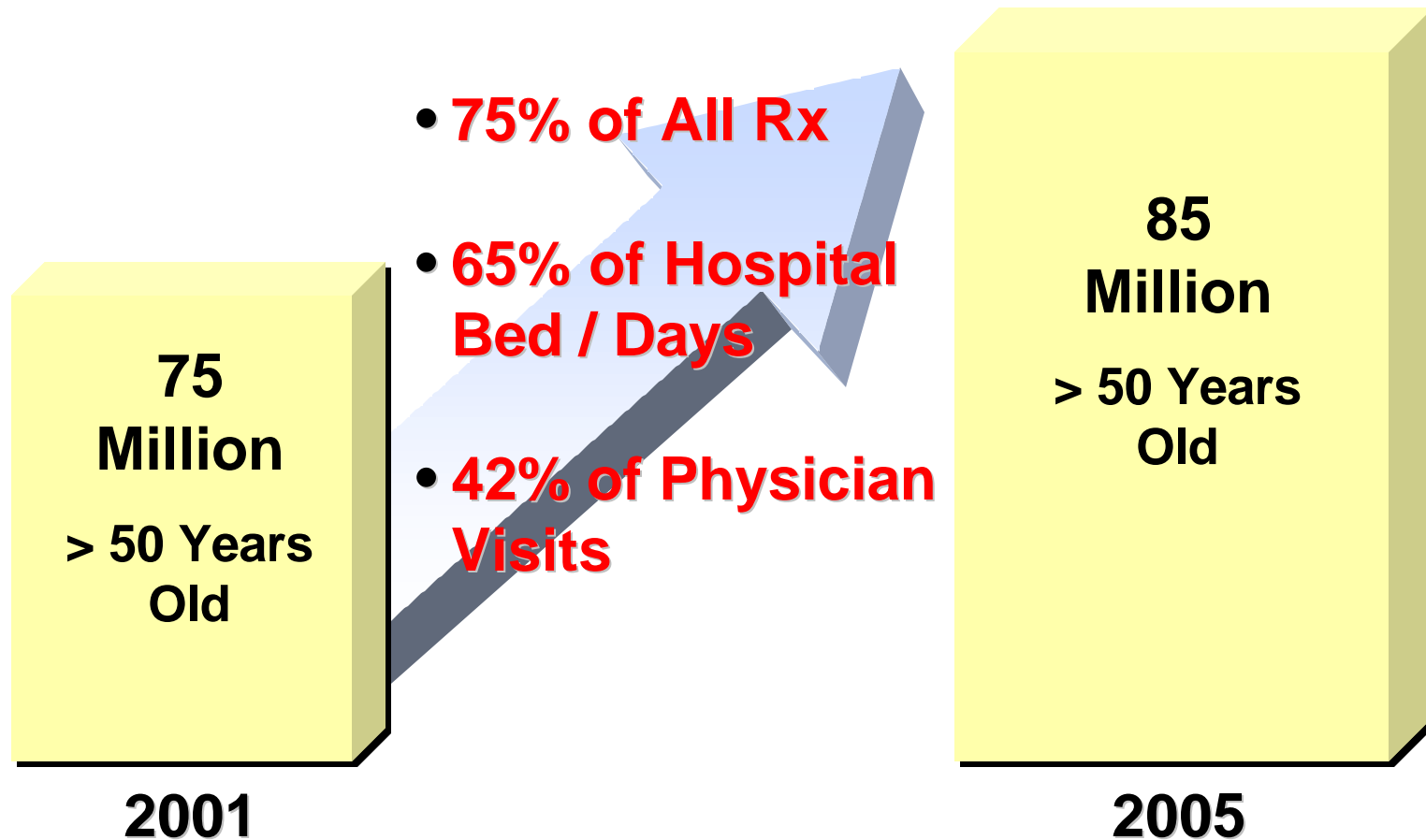
Source: IMS Health 2002

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# Aging Demographics Drives Utilization

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# McKesson Health Solutions

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## McKesson Supply Solutions

## McKesson Health Solutions

Specialty Pharmaceutical  
Services (SPS)

Medical Management  
Software & Services

Pharma / Biotech

Payors

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# Multiple Constituents with Specific Needs

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## SPS Constituent

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Payor

Pharma / Biotech

Provider

Patient

Pharmacies

## Specific Need

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- Control over drug spend
- Access to patients
- One-stop shop for SPS products
- Easy access to latest drugs
- Ability to participate in market

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# Established Base & Large Growth Opportunity

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## McKesson Today:

- 40 million covered lives
- Access to majority of SPS products
- Physician office presence
- Extensive retail pharmacy relationships

## Strategy:

- Leverage McKesson capabilities & relationships:
- Structured payor programs
  - Integrated pharmaceutical / biotech channel solutions
  - MD Office & Retail “Pull-Through”

**Sizeable & growing opportunity**  
**Proven & scalable capabilities**  
**Established McKesson relationships**  
**Focused business unit**

# Supply Solutions: Expand Operating Margins in FY03

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- **Product Sourcing**
- **3 Year Operations / IT Plans**
- **Six Sigma**
- **Expand Generics Program: “OneStop”**
- **Grow Packaging Capabilities**
- **Specialty Pharmaceutical Services**
- **Automation Market Expansion**



**Significant Momentum  
Moving into FY03**

# Summary

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- **Favorable External Fundamentals**
- **Strong Market Position Throughout North America**
- **Many Points of Leverage**
- **Continue Growth Momentum**



**Execute to Drive  
Operating Margin Improvement**

# **MCKESSON**

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**Paul Julian**

**Interim President**

**Medical-Surgical Solutions**

# Agenda

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- **Business and Financial Overview**
- **Strategy**
- **Medical-Surgical Summary**

# Medical-Surgical Today

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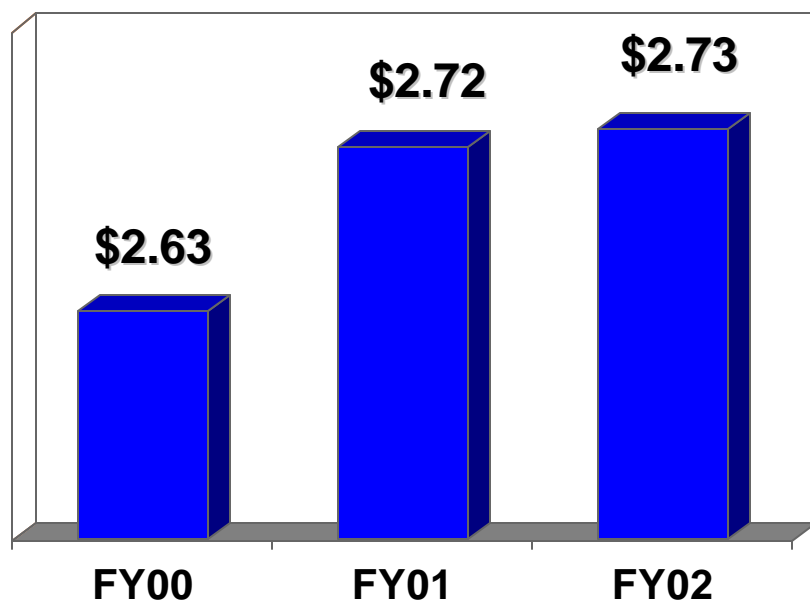
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- **Largest Customer Base-Continuum of Care**
- **Leading Alternate Site Supplier**
- **Provide Integrated Technology Solutions**
- **Favorable External Trends**
- **Flat Operating Performance**

# Financial Performance

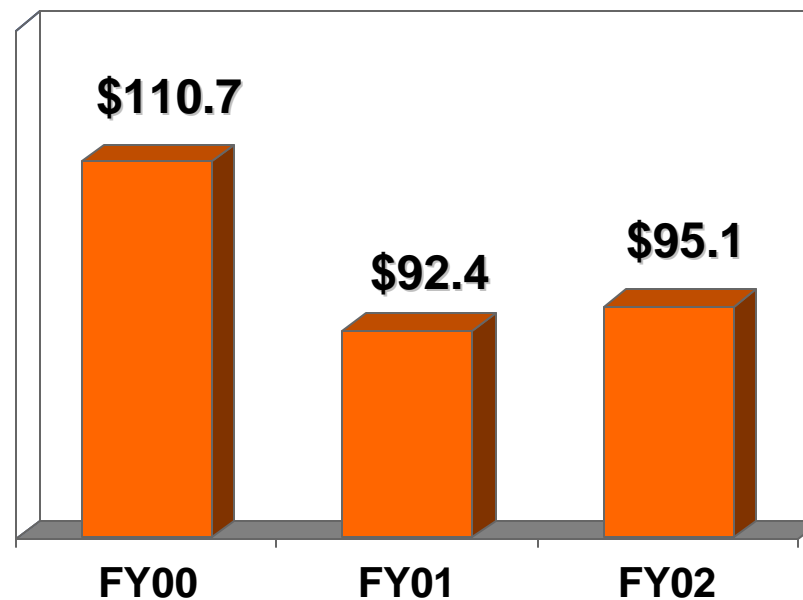
## Medical-Surgical Revenue

\$ Billions



## Medical Surgical Operating Profit

\$ Millions (pro-forma)



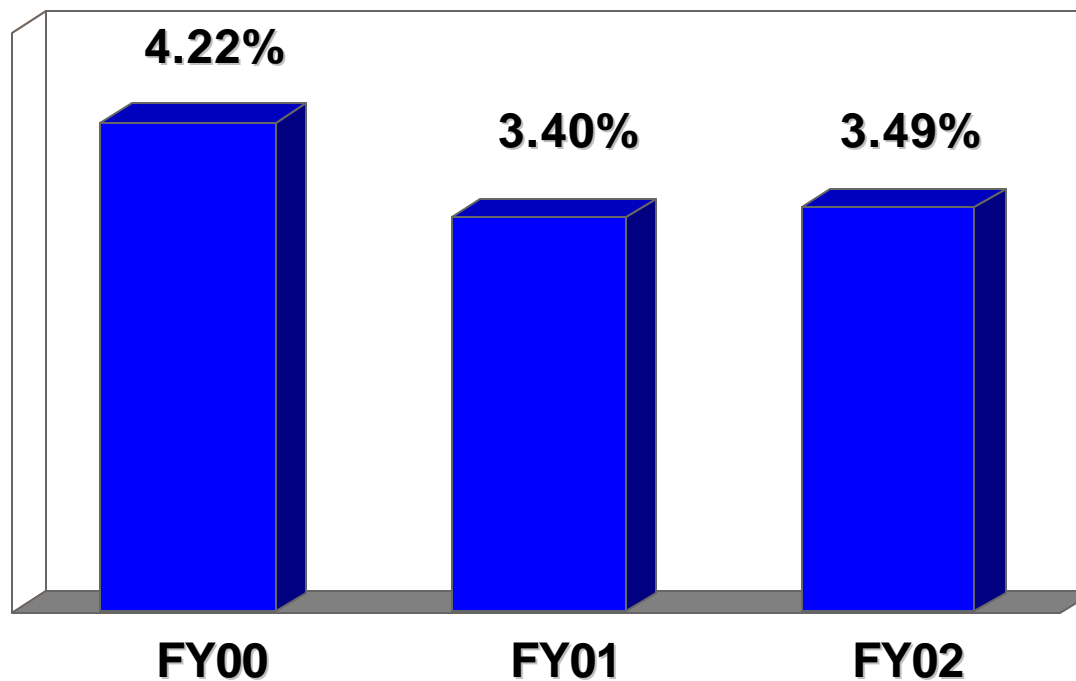
*Note: FY02 includes \$19 million of operating profit from discontinuation of goodwill amortization*

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# Operating Margin

## Medical-Surgical Operating Margin



*Note: FY02 includes 70 bps from discontinuation of goodwill amortization*

# Medical-Surgical Plan

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- **Recognize Business Performance Issues**
- **Regain Revenue Growth and Operating Margin Expansion**
  - Perform at Market Growth Rates
  - Drive Operation Margin Expansion
- **Execution**
  - Operational Improvements
  - Extend Leading Alternate Site Position
  - Penetrate McKesson Brand Products
  - Utilize Cross Business Unit Solutions

# Medical-Surgical: Continuum of Care



**Integrated Supply Chain Technology  
Solutions Provider**

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# Care is Shifting to Alternate Site

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## Primary Care

- Shift from Acute Model
  - Outpatient Care
  - Surgery Center

## Extended Care

- Aging Population
- Strong Home Care Growth

## Acute Care

- Integrated Supply Chain Technology Solutions
- Consolidation / Margin Pressures

**Well Positioned in Growth Segments**

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# FY03 Key Initiatives

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**Leverage Operational  
Improvements**

**Penetrate Primary and  
Extended Care**

**McKesson Brand**

**Integrated Technology  
Solutions**



**Productivity Improvement; Alternate Site Growth;  
Higher Margins**

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# Leverage Operational Improvements

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- **DC Network Optimization**
  - **Consolidated Number of Sites**
  - **Standardized Layout and Processes**
  - **Reduced Inventory and Operating Expenses**
- **ERP System Integration Underway**
- **Formulary**

# Integrated Technology Solutions

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- **Sales Force Automation**
  - Supply Management Online
  - Further Enhancements with ERP Deployment
- **Closed Loop Supply (Intelligent Distribution)**
  - Supply Scan
  - Pathways Materials Manager

# McKesson Brand

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- **Expanding Product Portfolio**
- **Increasing Customer Awareness**
  - Overall Value to Our Customers
- **Penetrating Major GPO Contracts**
  - Leverage GPO Relationships
- **All Business Segments**



**Increasing Profitability**

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# Alternate Site Penetration

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- **Primary Care**
  - **Strong Revenue Growth in Surgery Centers**
  - **Supply Management Online**
- **Extended Care**
  - **Significant Revenue Growth in Home Care**
  - **Horizon Clinical Home Care Integration**

# Summary

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- **Regain Operating Momentum**
- **Infrastructure Improvements Underway**
- **Closed Loop Supply Management**
- **Favorable Demographics**
- **Well Positioned in Growth Segments**



**Execution**

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# **MCKESSON**

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**Patrick Blake**

President

Customer Operations

**Heidi Yodowitz**

CFO

McKesson Pharmaceutical

**June 7, 2002**

# McKesson Pharmaceutical Review

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- **Operating Performance**
- **Business Overview**
- **Strategy**
- **Summary**

# FY02 Business Successes

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## **Strong Pharmaceutical Performance**

- 20%+ Y/Y Revenue Growth
- Strong Operating Profit Growth

## **New Business Wins**

- New Contracts (OTN, Randall's, Caremark)
- Automation Cross-Sell

## **Secure Major Contracts**

- Extended Wal-Mart Agreement
- Renewed Target

# Balanced Segment Mix

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## Retail National (42%)

- Strong Y/Y Growth Rate
- Chain Stores
- Food / Drug Stores
- Mass Merchandise
- Mail Order

## Retail Independent (22%)

- Strong Independent and Small Chain Position
- Buying Group Partnerships

## Institutional (36%)

- All Major GPOs
- HCA / HPG
- Omnicare
- Specialty Logistics (OTN)

# Pharmaceutical Industry Drivers

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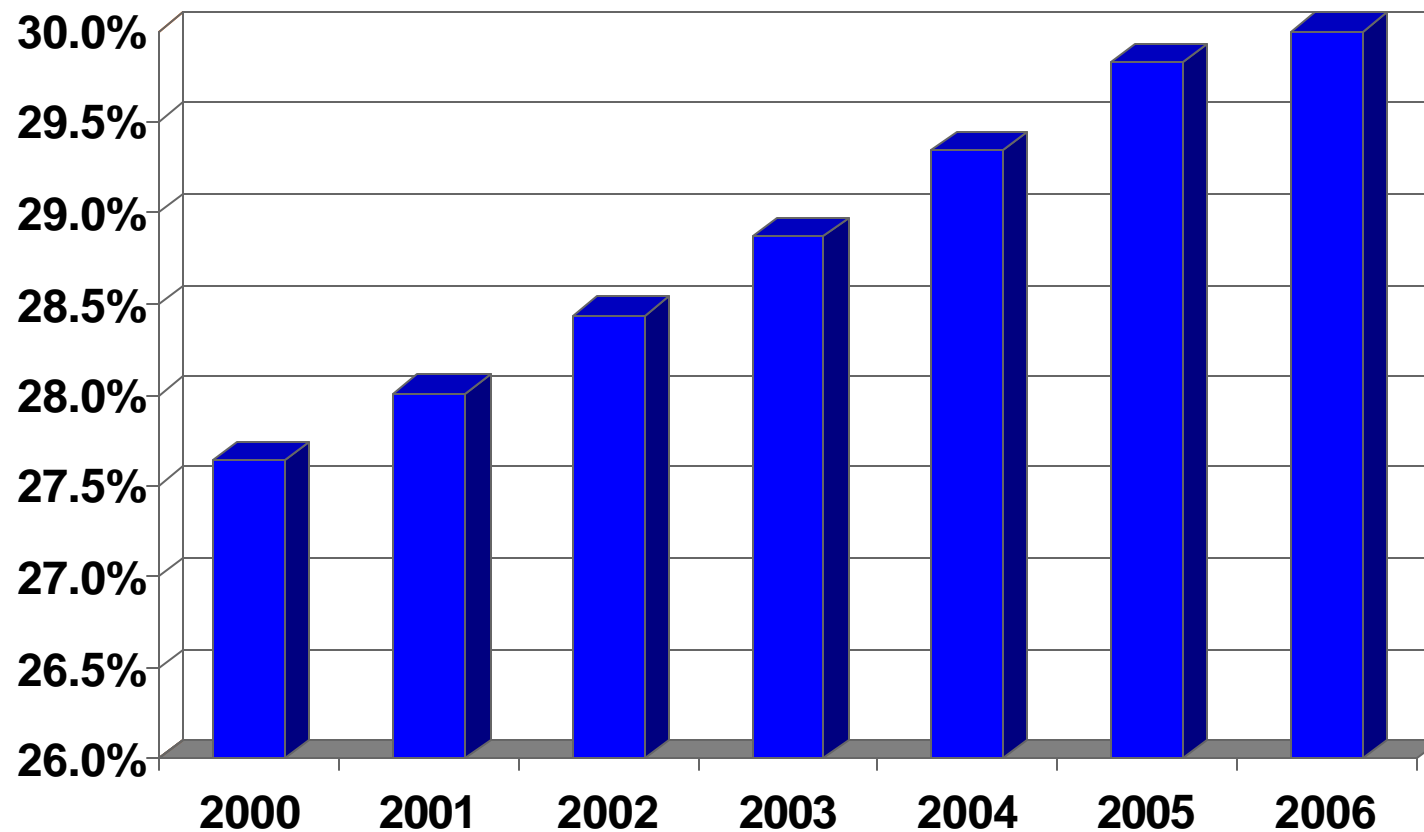
- **Aging Population**
- **Increasing Pharmaceutical Utilization**
- **Generics Opportunity**
- **Emerging Biotech Drug Pipeline**
- **Strong Pricing Environment**



**Excellent External Fundamentals**

# 50+ Age Group Continues to Grow

## Percent of Population Age 50 or Over



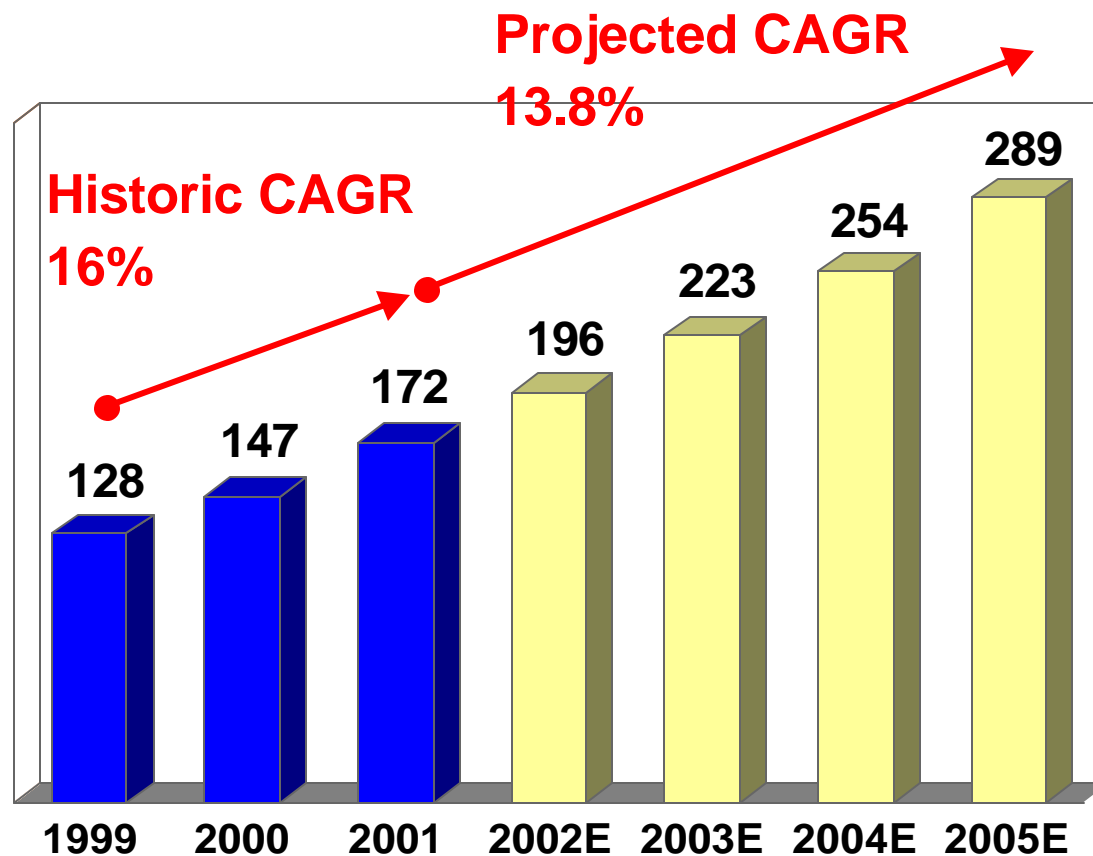
Source: IMS Health, Census Bureau Estimates and Forecasts, 2001

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# US Rx Spend Continues to Increase

## US Pharmaceutical Market Spend \$ Billion



Source: IMS Health 2002

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# Favorable Industry Segment Trends

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## Retail National

- Store Growth
- Mail Order / Food are Fastest Growing Segments

## Retail Independent

- Store Count Stabilized
- Service, Value, and Relationships

## Institutional

- Improving Financial Condition
- Integrated Supply Chain Solutions

# FY03 Pharmaceutical Key Initiatives

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## Operational Performance

- Six Sigma
- 3 year Operations / IT Plan
- Carrollton Customer & Financial Services

## Generics

- “OneStop” Program

## Cross Business Unit Synergies

- Retail Small Chain - Automation
- Canadian Market – Automation

## New Initiatives

- Verispan
- Together-Rx Card



**Execute to Drive  
Margin Improvement**

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# Six Sigma Operational Excellence

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## Pharmaceutical FY02 Accomplishments

- **\$30MM Expense Reduction**
- **60 Blackbelts**
- **70 Projects Completed**
- **85 Active Projects**



## Continue Operating Excellence in FY03

- **Expanding Six Sigma**
- **DC Delivery and Order Process**
- **Marketing - Generics**
- **Back-Office Operations**

**An Integral Part of Our  
Operating Culture**

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# Operations / IT Plan Drives Margins



# Continued Back-Office Improvements

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## Improving Contract Administration / Chargeback Process

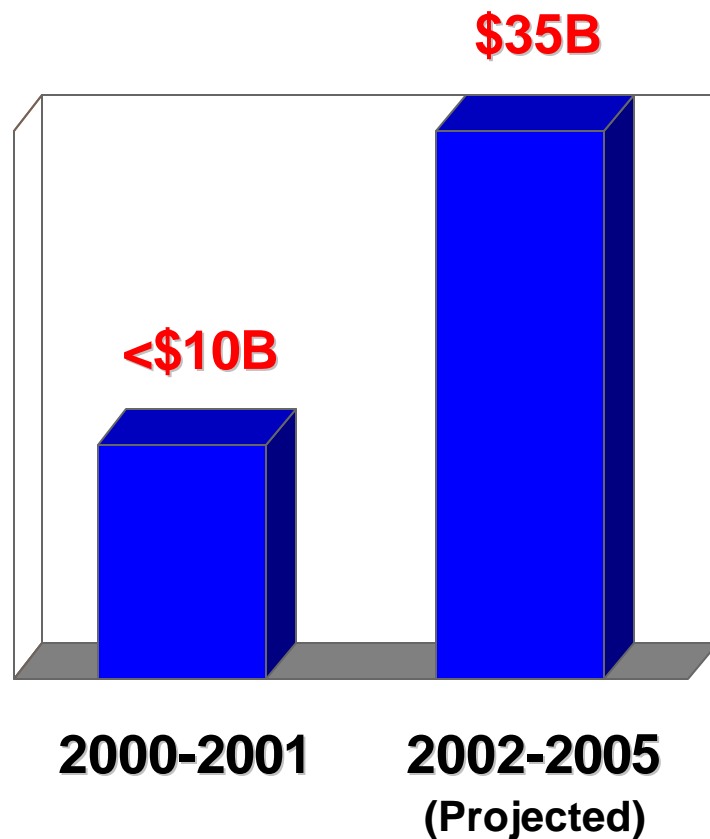
- Further Automation and Refinement of Processes
- Reducing Working Capital
- Lowering Overhead Costs
- Supplier Scorecard Drives Operational Excellence

## Excellent Results

- Reduced working capital by \$88MM in FY02
- Reduced expenses by \$3MM in FY02
- Targeting World Class Operating Metrics
- Highest Service Levels in Past 18 Months

# Significant Generics Opportunity

## Branded Pharmaceuticals Going Off Patent<sup>1</sup>



## Drives Generics Volume and Expands Margins

- Generic Rx GP% and GP\$ are Higher than Branded Rx
- McKesson “OneStop” Generics Program

Note: 1) In 2001 Sales dollars

Source: IMS Health, Analysts reports, Internal McKesson analysis

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# Increasing Value for Our Customers

- **Enhances “Select” Program**
- **Increases Operational Efficiency**
  - Program Simplicity / Technology
  - Comprehensive Drug Portfolio
- **Improves Quality of Service**
  - Higher Service Levels
- **Lowers Cost to Serve**
  - Real-Time Competitive Pricing

McKesson  
OneStop  
Generics<sup>SM</sup>  
Delivering Value Everyday

***Positive  
Customer Feedback***

**Drive Greater Generics Volume and  
Expand McKesson Operating Margins**

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# Cross Business Unit Synergies

**Retail Small Chain /  
Automation**



**Canadian Market /  
Automation**



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# New Business Initiatives

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## Verispan



### Pharmacy Informatics Business

- De-Identified Patient Level, Longitudinal Data
- Solutions for Manufacturers and Retail Drug Chains
- \$100MM First Year Sales

## Together-Rx Card



### Administer Innovative Solution

- Lower Cost, Easier Access
- Seven Major Pharmaceutical Companies
- Retail Pharmacy (*Wal-Mart, RiteAid, CVS, Walgreens, etc.*)

### Cross Business Unit Synergy

- McKesson Health Solutions Will Administer Program

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# Pharmaceutical Summary

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- **Favorable External Fundamentals**
- **Strong Market Position**
- **Many Points of Leverage**
- **Continuing Growth Momentum**



**Execute to Drive  
Operating Margin Improvement**

# **McKESSON**

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**Rich Lunak**

President

McKesson Automation

# Agenda

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- **McKesson Automation Overview**
- **Inpatient Automation**
- **Retail / Outpatient Automation**
- **Summary**

# Customer Segments

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**Inpatient**

**Retail**

**Broadest Footprint  
Continuous Commercialization of New Products  
Fully-Integrated Product Offering  
Scaleable Solutions**

**Over 10,000 Customers**

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# Inpatient Automation

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# Inpatient Customer Needs

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- **Better Quality of Care**
- **Cost Reduction Initiatives**
- **Retention of Valuable Nursing and Pharmacy Staff**
- **Better Management of the Supply Distribution Process**
- **Reduction of Medical and Medication Errors**
- **Re-Direct Professional Time to Clinical Roles**



**Requires Automation**

# Measuring the Impact of Error

- **Overwhelming Cost to Human Life**
  - 7,000 Deaths per Year
  - 770,000 ADEs
- **ASHP Survey: “Hospitalized Patients Are Fearful” of Medication Errors**
- **Staggering Financial Impact**
  - \$2 Billion Annually for Inpatient Preventable ADEs

Handwritten notes on a lined paper, likely a medication order or calculation. The text includes:

Change Order  
Day 1 - 100 mg / qd  
Total 100 mg / day = 2.88 mg / day  
Total 100 mg / day = 100 mg / day  
ATTENTION: also  
Celecoxib AUC = 60  
Celecoxib dose =  $400 \times (50 + 25)$   
 $= 60 \times (50 + 25)$   
 $= 4700 \text{ mg} \times 1 \text{ day}$



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# Solutions at Every Point of Care



**DISTRIBUTION:**

Product fulfillment  
Usage analysis

Analysis  
Process Management Programs



**CONSULTING:**



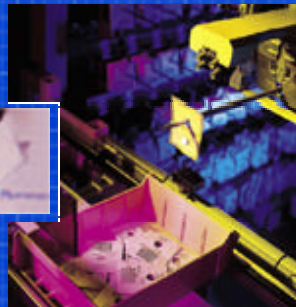
**PRESCRIBING:**  
39% of errors

Improved Physician Workflow  
Clinical Screening



**TRANSCRIBING:**  
12% of errors

Pharmacist Verification  
Intervention tracking



**DISPENSING:**  
11% of errors

Bar Coding  
Robotics  
Centralized & Decentralized Dispensing



**ADMINISTERING:**  
38% of errors

Point of Care  
Check "5" Rights  
Care Team Communication



**MONITORING:**

Quality & Outcomes  
Clinical Alerts  
Longitudinal Record



# Inpatient History of Innovation

1992



**ROBOT-Rx®**

1998



**AcuDose-Rxä  
Admin-Rxä**

1999



**PakPlus-Rx®  
DataStationä  
Cartless Delivery  
Systemä**

2000



**Bulk Packager  
NarcStationä  
SupplyScanä**

2001



**MedDirectä  
NarcStationä  
Vault**

2002



**MedCarousel ä  
SurePak ä  
Alaris**

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# SupplyScan

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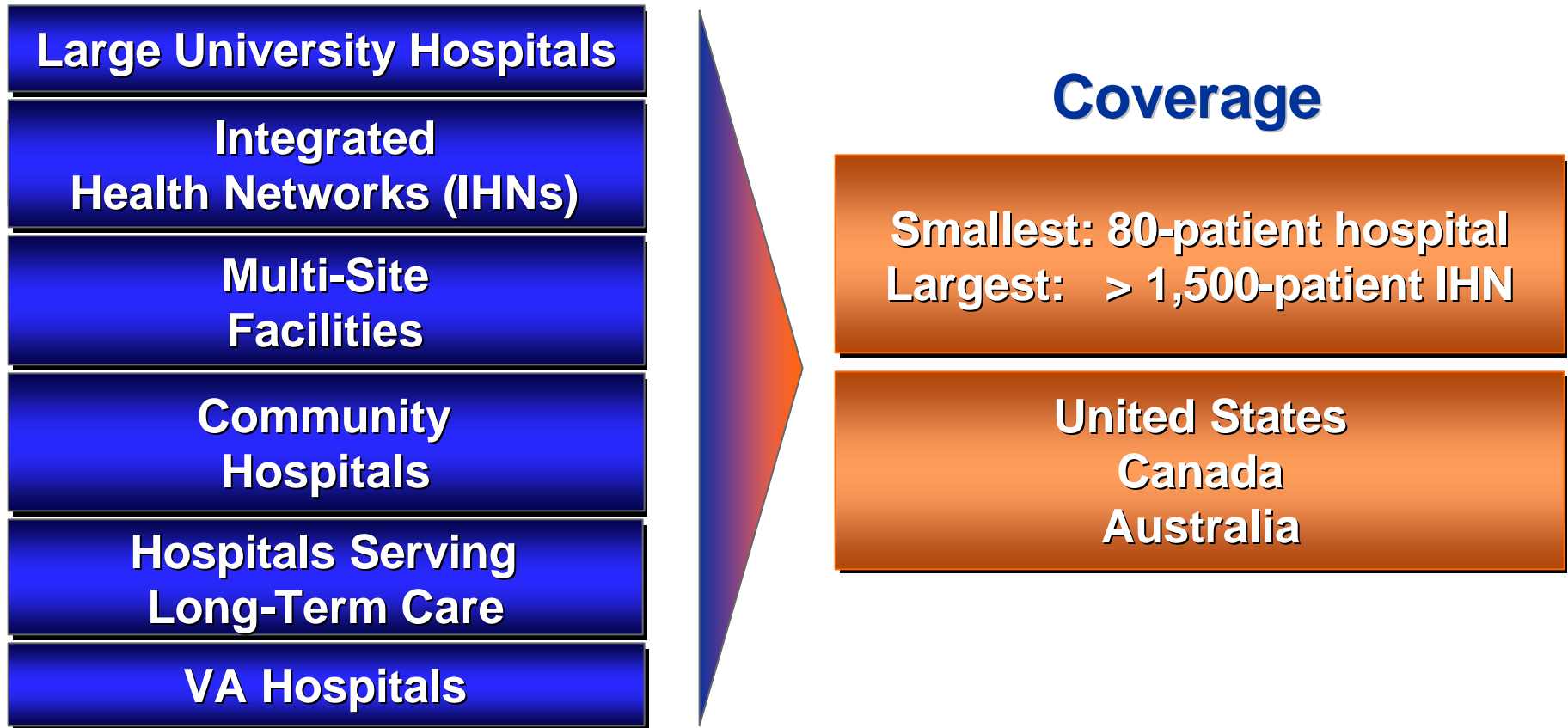
- Large Unpenetrated Market
- Over 160 Live Hospitals in Less Than 2 Years
- Integrated with MIS and MMS Solutions
- Diversified product offering
  - Open solution
  - Closed solution
  - Procedure-based application



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# Inpatient Penetration



**Over 500 Customers**

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# FY03 Inpatient Strategy

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- **Continued Introduction of ROI and Safety Based Solutions**
- **Continuous Product Innovation**
- **Closed-Loop Strategies**
- **Fully Utilize All McKesson Sales Channels (Cross-Sell)**



**Leading Provider of Integrated Medication and Supply Automation Solutions**

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# Retail / Outpatient Automation

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# Retail Customer Need

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- **Script Count Outpacing Pharmacist Entry**
- **Sharp Rise in the Number of Complex Therapeutic Drugs**
- **Efficiency and Quality**
- **Scaleable Solutions**



**Requires Automation**

# Retail Rx Trends Are Favorable For Automatic

	<u>1998</u>	<u>2005E</u>	<u>Growth</u>
<b>Number of Rx's</b> Billions	2.8	4.0	43%
<b>Number of Pharmacists</b> Thousands	129	137	6.2%
<b>Number of Rx's / Pharmacist</b>	93	125	34%



**Requires Automation**

Source: NACDS

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# Retail History of Innovation

1995



Pharmacy 2000

1998



AutoScript III

1999



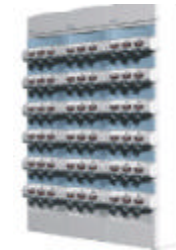
Productivity Station

2001



Baker Universal 2010  
SuperFill Serverless  
Solution

2002



Rx-Port  
Two New  
Products

**Three New Product Releases  
Positioned in Next 6 – 18 Months**

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# Retail Integration

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- Baker Universal (all size pharmacies)
- Dial Rx IVR (all size pharmacies)
- Cells and Cassettes (>100 script/day)
- Productivity Station™ (>180 script/day)
- Pharmacy 2000 (>300 script/day)
- AutoScript III (>500 script/day)
- SI / Baker Central Fill (scalable)



**Scaleable, Integrated Products**

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# Retail Penetration

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## Small Chain / Independents

- Peltons
- Causey's
- Grandview
- Bi-Rite
- Savoy

## Large Chain

- Walgreens
- Kroger
- Eckerd
- Longs
- Safeway

## Government / Institutional

- Dept. of Defense
- VA System
- NYU
- North Carolina Medical
- LA County

**10,000+ Total Installs**  
**#1 Position in Each Customer Segment**

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# FY03 Retail Strategy

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- **Ongoing Product Innovation**
- **Further Penetrate Existing Base**
- **Continue to Expand Out-of-Store Models**
- **Fully Utilize All McKesson Sales Channels (Cross-Sell)**



**Leading Provider of Integrated  
Medication Dispensing Solutions**

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# McKesson Automation Summary

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- **Broadest Footprint**
- **Continuous Commercialization of Innovative Products**
- **Fully-Integrated Product Offering**
- **Expansion into Supply**
- **Fully-Scaleable Solution**
- **Large, Under-Penetrated Retail Customer Opportunity**
- **Powerful Growth Drivers**
- **Strong Selling Channels with McKesson Divisions**



**Continued Leadership Position**

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