

Financial Analysis of CVS Caremark Pharmacies and Pharmacy Benefit Manager

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Overview

There are now three major corporations that derive the majority of their revenue from prescription drug sales in the United States. They are CVS Caremark, Express Scripts and Walgreen which took over Rite Aid last year. Together, these companies sold 57% of the prescription drugs bought in the US in 2013.

Of these three companies, Walgreen/Rite Aid sells prescription medications almost entirely via retail pharmacy stores. CVS Caremark provides prescription drugs through both retail pharmacies and its pharmacy benefits manager service (Caremark) and Express Scripts is solely a Pharmacy Benefits Manager with a mail order prescription drug service.

All other prescription drugs in the US are sold either by small independent pharmacies, large retail stores for whom prescription drugs sales are a small portion of their overall revenue (like Walmart) or pharmacy benefit managers that act as a subdivision of a major health insurance company.

CVS Caremark

In 2007 CVS pharmacies merged with Caremark, which is a pharmacy benefits manager, to form CVS Caremark; the largest single supplier of prescription medications in the US. CVS retail prescription drug sales are roughly equivalent to those of Walgreen pharmacies. Both CVS and Walgreens sold over \$50 billion in retail prescription medications in 2015.

In addition to their retail sales, though, CVS Caremark also has more than \$20 billion in mail order prescription drug revenue each year. As a pharmacy benefits manager, they mediate more than \$40 billion in prescription drug sales through other retail pharmacies.

The combined total revenue for CVS Caremark in 2015 was more than \$153 billion. For the entire health care industry CVS's revenue was second only to that of United Health Group which is the largest Health insurance company in the US. CVS's revenue was more than double that of the largest pharmaceutical corporation (Johnson and Johnson) and was more than four times the revenue of the largest hospital corporation in the US (Hospital Corporation of America). CVS Caremark is big!

What is a pharmacy benefit manager? Their stated purpose is to mediate prescription medications prices for insurance companies. What they really do is take (and keep) part of your copay whenever your copay for a generic medication is far more than the medication is worth. How does this benefit you? It doesn't. Pharmacy benefit managers exist solely because most people know nothing about them. They do provide mail order prescription services so that people don't have to go to a pharmacy to pick up their medications, but that appears to be their only benefit.

<http://www.usatoday.com/story/money/personalfinance/2014/03/03/pharmacy-benefit-managers-healthcare-costs-savings/5495317/>

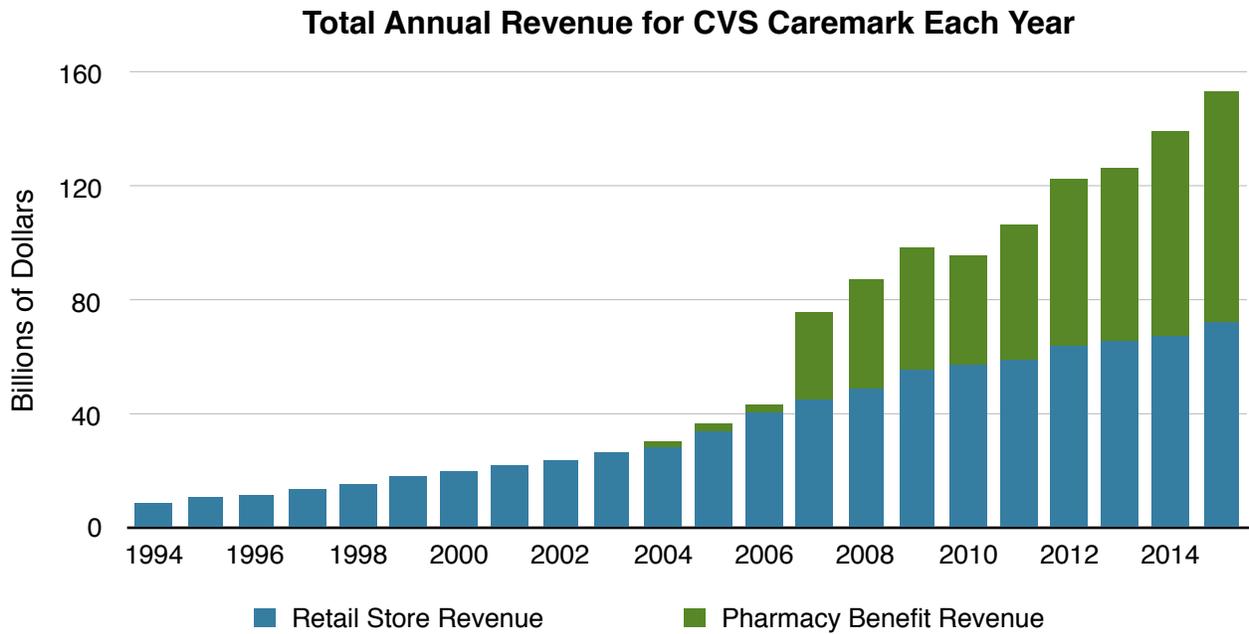


Figure 1: The total revenue for CVS Caremark has gone from less than \$10 billion in 1994 (for CVS alone) to nearly \$140 billion in 2014 for CVS Caremark combined. That’s a gain of about 1,300% in revenue in 21 years.

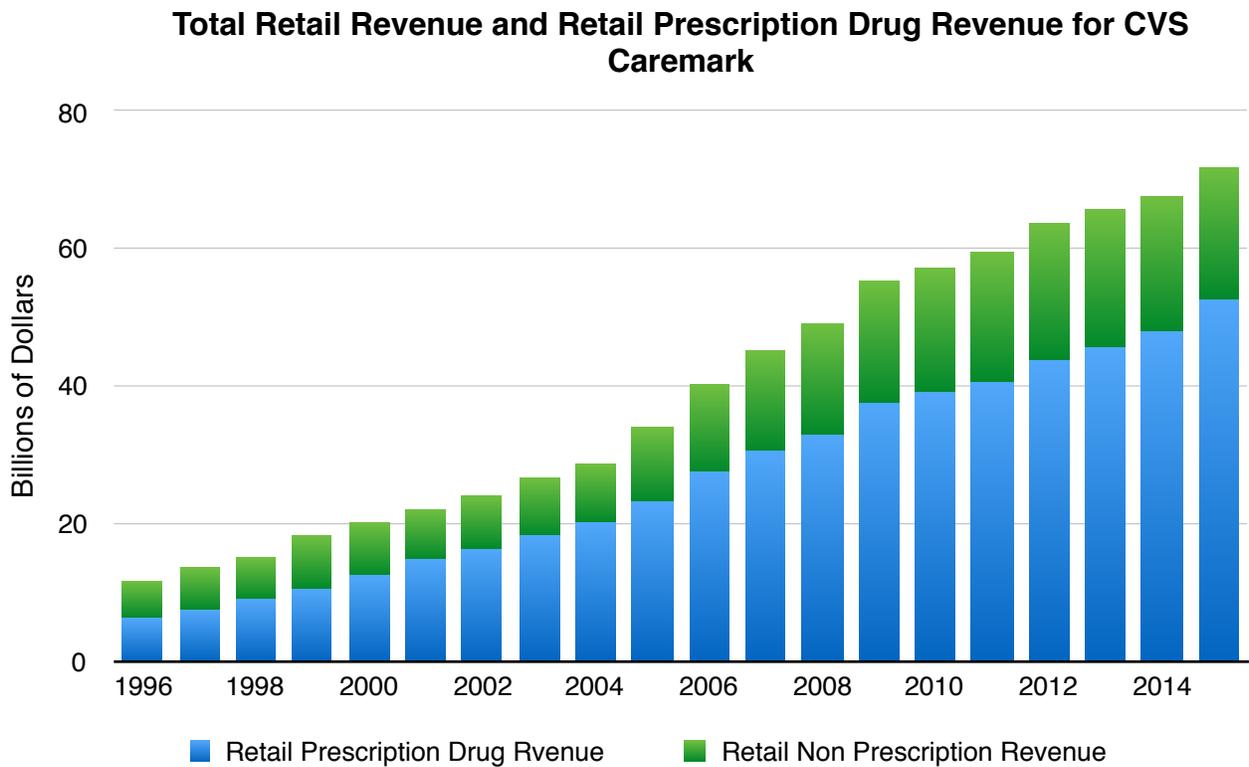


Figure2: About half of the revenue for CVS’s retail stores was for prescription medications in 1994. By 2014 prescription drugs accounted for about 70% of their retail pharmacy revenue.

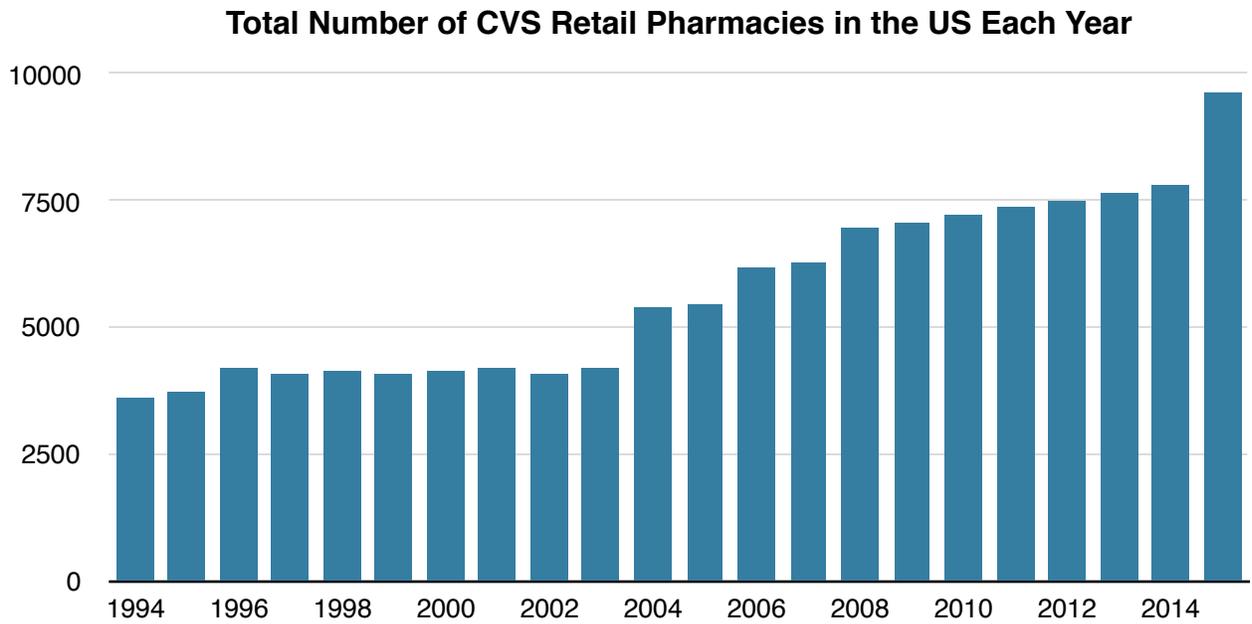


Figure 3: The number of retail pharmacies owned by CVS has more than doubled since 2003 after remain flat for nearly a decade prior.

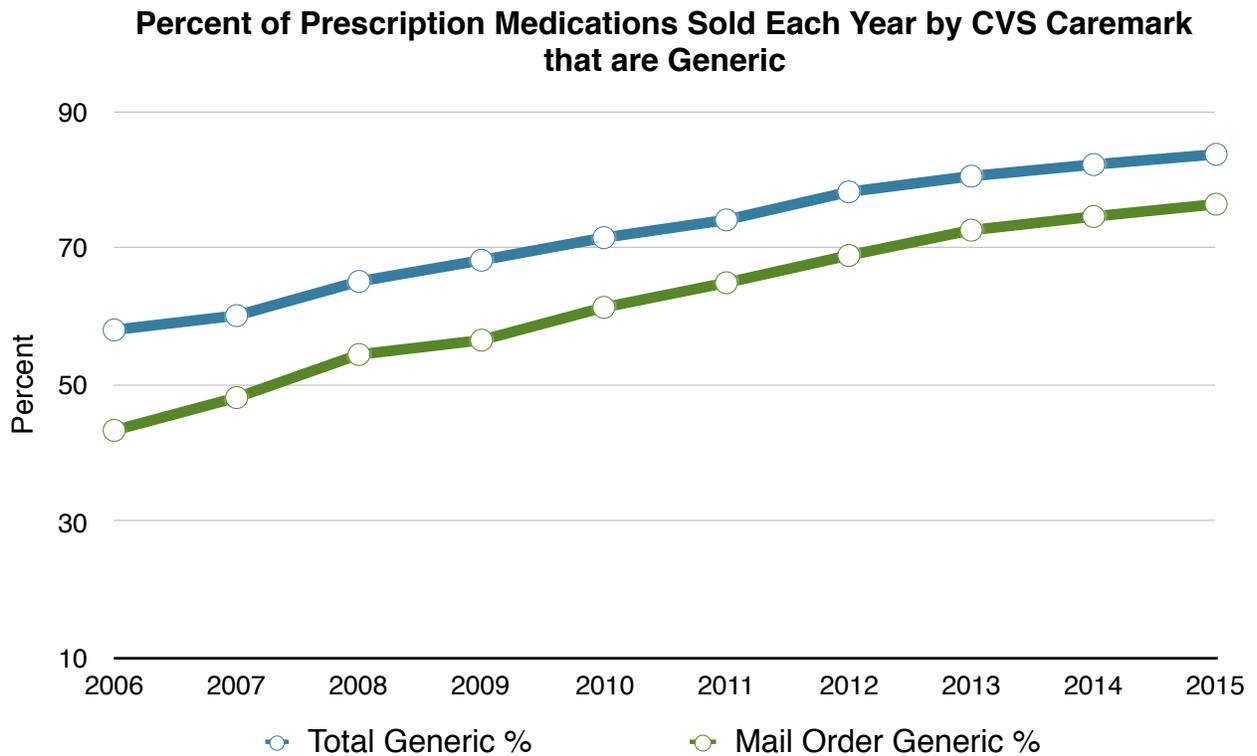


Figure 4: In 2006 fewer than 60% of the total prescription medications sold by CVS were generic and only 43% of their mail order prescriptions were generic. By 2015, nearly 84% of the total prescriptions filled by CVS Caremark were for generic medications.

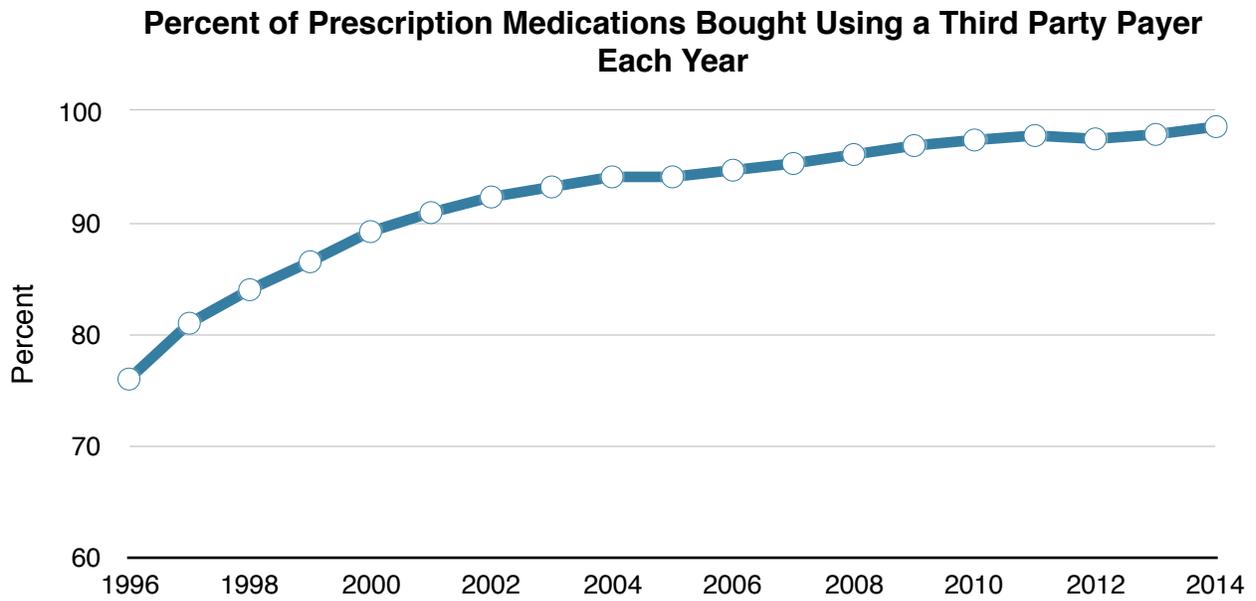


Figure 5: The percentage of purchases for prescription medications that involve a third party (insurance) continues to rise at CVS In spite of the fact that more of these medications each year are generic. In 1996 only 76% of prescriptions sold at CVS involved a third party. By 2014 over 98% of those purchases involved a third party.

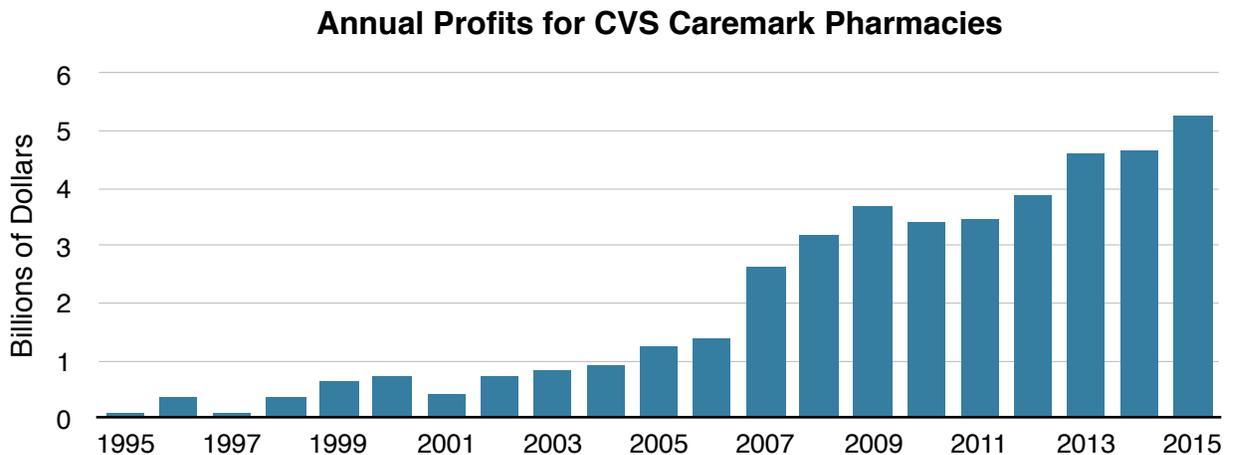


Figure 6: Profits continue to rise each year for CVS Caremark in spite of all of the money they spend each year to expand their business in the US.

The total executive compensation for CVS Caremark executives in 2015 was \$66.2 million with \$32.35 million going to their CEO Larry J. Merlo.

Sources: <http://truecostofhealthcare.net/pharmacy-financial-index/>
<http://truecostofhealthcare.net/wp-content/uploads/2014/12/LargestPharmacies2013.pdf>
<http://insiders.morningstar.com/trading/executive-compensation.action?t=CVS>