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CVS earnings rise despite no tobacco fix

Pricey specialty drugs helped CVS Health cope with tobacco withdrawal to top analyst expectations in the second quarter.

The nation's second-largest drugstore chain said Tuesday that revenue from its biggest business, the pharmacy benefits management segment, jumped 12 percent to more than \$24 billion, spurred in part by specialty drugs.

Specialty drugs are complex medications that treat certain forms of cancer, multiple sclerosis and hepatitis C, among other conditions. They often represent treatment breakthroughs but can cost considerably more than other prescriptions. Use of these drugs is soaring in part due to some newer hepatitis C treatments that could reach millions of patients.

Revenue from the company's retail drugstore segment inched up only 2 percent to \$17.2 billion in part because sales from the front-end of its stores, or the area outside the pharmacy, plunged 7.8 percent, at established locations.

That's an important indicator of a drugstore chain's financial health because it eliminates the impact of stores that have recently opened or closed.

That front-end figure would have essentially been flat if CVS hadn't decided more than a year ago to pull tobacco products from its store shelves. The drugstore chain's executives knew they would take a sales hit because smokers often grab other products when they stop in for their next pack. But the company dumped tobacco anyway because it is trying to burnish its image as a health care services provider.

CVS Health also booked more than \$50 million in costs tied to two sizeable deals it announced during the quarter that ended June 30. The company is spending more than \$10 billion to buy pharmaceutical distributor Omnicare and another \$1.9 billion to purchase the pharmacy and clinic business of retail giant Target Corp.

Overall, CVS Health earnings climbed 2 percent to \$1.27 billion in the second quarter while revenue rose more than 7 percent to \$37.17 billion. Adjusted earnings came to \$1.22 per share.

Analysts expected, on average, earnings of \$1.20 per share on \$37.16 billion in revenue, according to Zacks Investment Research.

CVS Health also tightened its 2015 earnings forecast to \$5.11 to \$5.18 per share from a previous range of \$5.08 to \$5.19.

Analysts expect an average of \$5.16 per share, according to FactSet.

CVS Health runs 7,870 drugstores and one of the biggest pharmacy benefits management, or PBM, businesses. PBMs help negotiate the prices that customers pay for prescription drugs and are being relied on more by employers, insurers and other health care bill payers to help control rising drug costs.

Shares of Woonsocket, Rhode Island-based CVS Health dropped 3.4 percent, or \$3.82, to \$109 before markets opened Tuesday and after the company detailed results.

The stock has climbed 17 percent since the beginning of the year, while the Standard & Poor's 500 index has increased nearly 2 percent. The stock has increased 47 percent in the last 12 months.

<http://www.northjersey.com/news/business/cvs-earnings-rise-despite-no-tobacco-fix-1.1385848>