

RAI DOW S&P NASDAQ

-23.40 (-0.74%) -119.13 (-0.95%) -13.10 (-1.00%) -31.52 (-1.13%)

Home > Market Insight > Hot Stocks > Walgreens vs. CVS Caremark: Which Stock Will Win Drug Store Wars?

Share

5

Recommend

PRINT

EMAIL

Like

Be the first of your friends to like this.

Walgreens vs. CVS Caremark: Which Stock Will Win Drug Store Wars?

Top pharmacy chains best on different paths to the top

Jul 16, 2011, 11:06 am EDT | By Susan J. Aluise, Aviation, Auto & Transportation Writer

Walgreens (NYSE: WAG) and **CVS Caremark** (NYSE: CVS): In retail pharmacy circles, you seldom hear one name without the other. There are some similarities between the industry's two 800-pound gorillas: Both companies have more than 7,000 stores (WAG has more than 7,600), prescription drugs account for about 65% of their retail pharmacy revenue and both companies face increased competition from retail mega-stores, particularly **Wal-Mart** (NYSE: WMT).

But as with most head-to-head competitors, WAG and CVS might be best defined by their differences: Walgreens primary focus is on retail pharmacy sales, while CVS is staking its claim in pharmacy benefits management.

Walgreens solidified its position as the nation's largest retail pharmacy in March by selling its PBM unit to **Catalyst Health Solutions** (NASDAQ: CHSI) for \$525 million in cash. Walgreens then turned around and paid \$409 million of that cash to purchase web retailer Drugstore.com. WAG is playing to its retail strengths by promoting its private-label brands to boost profits.



How to use technical analysis to identify market trends
[Request Free Guide](#)



Learn How To Trade Forex with FXCM's "New To Forex" Trading Guide
[Free Guide & Demo](#)

On Wednesday, WAG announced plans to boost its quarterly dividend by 29% and buy back \$2 billion in stock. Setback: WAG's divorce from PBM partner **Express Scripts** (NASDAQ: ESRX) could cost the company \$5.3 billion in annual sales and volume as high as 90 million prescriptions.

Walgreens has a market cap of \$38.74 billion and pays a dividend yield of 1.6%. At \$42.79, the stock is trading nearly 63% above its 52-week low of \$26.77 last August. WAG has a price-to-earnings growth ratio of just 1.17, indicating the stock is fairly valued.

Walgreens total cash of \$2.65 billion is slightly higher than its total debt of \$2.40 billion.

CVS is the nation's largest pharmacy services provider, having entered into the PBM space in a big way with its \$26.9 billion purchase of Caremark Rx in 2007. CVS Caremark now handles pharmacy benefits for more than 50 million customers. Earlier this year, CVS won the \$3 billion Federal Employee Program contract and will begin administering the PBM plan next January.

Setback: CVS is dealing with multiple investigations and lawsuits that charge the company with anti-competitive practices. Consumer groups and independent pharmacists hope to force the company to split up the retail pharmacy and PBM operations.

CVS Caremark has a market cap of \$50.50 billion and pays a dividend yield of 1.3%. At \$37.30, the stock is trading nearly 39% above its 52-week low of \$26.84 last August. CVS has a PEG of 1.25, indicating that it's fairly valued. But CVS carries a lot more debt: \$9.78 billion in debt versus \$2.17 billion in total cash.

CVS and Walgreens are both facing increased competition from discount stores. While **Rite Aid** (NYSE: RAD) still is a player in the space, the small cap stock last posted double-digit share prices at the dawn of the new millennium and hasn't cracked the \$5 ceiling since fall 2007.

So which company has the edge: CVS or Walgreens? The short-term answer might lie in the Caremark acquisition, which cost CVS \$3.2 billion in cash and \$23.7 billion worth of CVS shares. The company has struggled to integrate its retail drug and PBM businesses and last year lost \$4.8 billion in contracts. While winning the FEP contract was a victory for CVS, company CEO Larry Merlo admitted in June that the new business will drive down retail pharmacy margins.

Advantage: Walgreens — at least until CVS' Caremark acquisition starts to show investors the value. And at this point in the game, the big payoff CVS investors hoped for from the Caremark deal is by no means certain.

As of this writing, Susan J. Aluisse did not hold a position in any of the stocks mentioned here.

[Share](#)

5

[Recommend](#)[PRINT](#)[EMAIL](#)