Generic drugs help CVS' bottom line

By John Kell, Wall Street Journal

CVS Caremark Corp. said its quarterly earnings rose 23 percent despite flat revenue, as strong demand for new generic drugs bolstered its bottom line.

The drugstore retailer and pharmacy-benefits manager has now reported better-than-expected earnings for five consecutive quarters. Chief Executive and President Larry Merlo said the latest quarter showed stronger-than-expected prescription volumes.

CVS will be up against lofty comparisons from 2012, when the company began to serve millions of clients forced to leave Walgreen Co.'s pharmacies as a result of a rate dispute with PBM Express Scripts Holding Co. Walgreen and Express Scripts have since resolved their differences, and though CVS expects to keep a majority of the new clients it gained from the impasse, some have returned to Walgreen.

At the company's PBM business, sales inched up 0.1 percent as higher volumes and drug-cost inflation were offset by new generic offerings, which are a mixed blessing for the industry as the low-price treatments hurt the top line but lift margins.

Processed claims rose 4.3 percent amid new clients, the strong flu season and CVS's Medicare Part D program.

Sales at the company's retail segment climbed 0.2 percent, as increased generic-drug sales at the pharmacy counter offset weakness in front-of-store items such as soap and greeting cards.

For the quarter, CVS reported a profit of $956 million, or 77 cents a share, up from $776 million, or 59 cents a share, a year earlier. Excluding costs related to acquisitions, the company's adjusted profit rose to 83 cents a share from 65 cents. CVS had predicted 77 cents to 80 cents.

Revenue was roughly flat at $30.76 billion. Analysts surveyed by Thomson Reuters expected revenue of $30.36 billion.

Gross margin widened to 18.1 percent from 16.6 percent.

The company raised the low end of its view for the year by three cents a share, now expecting per-share adjusted earnings of $3.89 to $4.