

# Wachovia Securities

## 2007 Healthcare Conference

January 30, 2007



**Jeff Campbell**  
Executive Vice President and Chief Financial Office

# 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. Financial information is presented here in summary form. Full details are provided in the Company's most recent 10-K report. All of this information is available at [www.mckesson.com](http://www.mckesson.com). The Company assumes no obligation to update or revise any such statements, whether as a result of new information or otherwise.

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# McKesson At-a-Glance

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- \$87 billion in revenues in FY06 – #16 in Fortune 500
  - Three segments: Pharmaceutical Solutions, Medical-Surgical Solutions, Provider Technologies
  - More than 32,000 employees
  - 295 million shares outstanding
  - \$15 billion market cap
  - Founded 1833, headquartered in San Francisco
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# Factors Driving Sustained Value Creation at McKesson

- Unique value proposition in growing healthcare services markets
- Strong and growing global businesses:
  - Solid operating profit from core pharmaceutical distribution business
  - Upside opportunities from higher-growth, higher-margin businesses
- Track record of improving financial performance and balanced capital deployment
- Experienced and deep management team with strategic vision
- Commitment to shareholder-focused, contemporary corporate governance practices



**Sustained Value Creation**

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# Strong Performance FY07 YTD

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- U.S. pharmaceutical distribution business is better than ever:
    - Stronger relationships with manufacturers, improved visibility and solid cash flow
    - Stable buy and sell side margins, significant growth in generics and opportunities for cost efficiencies drive margin expansion over the longer term
  - Medical-Surgical distribution business is focused on higher-growth, higher-margin customer segments following sale of acute care business
  - Increased use of information technology by providers to improve clinical outcomes and acceleration in implementations is driving strong revenue growth and margin expansion in Provider Technologies
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# Q3 and YTD Financial Results

(\$ in Millions except EPS)

	<u>Q3 FY07</u>	<u>Q3 FY06</u>	<u>Chg</u>	<u>YTD FY07</u>	<u>YTD FY06</u>	<u>Chg</u>
<b><u>Revenues</u></b>						
Pharmaceutical Solutions	\$ 22,028	\$ 21,295	3%	\$ 65,715	\$ 61,553	7%
Medical-Surgical Solutions	632	544	16%	1,789	1,529	17%
Provider Technologies	451	401	12%	1,308	1,111	18%
	<u>\$ 23,111</u>	<u>\$ 22,240</u>	<u>4%</u>	<u>\$ 68,812</u>	<u>\$ 64,193</u>	<u>7%</u>
<b><u>Operating Profit</u></b>						
Pharmaceutical Solutions	\$ 338	\$ 305	11%	\$ 954	\$ 859	11%
Medical-Surgical Solutions	25	26	-4%	70	67	4%
Provider Technologies	40	38	5%	108	95	14%
	<u>\$ 403</u>	<u>\$ 369</u>	<u>9%</u>	<u>\$ 1,132</u>	<u>\$ 1,021</u>	<u>11%</u>
Net Income*	\$ 240	\$ 204	18%	\$ 624	\$ 557	12%
EPS*	\$ 0.79	\$ 0.64	23%	\$ 2.05	\$ 1.77	16%

\* Net Income and EPS from Continuing Operations excluding the securities litigation charge (credit)

# How McKesson Helps Transform Healthcare

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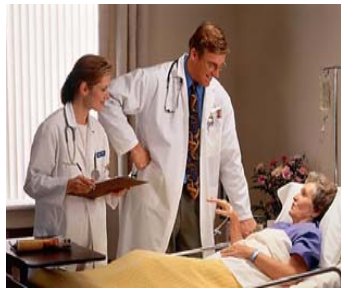
- Ensuring the safe and timely delivery of vital medications and supplies using our distribution system, scale and supply chain excellence
  - Improving health outcomes and patient safety by developing processes and technologies to optimize care and reduce errors
  - Making healthcare more convenient, personal and effective for patients
  - Smoothing information and revenue flows by streamlining interactions between clinicians, payors and patients
  - Ensuring that healthcare dollars are well spent
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# McKesson at the Center of Healthcare

**McKESSON**  
Empowering Healthcare



**\$1.6 billion of drugs per week to 25,000 pharmacies – 35% of drugs in North America**



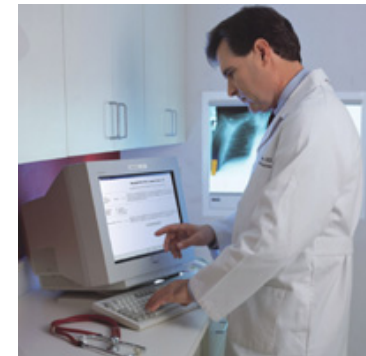
**Disease management for 1.5 million Medicaid and Medicare patients**



**Scanning 300 million doses per year to prevent 332,000 med errors each week**



**Diagnostic care guidelines for 3,500 health plans, hospitals and government agencies**



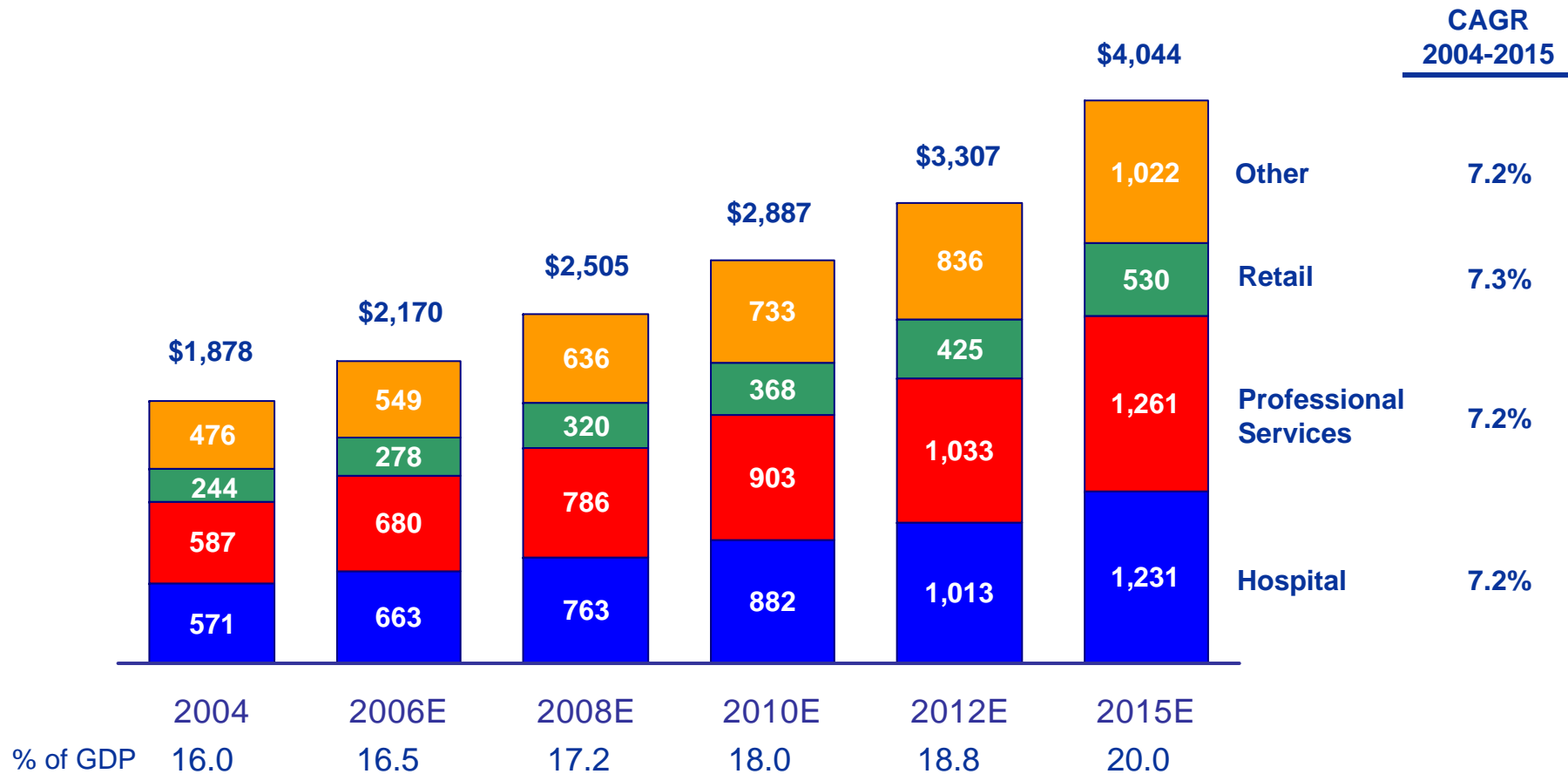
**Information solutions used by 3,500 hospitals, 200,000 physicians, 500,000 nurses and 600 payors**



**\$1.7 billion per month of pharmaceuticals via the Internet**

# Healthcare Spending Drives Growth Opportunities

**\$ Billions**



Source: *Health Affairs*, February 2006; CMS

# Leading Market Positions in All Three Segments

## Pharmaceutical Solutions

#1 in U.S., Canada, and Mexico

#1 generics distributor

Large Rx repackaging

Specialty distribution & patient services for manufacturers

#1 in medical management software and services for payors

#1 in disease management for Medicaid agencies

**\$83.4 billion revenues**  
**\$1.2 billion op profit**

## Medical-Surgical Solutions

#1 in primary care

#1 in extended care

Private label product offerings

Rapid growth in physician office pharmaceuticals and equipment

**\$2.0 billion revenues**  
**\$83 million op profit**

## Provider Technologies

63% of U.S. health systems

Leader in clinical, revenue cycle, and resource management solutions

More "Best in KLAS" products than any other vendor

#1 hospital automation

Emerging business in U.K and France

**\$1.5 billion revenues**  
**\$143 million op profit**

Notes: Financial information for year ending FY06.  
Financial results for Medical-Surgical Solutions have been restated and annualized to reflect the sale of the Acute Care business.

# Long-term Relationships with Global Healthcare Leaders



Vanderbilt University Medical Center



DUKE UNIVERSITY  
MEDICAL CENTER

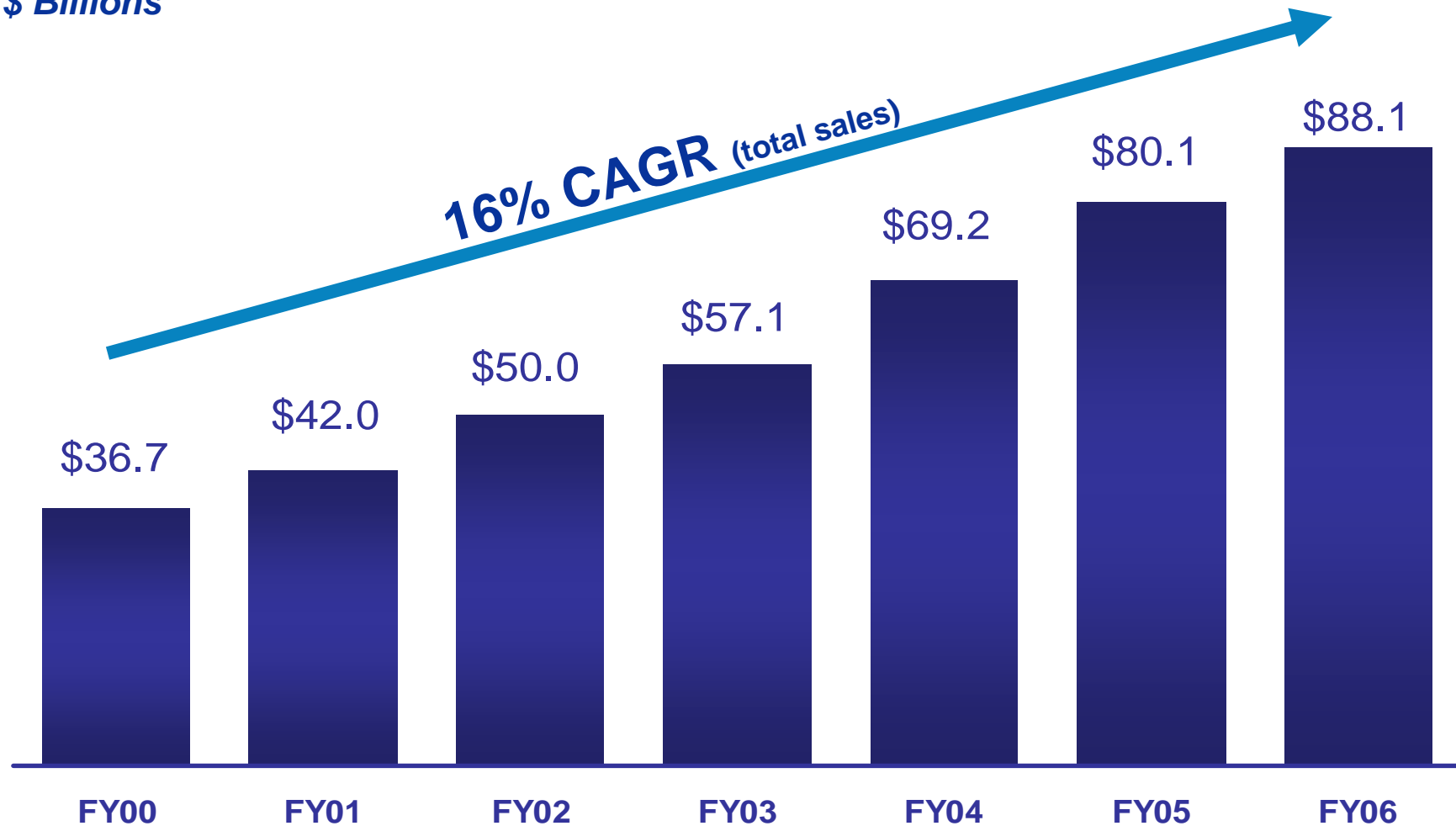


A Business of Caring.



# Six Years of Strong Revenue Growth

*\$ Billions*



Note: Not adjusted for sale of acute care medical surgical business 9/30/06

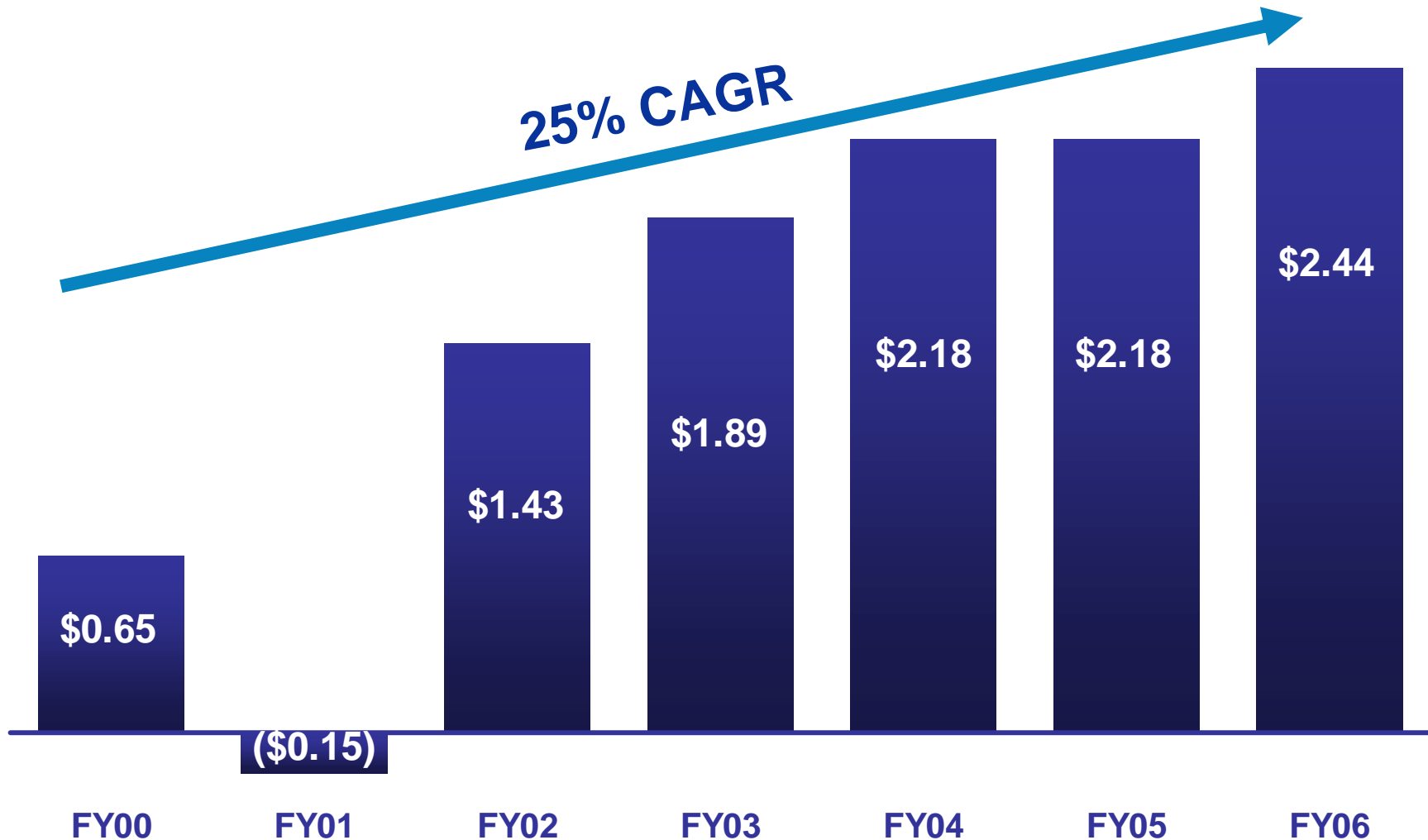
# Outstanding Relative Growth Performance Among U.S. Largest Companies

## 1998

## 2006

<u>Rank</u>	<u>Company</u>	<u>Revenue (\$MM)</u>	<u>Rank</u>	<u>Company</u>	<u>Revenue (\$MM)</u>
101	Delta Air Lines	13,590.0	11	Hewlett-Packard	\$86,696.0
102	Ashland	13,567.0	12	Bank of America Corp.	83,980.0
103	Viacom	13,504.5	13	Berkshire Hathaway	81,663.0
104	Alcoa	13,481.7	14	Home Depot	81,511.0
<b>105</b>	<b>McKesson</b>	<b>13,478.8</b>	15	Valero Energy	81,362.0
106	Northwestern Mutual	13,429.9	<b>16</b>	<b>McKesson</b>	<b>80,514.6</b>
107	Dynegy	13,378.4	17	J.P. Morgan Chase and Co.	79,902.0
108	Walgreen	13,363.0	18	Verizon Communications	75,111.9
109	Hartford Financial Services	13,305.0	19	Cardinal Health	74,915.1
110	Time Warner	13,294.0	20	Altria Group	69,148.0

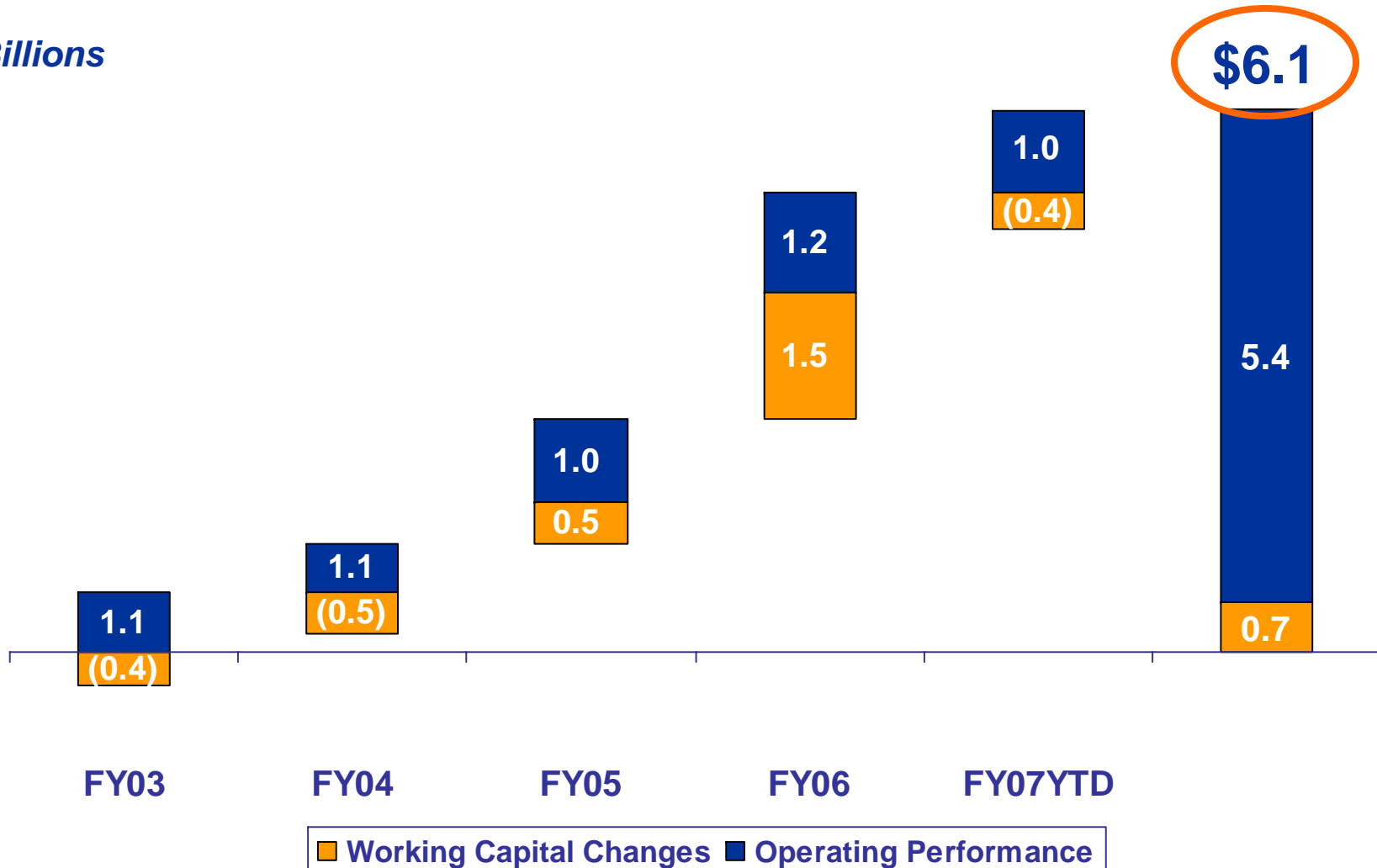
# Revenue Growth Leveraged into Higher EPS (from continuing operations)\*



\* EPS from continuing operations, excluding securities litigation charges, not adjusted for sale of acute care medical surgical business 9/30/06

# \$6.1 Billion in Cash Flow from Operations in the Last 4-1/2 Years

*\$ Billions*



# Portfolio Approach to Capital Deployment

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- Acquisitions
  - Synergistic opportunities
  - Accretive/Value add in line with long term strategy
- Measured share repurchase over time
- Solid dividend policy periodically reviewed
- Internal investment

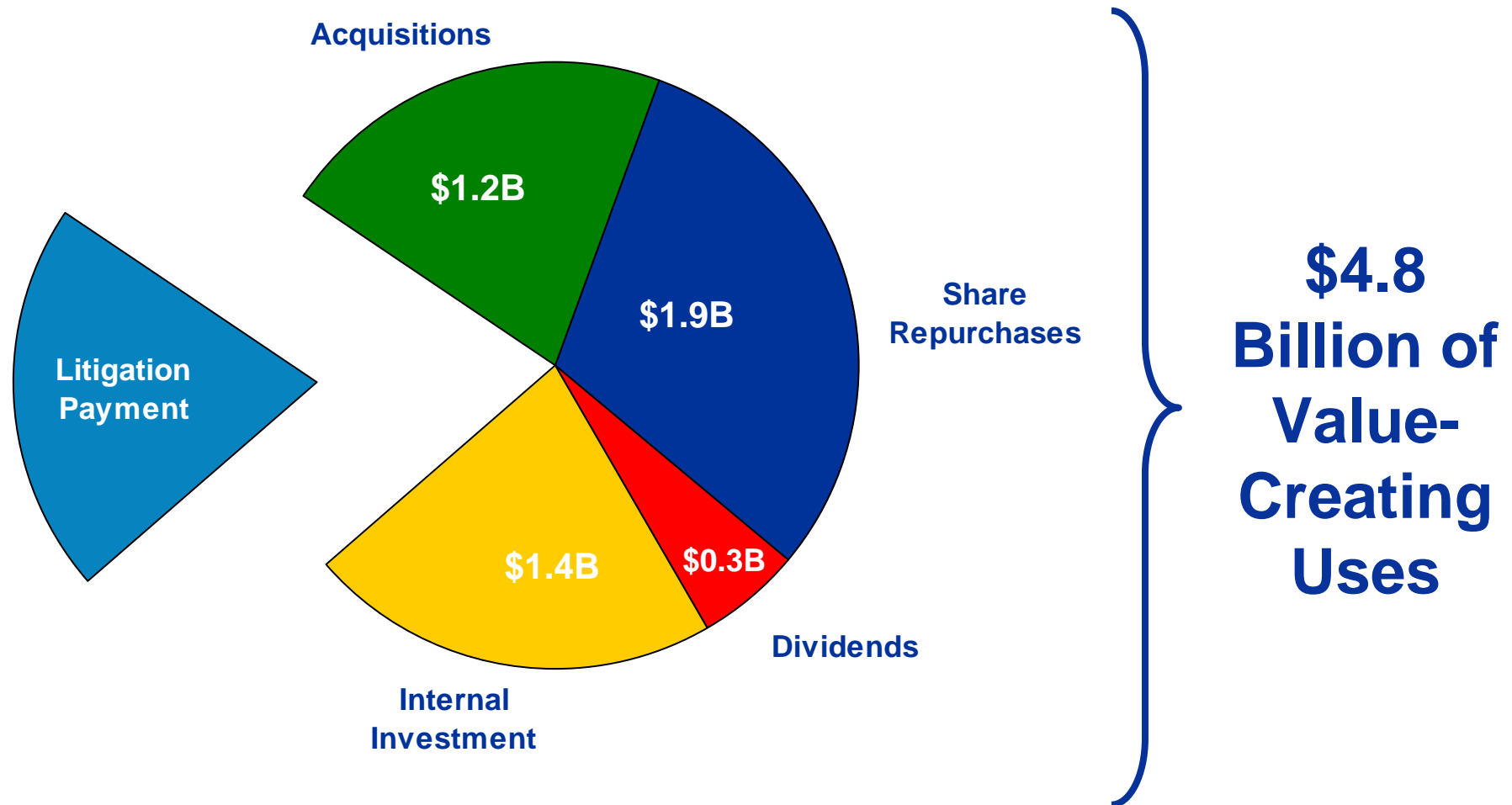


**Increased financial flexibility to continue to  
execute our strategy**

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# Capital Deployed Since FY03 for Value Creation



# Market-leading Momentum in Pharmaceutical Solutions Continues

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- Stronger relationships with branded pharmaceutical manufacturers and increased visibility to compensation
  - Growing generics franchise
  - Expanding customer base in hospitals and mail order
  - Six Sigma and information technology drive quality improvements and operating efficiency
  - Expanding footprint in Canada and Mexico
  - Growing Payor Business driven by expanding disease management market and payor software product offering
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# Four Levers for Operating Margin Expansion

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**Generics**

Large volume of branded drugs scheduled for conversion creates significant profit opportunity

**Mfr. Comp.**

Stable with opportunity to expand

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**Sell Margin**

Stable with opportunity to expand

**Operating Expenses**

Programs to control costs, increase efficiencies



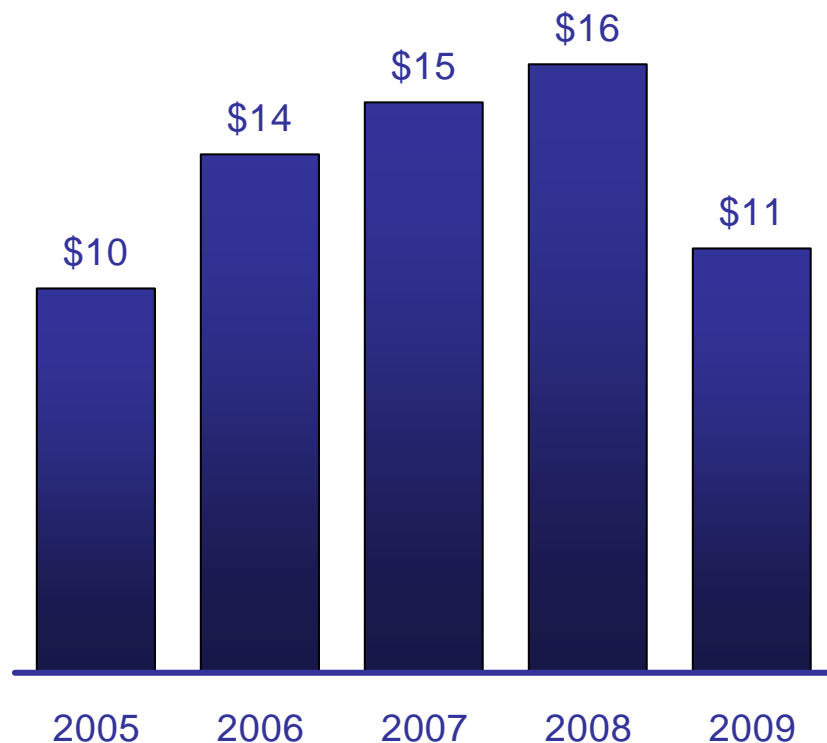
**Goal of  
Pharma  
Operating  
Margin: 150  
to 200 bp**

FY05 1.41%    FY06 1.45%    FY07 expect to be in range

# Generics Wave Provides Benefits Across Healthcare in the U.S.

## '05 – '09 Patent Expiry – Branded Value

\$ Billions



Source: FDA; IMS Health; Bernstein Analysis

- McKesson is the largest distributor of generics
- International generics sourcing program
- New GenericsConnect telemarketing program enhances relationships with existing customers
- Offer generics programs to meet needs of all customer segments

# Pharmaceutical Solutions Positive Outlook

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- Demographics drive drug utilization
  - Influx of new generics and increasing penetration for proprietary programs drives margin expansion
  - Track record for controlling operating expenses
  - Stable relationships with manufacturers and customers
  - Growth opportunities continue in disease management and payor software
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# Market-leading Momentum Continues in Provider Technologies

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- Great relationships with installed customer base based on value delivered
  - Highly-rated customer support & service, product innovation
  - Strongest and most-comprehensive clinical solutions
  - Unique solutions in Patient Safety and Imaging have driven sales beyond installed base of customers
  - Best-practice implementations accelerate revenue recognition
  - Emerging opportunities in physician and consumer-directed healthcare
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# Traditional HIT Markets at an Inflection/Transition Point

## Last 3 years

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- Large-scale, net new clinical buying
- First-time PACS buying in larger end of hospital market
- Emerging ambulatory EMR market
- Little revenue cycle activity

## Next 3 years

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- Incremental purchases to round out clinical suite
- PACS replacements in large hospitals; net new buying in smaller end
- Accelerating ambulatory penetration
- Accelerating revenue cycle buying

# McKesson Customer Metrics

## Demonstrate Leading Market Position

**100K users** log on to  
Horizon Physician Portal  
**3.4 million** times per month

**1,500,000 clinicians**  
rely on our automated  
clinical documentation

**114,000 physicians** view & sign  
medical records daily in Horizon  
document imaging system

Bedside bar-code scanning  
**issues 332K med errors**  
every week

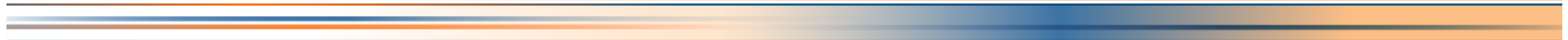
**300 million exams**  
are stored in  
Horizon Medical Imaging

Our best customers  
have achieved **\$1.25 billion**  
in revenue cycle improvements

Last year, McKesson processed  
**274 million claims** worth  
**\$148 billion**

# Per-Se Builds Scale and Deepens Market Penetration

- Key solution areas
  - Software for physicians, hospitals and pharmacies
  - Electronic clearinghouses and transactions
  - Revenue cycle outsourcing
- Complementary customer base
  - 3,000 retail pharmacies
  - 3,000 hospitals
  - 17,000 hospital-based MDs
  - >100,000 MDs in small practices
- Connections with 50,000 pharmacies – 70% of all pharmacy claims
- One of the largest electronic clearinghouses with 8 billion healthcare transactions annually



# Meeting Our Customers' Needs By Making the Linkages Across McKesson



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# Diluted EPS Reconciliation

(\$ and shares in millions, except EPS)	Q3		YTD	
	FY06	FY07	FY06	FY07
Income from continuing ops - as reported	\$ 204	\$ 240	\$ 522	\$ 711
Exclude:				
Securities Litigation charge/(credit), net	1.0	-	53	(6)
Income tax on charge/(credit), net	(1.0)	-	(18)	2
Income tax reserve reversals	-	-	-	(83)
	-	-	35	(87)
Income from continuing ops, excluding Securities Litigation charge/(credit), net	\$ 204	\$ 240	\$ 557	\$ 624
Diluted earnings per common share from continuing ops, excluding Securities Litigation charge/(credit), net <sup>(1) (2)</sup>	\$ 0.64	\$ 0.79	\$ 1.77	\$ 2.05
Shares on which diluted earnings per common share were based <sup>(2)</sup>	316	302	315	305

(1) Certain computations may reflect rounding adjustments.

(2) For the 9 months ended December 31, 2005, interest expense, net of related income taxes, of \$1 million has been added to income from continuing ops for purposes of calculating diluted earnings per share. This adjustment reflects the impact of the Company's potentially dilutive obligations.