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Medco Health Solutions Inc., Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of Lisa Gill - J.P. Morgan.

Lisa Gill - J.P. Morgan

Just a couple of quick questions; Dave, would you give us your thoughts on the WellPoint transaction and what you think it means overall for the PBM industry. Secondly, can you talk about the opportunity to convert some of these retail claims over to mail; the number of retail claims obviously coming in much higher, so maybe just give us an explanation as to why it is higher; number one, and number two, where the opportunity is.

David B. Snow

On the WellPoint transaction, I think I've been saying Lisa since 2003 that I always felt the independent PBMs were far more efficient than inhouse PBMs simply because it is our center of the desk focus and I've also always said that we rarely if ever see an inhouse PBM at best and finals when we're in the competitive mode, and it's largely because they don't have the scale, they don't invest in the technologies that make mail the most efficient way to dispense drugs. So, it does not surprise me that WellPoint did the transaction they did, and it would not surprise if other health plans with inhouse PBMs started rethinking their strategy to drive better value for their customers and shareholders. Medco's position relative to any of these opportunities is that we'll continue to be opportunistic. We think that enormous value can be delivered to health plan clients who seek to do this and we also believe at the right price it also could be the right thing for Medco to do relative to creating shareholder value.

Lisa Gill - J.P. Morgan

Do you want a handicap whether we'll see another transaction this year or not; do you think it'll happen that quickly that the others have to say, ?We've got an awful lot going on since we have healthcare reform, maybe we should be thinking about this today??

David B. Snow

I believe that there is added pressure to health plans generally in this time of recession as they look for ways to create earnings for shareholders. So, I do think this recession has added to a pressure on them that would make them more likely to consider it now than at a time when there's less economic pressure on health plans. So, I can't tell you specifically whether I expect another transaction this

year, but I do think the environment is favorable for strong consideration of that option. Relative to retail claims conversion, I can tell you that so far this year our team is doing a fabulous job moving retail scripts to mail tied to the therapeutic resource centers, initiatives and the things we do for our clients. In addition, many of these heavy retail accounts that picked up picked up because of our expertise at mail because they see the enormous value that mail brings to them in their bottom-line. So, benefit designs are aligned for a lot of this new business and we're probably the best at moving from retail to mail. So, I'm very bullish on that. The unknown here and the thing you need to factor in as you think about a full year is this recession and the layoffs you read about every day because as we convert retail to mail there is also a counteracting vector which is the layoff that makes the hole deep that we have to fill with these conversions, and where that ends up at the end of the year, as Rich said in his comments, we believe we analyze it and we projected properly, but I don't think anyone has a crystal clear prediction model here. This recession is something that takes twist and turns that surprises all every week.

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