

## CVS: Calculated Acquisitions for Greater Market Share

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**The Move:** CVS committed the capital necessary to push through major acquisitions, giving the company a market advantage going into the recession.

When CVS Corp. acquired Caremark Rx Inc. for \$26.5 billion in March 2007, it bought an expanding new distribution channel: selling prescription drugs through direct mail, benefit plans, or networks of pharmacies. The merger created a pharmacy giant that took control of more than 1 billion prescriptions per year — a little less than one third of the prescriptions filled in the United States annually. The deal also gave the combined entity greater purchasing scale and operating efficiencies, which translates into an estimated \$400 million in annual cost savings.

CVS, which bought the Sav-On and Osco drug store chains in 2006, has become highly skilled at the acquisition process. The company's mergers are executed by integration teams focused on certain areas of the acquired business, from systems to sales to new product development. For the latest deal, CEO Thomas M. Ryan helped finalize go-to-market strategies and personnel integration, and has met with 3,000 Caremark employees since the deal closed. The Caremark merger was CVS's most transformational acquisition to date because the Nashville-based pharmacy benefits manager taps a new market for CVS: home delivery. "CVS's Caremark acquisition propelled them. Before the acquisition they were just a traditional pharmacy," says Howard Davidowitz, chairman of Davidowitz & Associates, Inc. CVS Caremark is now the largest provider of prescriptions in the nation, with 6,300 stores and approximately \$85 billion in revenue.

This fall, as the economy stalled out, the new juggernaut acquired Longs Drug Stores Corp., beating out rival bidder Walgreen Co. with a \$3 billion offer. The deal expands CVS's footprint in California, Arizona, and Hawaii. Many Longs stores are in markets previously untapped by CVS. "For CVS Caremark, the acquisition of Longs is complementary and gives it strong market share positions in many regions where it has little penetration," Mitchell P. Corwin of Morningstar wrote in an [October analyst note](#).

That wasn't all: CVS also rolled out its first high-end cosmetics store, Beauty 360, opening a flagship store in Washington, D.C.'s Dupont Circle in November. It has plans to add another 50 Beauty 360 units in 2009, betting that [women will still buy cosmetics despite bleak economic conditions](#).

CVS's expansion has kept the company ahead of its competition in a difficult economy. Third-quarter gains were stronger than second-quarter results, thanks to growth at the chain's drug stores and

strong pharmacy sales related to Caremark. Year-to-year net income rose 6 percent, and same-store sales, a key barometer of a retailer's health that compares stores open for more than a year, increased 3.7 percent. Same-store sales at Walgreens, by comparison, rose 2.6 percent.

"CVS is getting through the recession, and its earnings are up because it's a powerhouse," says Davidowitz. "Caremark is helping because it's the fastest growing channel of distribution over traditional drug stores." Scott Mushkin, an analyst with Jefferies & Co., predicts the chain will "continue to grow despite a difficult economy."

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