

The logo for Seeking Alpha, with the text 'Seeking Alpha' in white and a gold Greek letter alpha symbol to the right, all on a dark red background.

Medco Health Solutions Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

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

Tom Gallucci - Merrill Lynch

Just looking at guidance for next year, two questions, first, what would you consider sort of the key variables within the range? Maybe as a follow on to that, I think a big question we've been getting is how do you factor in membership expectations given the economy, given the potential for layoffs, obviously, companies like GM have gotten a lot of attention? So just wondering how you factored that into your outlook?

David Snow

Let me give a start with that Tom, and then I'll let Rich add anything he'd like to. Obviously, with the economy where it is, that's another variable to our estimates for next year that we had to account for in our guidance. When it comes to layoffs, to the extent people aren't immediately reemployed, most do have COBRA coverage, which is 18-month long and takes them into the 2010 timeframe. So the real impact on layoffs doesn't hit us in the '09 planning period.

The bigger variable that we need to plan for, although we aren't seeing it yet, is the concern I mentioned that there could be a point if the economy continues to deteriorate where consumers actually start treating their chronic drugs as discretionary.

Today, it's non-discretionary and we don't think it will become discretionary; however we can't say how bad the economy could become next year. We may have hit the bottom now. It could get worse. That's a factor in our guidance and that really will determine where we are within the range. We think we've adequately provided for the uncertainty in the range we've given you and it's really the bigger impact of the economy that the thing that we're going to watch most closely.

I think other than that, the things within Medco's control, we are pretty comfortable with and we're really pleased with all the elements of our performance in the key five growth drivers that I talked about in my formal comment.

Rich Rubino

Further to Dave's point that's exactly why we gave a range for mail-order volumes for 2009 of the 105 million to 107 million scripts because those are known in the economy and what may happen with

regard to employment and so forth. Aside from that as you know mail volumes particularly generics mail are the key drivers to our profitability. So it's that volume that's really driving the range.

Copyright © 2008 CNET Networks, Inc. All Rights Reserved.