

JHH Investor Day Speech

Introduction

Thank you for joining us today.

I'm grateful for your support for McKesson, as our shareholders, and very pleased to talk to you again this year about the performance of our company.

I also appreciate how engaged you are by the challenges and opportunities facing our industry. The pace and breadth of change in healthcare has not eased up since the last time I spoke with you. Across the industry, we're in the midst of a fundamental transformation in the business and delivery of care.

There are some great chess matches going on to see who will win in various market segments. Ultimately, that competition will help to lower the cost and improve the quality of care delivered to patients.

As far as how the chess game is unfolding for us, I like the way we're playing.

We have established a position of strength through our **Scale and Global Reach**, our unmatched level of **Operational Excellence and Efficiency**, and our ability to deliver superior **Value** to our customers and partners.

And we leverage those strengths more effectively and profitably because of the **strategic clarity of our business model**.

The evidence of that can be seen in the outstanding performance we've achieved across all our businesses and in our excellent financial results.

It can also be seen in our growth and evolution as a company.

While we have been a pioneer in the area of global sourcing for many years, our focus on the sell-side of the business has primarily been in North America.

Today, we are poised to become a global healthcare services leader, operating in over 16 countries. And we have moved from #14 to #7 on this year's Fortune 500 list.

Soon, we will not only be the leader in pharmaceutical and generics distribution in North America, but in many markets in Europe. And we are leading in key technology solutions markets as well.

In FY14 we made significant decisions about our strategic positioning and our business lines. Today, we are seeing the benefits of those decisions in growth and robust performance. This is one of the core virtues of our company. We prize execution above everything. When we develop a vision and a strategy, we get to work and deliver optimal performance and value.

Our markets are growing and we're continuing to expand the value we find in those businesses by helping our customers and partners solve their most urgent challenges. We're also delivering solutions that we know will be critical to our customers in years to come. We have tremendous channel strength in both our Distribution and Technology lines. We have a terrific balance sheet and are generating strong operating cash flow through our focus on higher-margin products and services. This gives us the capital to take advantage of the best opportunities when they arise.

In short, McKesson is on its game and thriving, and as a result our customers are vigorous and growing in ways that will make our healthcare system stronger.

A Great Industry in Transformation

To understand how our success is positioning us for future growth, it helps to consider the latest trends and developments of our industry.

I'll focus on the US in painting that picture, but similar forces are in play throughout the world.

The healthcare industry as a whole presents tremendous opportunity because of its size, the amount and kind of care that consumers increasingly require, the pervasive need for improvements in efficiency, business performance, and connectivity, and the emergence of entirely new models for care delivery and reimbursement.

Healthcare is the largest industry in the US. Its rate of growth last year was 6%, outpacing GDP.

That growth is being driven by deep trends that will be significant for the foreseeable future.

First, the **pool of healthcare consumers is growing**.

- The ACA is certainly one driver of that expansion. Many estimates suggest that more than 20 million new patients will enter the system as a result, accelerating growth in all segments.

Second, **demographic trends** are also deepening and extending the need for care.

- 10,000 baby boomers turn 65 every day. Per capita healthcare costs for those over 65 are more than three times what they are for people between 25 and 44. And those costs can grow dramatically. 25% of Medicare, for example, is spent on 5% of our patients in the final year of life.
- Meanwhile, 75 cents out of every healthcare dollar is already devoted to the treatment of chronic conditions; and the chronic care and cancer patient populations are also growing.

Third, **administrative costs** are rising because of the growing complexity of the system, new legal and regulatory requirements, and the need to coordinate care across larger and more complex networks.

As a result, healthcare will account for nearly one-fifth of total economic output in the U.S. by 2020.

The problem with that growth is that it is cost driven and we're using too many government dollars to pay for it. In the next ten years, for example, 50% of the growth in total government spending will be devoted to Medicaid expansion and exchange subsidies.

The government is trying to contain those costs through various means, most significantly by slashing Medicare reimbursements. Over \$400 billion will be cut from Medicare between 2013 and 2022.

It's also trying to change healthcare reimbursement to focus on quality and reduce costs by shifting from fee-for-service to value-based models. This is pushing risk away from payers and toward providers and consumers.

- 70% of providers are expected to enter into value-based arrangements by 2020.
- High deduction plans have grown by 40% annually since 2005.

And need I point out that these changes are taking place in less than ideal circumstances.

- Medicare cuts, rising administrative costs, and the continued poor performance of the economy are putting downward pressure on margins. The implementation of the ACA itself contributes to the uncertainty and confusion – some provisions have been enforced while others have been delayed or altered, and we've got elections coming up which may or may not result in more changes. Across the system, the adoption of new technology and new regulatory requirements are taking place at the same time that business and payment models are being fundamentally changed.

To manage all this stakeholders across every segment are working to transform themselves.

Payers are narrowing their networks to reduce costs, deliver new services, and develop more strategic contracts with providers.

Providers are converging and consolidating to achieve scale and efficiency, reduce costs and administrative burden, and participate more effectively in new payment and delivery models.

- More than half of American physicians are now owned or affiliated, and 60% of hospitals in the US are now controlled by just 288 organizations.

Manufacturers are also consolidating to maintain global scale and share, and they're focusing on generics and specialty drugs to maintain profitability.

McKesson's Capacity to Meet the Growing Needs of the Industry

With McKesson's scale, operational excellence, and ability to deliver superior value, we're able to help our customers not only manage these changes, but thrive and succeed.

As prescription volumes rise with more access and an increase in chronic conditions and cancer, there is a need for more generics and specialty medicines. We're able to leverage our global sourcing capabilities and our direct relationships with our manufacturing partners to deliver value to our customers. More of our customers are buying more of their generics through McKesson, as a result, and we are now #1 in North America in drug and generics distribution and #1 in segments of Europe.

Outpatient services have increased 34% since 2004 as the most profitable care in health systems is shifting to outpatient settings. It costs less and is more profitable for the provider to have your MRI or colonoscopy done at an outpatient clinic. I'm pleased to say that we're #1 in medical-surgical distribution to alternate care sites.

Primary and less profitable care, meanwhile, is shifting to lowest cost settings. We know that the role of the local pharmacy is going to change significantly, as a

result, and that vital, thriving pharmacies will become critical nodes in the healthcare continuum. Patients already interact with their pharmacist four to five times more often per year than they visit their physician, and 42% of younger people prefer the pharmacy as a destination for primary care. We're looking around that corner to prepare pharmacies for how they can meet the growing needs of their customers and communities in the near future. We have a great grasp on that segment because we connect over 80% of the pharmacies in the country. Furthermore, our US Pharmaceutical business works closely with our Health Mart Community Pharmacy customers to bolster core business capabilities, evolve the pharmacy care model, and reinvent the front-end consumer experience.

As payors and providers struggle to reduce costs, increase connectivity, and collaborate around Value-Based Models, we're involved in every critical facet of administrative, financial and clinical support. We're #1 in payor tools and clinical content and in health system revenue cycle and physician revenue cycle outsourcing. We're also taking a leadership role in population management and interoperability because we know those capabilities are foundational to a better performing system.

With sounder fiscal, business, and administrative health, and better connectivity, our customers in every segment are able to turn their focus to growing the services and markets that deliver more value and better care to the healthcare consumer.

That's a profound shift in the current business model of care, but it's a shift that will help the industry transition from focusing on managing costs to delivering value. In this way, we believe the healthcare industry can become an engine of growth and innovation that will lift the entire economy and improve care and wellness for all.

Our Portfolio Approach and Strategic Clarity

Although we are vigorous in our business lines and are leading many market segments, we are purposeful and deliberate in our trajectory. This is because we take a disciplined portfolio approach to determining where we will invest in the growth we expect across our businesses. We base those decisions on our keen understanding of the current and evolving needs of our customers and the industry as a whole, and on our ability to employ our strengths and deliver superior value and returns.

Let me provide a few examples that will illustrate how our portfolio approach strengthens our market position and drives our growth and profitability.

CELESIO

The Celesio acquisition, which we announced in February, demonstrates it well.

We believe that channel influence and purchasing scale will determine success in the wholesale distribution market. However, scale benefits from US segment consolidation have largely been captured, and increased scale is available primarily through new geographies and channels.

Celesio was attractive to us because it operates in 14 countries, has a leadership position in almost every pharmaceutical wholesaling and retailing market it competes in, is a leading Brazilian drug and specialty wholesaler, and operates a network of 2,200 pharmacies across Europe with an additional 4,100 affiliated pharmacies.

When we saw an opportunity to acquire a partner with a complementary global footprint and supply chain expertise in Europe and Brazil, we knew that this would position us well in new and emerging markets.

Drug distribution is an increasingly global business. Our success in building relationships with our manufacturing partners, and helping them deliver better supply chain efficiency and sourcing power, gives us confidence we can do this on a global platform with an even more compelling value proposition. With our increase in scale, we become more efficient and even easier to do business with from a supply chain perspective. This makes us a one-stop shop for global partnerships, offering a variety of ways for those businesses to grow. We'll also be able to attract more great manufacturing partners and help them gain market acceptance through McKesson whether that focus is on local markets or via a multinational framework. Whichever approach our partners see as strategically advantageous for them, we'll be expanding our volume and margins and gaining more access to other high growth opportunities.

The retail pharmacy segment is also core to our strategy and has been for Celesio, too, for a very long time. It starts with reliable distribution and supply. But we'll have an enhanced opportunity to expand and deepen our relationships with our new customers now.

How did we arrive at making the decision to acquire Celesio?

For the past 15 years, we've been preparing ourselves to take a more global perspective with businesses that are robust leaders in North America. All of the members of the senior team, especially Paul Julian and I, have spent extensive time in Europe over that period, talking frequently with key corporate leaders and customers in those markets about the issues they are facing, and exploring opportunities for collaboration in Europe and around the world, including in emerging markets. We educated ourselves on the dynamics of those markets, and are clear-eyed about the challenges and opportunities they present.

That disciplined approach to strategy, capital deployment, and execution, so characteristic of our company, allowed us to identify Celesio as the right opportunity for McKesson.

It is worth noting that we are making our global play with a clear and unencumbered strategy.

In contrast, the AmerisourceBergen / Walgreens / Alliance Boots development presents complex challenges as a joint venture arrangement. Each partner gains something in the deal but no one partner has the kind of strategic long-term control over purchasing that we have gained nor the same clear pathway to growth.

Likewise, the recent joint venture between Cardinal Health and CVS Caremark offers less strategic potential, a smaller global component, and commits Cardinal to making \$100 million annual payments to CVS Caremark regardless of outcomes.

In comparison to others in the industry, we have embedded Celesio into our core operations, have total strategic control over our destiny, can continue to secure the highest operating margins in our space, and can capitalize on opportunities to develop new markets and cross-channel partnerships.

This is true to our portfolio approach and is aligned with our business model and strategic trajectory. We expect that Celesio will be an accelerant of our growth moving forward, and that being a scale low cost operator will position us to navigate future competitive activity and industry change.

Rite Aid

Similarly, we announced in February that we had expanded our distribution agreement with Rite Aid to assume responsibility for the sourcing and distribution

of generic pharmaceuticals as part of our OneStop Generics program. We will also be providing Rite Aid with daily direct-to-store delivery for brand and generic pharmaceuticals.

Rite Aid is one of the nation's largest drugstore chains, and their confidence in us to assume this strategic function has been built on a foundation of reliable operational excellence and close collaboration. They know that we will deliver greater supply chain efficiencies that will help them ensure the highest level of service to their customers.

As a result, together with Celesio, we will be the largest buyer of generics in the world. And in the process, we will maintain full strategic control of the part of the business that we do best.

Community Oncology

Our Community Oncology business is another terrific story that demonstrates the value we have gained by leveraging our strengths, remaining committed to our business model, and developing our portfolio in a disciplined way by investing in an area of tremendous growth.

15 years ago we were #3 in specialty products distribution in the US. We developed a better understanding of oncology practices in 2006 when we added the National Oncology Association, a small GPO, to our portfolio. Then we judiciously expanded that portfolio with the OTN/Onmark acquisition in 2007, the nation's second largest oncology GPO. Next, the purchase of US Oncology in 2010 made us #2 in specialty products distribution.

Since then, we have worked hard with our oncology partners to develop services that help manufacturers and physicians deliver specialty pharmaceutical care to cancer patients. And we have built the kind of confidence in our reliability and innovation that has enabled us to expand our offerings and provide our physician

partners with practice and business management solutions that free them to devote more of their energy to the patients who need them most.

Today, we are #1 in the specialty market – and a growing population of chronic and cancer patients are able to depend on our scale, connectivity, efficiency, and know-how to meet their high-value care needs.

MTS

On the Technology Solutions side of our business, our portfolio approach is being deployed in the same consistent and disciplined way.

As part of a well-considered and multi-year effort, we continue to make decisions about our portfolio that are enabling us to align investments with growth opportunities. We're also developing existing business lines in support of new growth opportunities and expect to lead the market in critical areas such as Population Management, Connected Care and Analytics, and Value-Based Reimbursement.

We are also showing tremendous leadership in the Health Information Technology field through our key role as founder and primary technology partner in the CommonWell Health Alliance. Formed with our competitors to solve the urgent challenge of patient data liquidity, the Alliance is proving itself in vigorous pilots with health systems across the country, and expanding its membership to national providers like CVS Caremark and Tenet Healthcare. We have made tremendous progress in a very short time span, and our work will have a transformative impact on HIT interoperability – one of the foundational needs of a better healthcare system.

We are asserting our leadership where it will do the most good, and deploying our resources and capital in a mix of business lines that are crucial to our customers and will produce the best margins for the company.

In this way, we are helping our customers use information technology strategically and effectively to enable better business, better care, and better connectivity.

Our True Advantage: McKesson's People and Culture

I have spoken at length about our strategy, our business model, our performance in different segments, and our strengths.

But the true source of our advantage is McKesson's people and culture.

The healthcare industry is in the midst of historic change. We can't foresee every development perfectly nor predict infallibly how our portfolio will need to evolve. Strategies and tactics will change as conditions and circumstances change.

We know, however, that we will make the best decisions to meet whatever trends are unfolding and whatever new needs or opportunities emerge because we have a 181 year tradition of doing what is right in service of our customers.

That tradition and culture is based on core values that guide our decisions, our leadership, our behaviors, and our relationships – with customers, with partners, and with you, our shareholders. We are proud of our culture because we know that such strongly held values are the foundation of every great and enduring company.

We articulated those values over a decade ago and we call them our ICARE Shared Principles. They are Integrity, Customer-First, Accountability, Respect, and Excellence.

They are lived by our employees who are people of great character and caring, and deep industry know-how.

Indeed, one of the critical factors that made our acquisition of Celesio the right move was not just our strategic and operational compatibility, but our compatibility in values and mission.

At McKesson, more than 80,000 employees work tirelessly for our customers because we know that our efforts help them deliver better care to all. We're family members. We're community leaders. We're patients. We know that quality healthcare is everything when it's needed most. And we know that we have an opportunity as one global company to do more good for the world this way than in any other.

I also believe that we have the best leadership team in the business. We've got experienced, hands-on, strategic leaders at the top, and incredible bench strength throughout key roles. I think of the team we're sending to Celesio. Marc Owen, one of the most talented leaders and strategists in the healthcare industry, who recently led McKesson Specialty Health to a leading market share position in community oncology, will be taking over as Chairman of Celesio's Management Board. And Alain Vachon, who started in McKesson Canada, and reduced working capital at McKesson US Pharmaceutical by more than \$2 billion while serving as its CFO, will be the new CFO of Celesio.

When you realize that we have that kind of proven leadership across all our businesses, I'm sure you'll agree with me that the future of your company is in very good hands.

At McKesson, we prove the sincerity of our mission and our capacity to make a difference by generating outstanding performance and returns across all the segments we serve. We've always done this, and I believe, as I have argued

today, we are extremely well-positioned to continue to grow and succeed in the future.

It's remarkable to me, and I am humbled by the idea, even as I believe we are all strengthened and emboldened by it –

We have a 181 year track record, and we're just getting started.