

CVS Caremark Corporation

NYSE: CVS

By Eric Chlan

52 week price range: 30.75-42.60

Corporate Headquarters: Woonsocket, RI

Web Site: www.cvs.com

CEO: Thomas Ryan

Industry: Healthcare, Drug Store, Services

Institution ownership is 87.1%

Debt: 10.48 Billion

Founded in Lowell, Mass. In 1963 originally called Consumer Value Store

Company Profile

CVS Caremark Corporation operates retail pharmacy and pharmacy benefit management business in the United States. It is one of the largest drug store chains in the U.S. In their retail stores they provide prescription drugs and general merchandise (including OTC drugs, beauty products, photo developing services, seasonal merchandise, convenience food, greeting cards). Thru their website CVS.com they offer numerous merchandise, you can order your prescriptions online, and down load your pictures for pick up at your nearest location.

Market Profile

CVS has 6,200 stores in 44 states as of December 2007. The company fills or manages more than 1 billion prescriptions annually. They have 57.43 Billion market cap verses Walgreens 35.75 Billion. 68% of their revenue is from the

pharmacy business. **CVS** reached their goal of \$2 Billion in free cash flow in 2007. Earnings grew 20% in 2007. Revenue in the 4th quarter increased 82% over 2006.

Minute Clinic

CVS provides quick, cost effective, high quality healthcare for everyday illnesses thru their 462 Minute Clinics. In the 4th quarter they opened 169 clinics. In September 2007 they saw the 1 millionth patient. In the past four months since then, they have seen over 500,000 patients. They have approximately four times more clinics than their closest competitor.

Caremark Pharmacy Services

Caremark is one of the nation's leading pharmacy benefit management (PBM) companies. They provide comprehensive prescription benefit management services to over 2,000 health plans, including corporations, managed care organizations, insurance companies, unions, and government entities. In 2006 net revenue was approximately \$37 billion.

Investment Risks

CVS received a subpoena from U.S. Department of Health requesting information related to the processing of Medicaid claims. **CVS** said it is cooperating with the requests and cannot predict the timing or outcome of the government review.

Caremark agreed to pay \$38.5 million in a multistate settlement of claims that it was deceptive when it encouraged patients to switch prescription drugs under the belief of saving money.

The impact of combining CVS and Caremark during 2007 makes for difficult comparisons on a reported basis for the pharmacy- benefit manager segment.

According to a Morningstar article, both CVS and Caremark have historically granted executives excessive compensation. The board altered long term incentive compensation to tie it to growth in earnings per share instead of returns on invested capital.

My Thoughts

I believe CVS is a combination play on the healthcare and consumer staples industries. Two top industries for 2008. With the aging of and growth of the population of the U.S. (I know the baby boomers get blamed for this, but let's not forget the increase in obesity and other health issues), demand for prescriptions will increase. Generics offer a higher profit for pharmacies, than brand name drugs.

If my numbers are right in the SSG it still is in the buy zone.

CVS will be able to effectively manage costs and improve healthcare outcomes due to its merger with Caremark.

Drug retail industry has a lot of potential for growth. I believe CVS is better company than their competitors because they offer pharmacy benefit management services (Caremark), and they offer the fast growing Minute Clinic.