

[Previous Page](#)

CVS/Caremark Tie the Knot

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CVS/Caremark (NYSE: [CVS](#)) was a combined entity a full 10 days during the first quarter. While it's too early to see if CVS blazed a new health-care trail by combining a drugstore chain with giant pharmacy benefit manager (PBM) Caremark, there are still interesting tidbits to pass along from recently reported results.

During the company's first-quarter conference call, it admitted to "a lot of noise" in the financials as a result of the Caremark acquisition. In addition to customary merger and integration charges, shares outstanding increased from those issued to buy Caremark, and interest expense jumped markedly from other drugstore acquisitions.

CVS/Caremark saw continued strong same-store sales trends at its drugstores as total comps advanced 7.5% for the quarter. Drugstores report sales from two perspectives: pharmacy and front-end. Pharmacy comps grew an impressive 7.8%, while front-end merchandise comps improved 6.6%. CVS is seeing lower pharmacy comps as generic drugs lower sales growth. While they bring in higher profit margins to drug retailers selling generics, patent expirations hurt pharma giants such as **Pfizer** (NYSE: [PFE](#)) .

The coming year will likely see more murky financials as CVS works to fully integrate Caremark. However, the long-term potential remains worth investigating, as the erstwhile Caremark was a leading PBM with prodigious cash flow-generating capabilities. The company is also ramping up the opening of MinuteClinics inside its CVS stores; it hopes these quick-care clinics will make going to the doctor as simple as picking up a prescription. During the earnings conference call, management estimated that 25% of patients who head to the company's 180 existing MinuteClinics have never been in a CVS.

Quick-care clinics have significant potential and are also being pursued by big-box behemoth **Wal-Mart** (NYSE: [WMT](#)) . Yet currently, CVS believes its MinuteClinic count outnumbers the next three competitors combined. It also believes these clinics will bring core Caremark clients outdoors, as they currently rely on the PBM's mail-order business to receive prescriptions.

Overall, the Caremark integration appears to be progressing as planned. For the time being, archrivals **Walgreen** (NYSE: [WAG](#)) , **Long Drug Stores** (NYSE: [LDG](#)) , and **Rite-Aid** (NYSE: [RAD](#)) are primarily sticking to their retail store knitting, but they may have some catching up to do if CVS/Caremark realizes the huge potential in combining drugstore, PBM, and quick-care clinic businesses under one retail umbrella.

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Wal-Mart and Pfizer are Inside Value stock picks. You can find out why with a free 30-day trial offer. Yes, that's four bucks cheaper than a generic prescription will run you at Sam Walton's place.

Fool contributor Ryan Fuhrmann is long shares of Walgreen and Pfizer but has no financial interest in any other company mentioned. Feel free to email him with feedback or to discuss any companies mentioned further. The Fool has an ironclad disclosure policy.

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[Previous Page](#)