CVS Caremark rises on 2012 profit forecast

The Associated Press

Shares of CVS Caremark Corp. rose Tuesday after the company said it expects that profits at its Caremark pharmacy benefits management business will grow in 2012, reversing two years of declines.

The company said net income for Caremark should grow 11 to 15 percent based on its acquisition of Universal American Corp.'s Medicare Part D business, billions of dollars in new contract wins, a deal with health insurer Aetna Inc. and better drug pricing. In 2012 profit from the CVS drugstore chain is expected to rise 7 to 9 percent, about the same as in 2011. CVS Caremark forecast a profit of $2.93 to $3.03 per share for the full year, or $3.15 to $3.25 per share excluding one-time items.

Analysts expect the company to report income of $3.20 per share, according to FactSet.

Shares of CVS Caremark climbed $2.88, or 7.9 percent, to $39.44 in midday trading.

The 2012 outlook does not include any business CVS could pick up as the result of a contract dispute between Walgreen Co., the biggest drugstore chain the U.S., and Express Scripts Inc., one of the biggest pharmacy benefits management companies. A contract between Walgreen and Express Scripts expires on Dec. 31, and the companies have not come to terms on a new deal. Walgreen could lose billions of dollars in business, if it stops filling prescriptions for Express Scripts, benefiting CVS, Rite Aid Corp., and other stores.

CVS also raised its quarterly dividend 30 percent, to 16.25 cents a share from 12.5 cents. The company said earlier this year that it plans to increase its dividend about 25 percent per year through 2015. CVS also said it will buy back around $3 billion in stock in 2012, completing its current share repurchase authorization.

Caremark's profit fell in 2010 because of billions of dollars in lost business. This year the company has faced a series of issues including lower payments from pharmacy benefits program for federal employees, less profitable contract renewals, and expenses related to cost cuts. CVS has said that Caremark's profit should decrease by 7 to 8 percent in 2011, but it also said that Caremark's income would grow in 2012.

The company backed its 2011 profit forecast, saying income should be between $2.77 and $2.81 per share. Analysts forecast $2.80 per share on average.

CVS also said it is rolling out a new version of its Maintenance Choice program, which allows patients to fill 90-day prescriptions delivered through the mail or pick them up at CVS stores for the same price. The company said the new version of the program will be more expensive, but it won't be as restrictive — meaning members will be able to fill prescriptions at more stores. However clients will have the option to switch to a more restrictive plan to save money.

Critics of Maintenance Choice have said the program restricts competition and limits patients' options.

CVS Caremark is one of the biggest pharmacy benefits managers in the U.S. With more than 7,300 stores, it is the second-largest drugstore chain. Walgreen has more than 7,800 locations.