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MedcoHealth Solutions Inc. Q4 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from Tom Gallucci with Merrill Lynch.

Tom Gallucci - Merrill Lynch

Good morning. Thanks for all the color. I guess Rich, just a follow up on what you were just discussing there in terms of guidance. As you went through the items, most of them appeared fairly steady with prior guidance. I think the one point that jumped out at me that you raised little bit on EPS basis, was the generics. So, can you maybe highlight some of the key areas where your up in guidance on EPS basis \$0.10 or \$0.12 or so?

Rich Rubino

Right. Looking at the high end of the range we are increasing the high end on a post-split basis by about \$0.10.

Tom Gallucci - Merrill Lynch

All right

Rich Rubino

And the contributors there are, if you factor it in, the \$0.02 beat our expectations in the fourth quarter of 2007, and assume that carries forward through all of 2008, which we believe it will, that generates \$0.08 of the \$0.10 increase in guidance right there.

In addition what you have on top of that, is the additional \$0.02 on a post-split basis going from \$0.10 to \$0.12 for the impact of new generic introductions, and largely the effect there, is the limited supply of generic Protonix, that I mentioned, as well as an improved anticipated purchasing on additional new generic introductions that were scheduled in 2008.

Tom Gallucci - Merrill Lynch

Okay. So then I guess the key question there is, what specifically was better than you guys had forecast internally in the quarter, that drove the upside on the earnings line?

Rich Rubino

The fundamental drivers of our margin essentially, margin at mail is driven by our ability to achieve high levels of purchasing discounts on generic drugs in particular. I would say that in addition to our operational efficiencies, as we continue to scale up our automated pharmacies. We believe based on what we've seen thus far, through 2007, as well as the beginning of 2008, with a sterling new client installed in dispensing, mail-order productivity, as well as customer service productivity, we expect to see gross margins continuing through 2008 from that as well.

Dave Snow

Hey Tom this is Dave and I want to add one other thing, if you recall at Analyst Day, we talked pre-split about an \$0.08 to \$0.10 contribution, if in fact Plavix and Effexor did come out, I'm sorry Protonix and Effexor came out, and we're not realizing all of that yet, we only have the limited part of Protonix at this point, a limited supply. So we're still working on a full year opportunity there, plus lets hope that the Effexor does come out.

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