

4,000 places to bring the *care*
back to *healthcare*

CVS
pharmacy



CVS' retail pharmacies serve as the backbone of our healthcare business. During 1998, our 12,000 pharmacists dispensed more than 250 million prescriptions to customers, more than any retailer in the nation. On a dollar basis, pharmacy sales jumped 17.0% in 1998 to \$8.8 billion.

This outstanding performance is attributable to a number of factors, not the least of which is the professionalism and level of care demonstrated every day by our pharmacists. Based on their abilities, we have been able to pursue an aggressive strategy to take advantage of current healthcare industry dynamics as well as CVS' unique competitive strengths.

Advanced Technology Optimizes Pharmacy Service Levels

CVS' technology systems provide us with a key competitive advantage, and we continue to roll out new initiatives to better serve our customers and increase productivity and sales. Since its introduction in 1994, CVS has invested over \$200 million in our state-of-the-art Rx2000 pharmacy system. One of our most successful innovations has been the launch of our Rapid Refill system, which enables customers to order prescription refills using a touch-tone telephone. We were among the first to make this service available chain-wide and we have seen an enthusiastic response. In just over 18 months after its debut, Rapid Refill now accounts for 50% of refills. In addition to providing an added convenience for our customers, one of the most important benefits of Rapid Refill

CVS pharmacies feature our state-of-the-art Rx2000 pharmacy system, which reduces the time it takes to fill a prescription.

is that it significantly reduces the time our pharmacists spend on the telephone, so they can spend more time doing what they do best—counseling patients on medications and addressing their total healthcare needs.

We also continue to make significant progress on our next-generation Rx2000 Pharmacy Delivery



Approximately half of CVS' prescription refills originate through our touch-tone telephone Rapid Refill system, making life easier for our customers.

Project, which is reengineering the way we fill prescriptions. This project is designed to enhance pharmacy productivity, lower costs and improve service by enabling our pharmacists to spend more time with customers. A key benefit of our approach is that it is scalable: we can tailor our system for the needs of specific stores. For example, we will roll out automated pill-counting only in our high volume stores that can justify the investment, while all stores will receive integrated workflow improvements. This approach, versus “one size fits all,” is just one more example of our focus on maximizing our return on invested capital.

Care about

PharmaCare's Innovative Solutions Lead to Success in the Managed Care Marketplace

The growth of managed care has been very favorable to CVS. Our strong presence in local markets and our advanced technology systems enable us to provide unique prescription benefit management (PBM) services. This has made us a partner of choice for many managed care organizations.

PharmaCare®, our pharmacy benefit management company, was formed in 1994 and, since that time, has grown to achieve solid profitability while becoming one of the top ten PBMs in the nation. PharmaCare's objective is to enable its customers—primarily managed care organizations—to deliver the best healthcare to their members in the most cost effective manner. To achieve this, PharmaCare takes advantage of its unique position in the healthcare continuum; specifically, its relationship with CVS and the ability of CVS pharmacists to interact directly with





Throughout our stores, commitment to service is our first priority. Our advanced pharmacy technology enables our pharmacists to spend more time counseling customers on over-the-counter medications and other healthcare needs.

your health

patients and physicians to facilitate clinical management. PharmaCare developed its Clinical Information Management System (CIMS), a proprietary formulary management tool and unique communication system that has proven to be tremendously effective in directing utilization to the most appropriate and cost effective medications.

More than 30,000 physicians now participate in CIMS, making it a leading formulary compliance tool that provides us with a key competitive advantage in attracting managed care customers. In 1998, PharmaCare began implementing managed care contracts covering more than two million lives, including programs for the Department of Defense (Champus) and several leading health maintenance organizations (HMOs), such as Health Partners of Minneapolis. With these contracts, PharmaCare will manage prescription services for more than six million lives. PharmaCare's ability to garner new contracts helps drive CVS' core business, as evidenced by our industry-leading pharmacy sales growth. With more and more consumers becoming part of managed care programs, we expect this segment of our business to continue to grow.

Building Core Destination Categories and Tailoring to Local Markets Are Keys to Our Future Success

CVS' strategy for success is rooted in our belief that we can offer value to customers by differentiating our merchandising and marketing of key destination categories, including beauty and cosmetics, photofinishing, greeting cards, over-the-counter drugs, seasonal merchandise and CVS brand products. These core businesses—coupled with our ability to tailor stores to the local communities they serve—will be key factors contributing to CVS' continued success.

We continually look for ways to make our product assortments and services more appealing to customers. In the beauty category, for example, CVS was the first drugstore chain to launch a money-back guarantee on cosmetics. We also recognized the popularity and potential of key brands that typically have not been sold in drugstores. For example, Ultima II cosmetics, formerly only available in department stores, have now been introduced in 3,000 of our stores. As a result of these and other customer-focused initiatives, sales in the beauty category increased 30% last year. We are actively exploring general merchandise sales opportunities to drive sales of these products that appeal to customers. We are also taking steps in other categories, such as photofinishing, where we plan to have one-hour photo labs installed in 2,000 stores by the end of 1999. In greeting cards, we continue to increase productivity by working with our vendors to refine our assortments and in-store displays. During the 1998 holiday season, CVS generated



a high level of consumer excitement with its promotion of an exclusive line of "misfit" beanbag characters. The characters were inspired by the annual television special, "Rudolph the Red-Nosed Reindeer" and its "Island of Misfit Toys." We introduced two new characters each week between



CVS provides value to customers by offering unique products and services. Our launch of Ultima II cosmetics, formerly only available in department stores, was very well received.

technology have played a valuable role in optimizing our front-store performance. One of our most important programs is our multi-year supply chain initiative. This multi-year initiative will totally transform the way we receive, distribute and sell merchandise in the future. It is helping us improve our in-stock positions as well as our sell-throughs of promotional and seasonal merchandise. The first two phases of this initiative focused on making improvements in our category management system and in maximizing gross profit through price elasticity and promotional allocations. During the third phase, we are launching a merchandise transaction system that will help us more effectively tailor our product mix for specific markets, an increasingly important part of our strategy. Based on test programs, we believe there is a significant opportunity

Care about customers

Thanksgiving and Christmas. Through the promotion of this limited edition, we created a special “buzz” in our stores throughout the holidays.

Our CVS brand merchandise has also proven to be a major draw for customers. By offering high-quality products at excellent prices, the CVS brand continues to be extremely successful, posting double-digit sales increases. As part of our expansion, we recently added CVS brand herbal and natural supplements to enhance our line of private label vitamins, a fast-growing category. We also continue to expand our line of successful CVS

Gold Emblem® convenience food products. The Gold Emblem name signifies our commitment to superior quality and exceptional value.

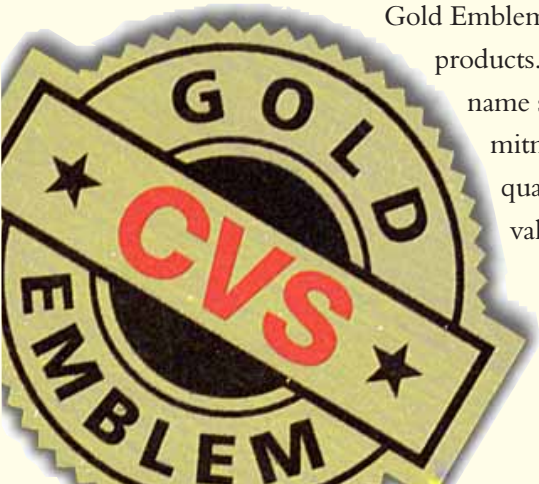
Just as in our pharmacy business, investments in

to further increase front-store sales through “micromerchandising” initiatives that enable us to better respond to the particular needs and tastes of customers in local markets.

In total, it is our superior knowledge of our customers’ needs and our endless search for better



One-hour photo labs are just one of the ways we offer value to our customers. We plan to have one-hour labs in 2000 stores by year-end 1999.



ways to serve them, our tailoring of stores to local tastes, our advanced technology, and our talented people that drive our superior execution at retail.

Growth Through Store Relocations and Urban Expansion

The relocation of existing stores to new freestanding sites also represents a major growth opportunity for CVS. We typically see a significant increase in sales and profits when a store is moved from an “in-line” site in a shopping center to a freestanding format, as consumers use the store differently. Currently, 23% of our store base is freestanding. We believe the entire chain will ultimately be comprised of 70-80% freestanding/convenience locations. As a result, we will concentrate our new store efforts on obtaining prime locations for freestanding stores.

Expansion in key urban markets will also be a priority. We have proven our ability to operate successfully in markets such as Washington, D.C., and Boston, and we see excellent potential in urban areas that are underpenetrated, such as Philadelphia, Cleveland and New York City. We have already been expanding aggressively in New York City, where we currently operate approximately 60

stores. Our goal is to have 150-200 stores in the city’s five boroughs within the next few years. As part of this strategy, we acquired 16 well-located stores from Thriftway Pharmacy in 1998. These sites have already been converted to CVS stores and are achieving strong results.

Caring About Our Communities; CVS Associates Are Involved

The mission of CVS is to help people live longer, healthier, happier lives. We strive to fulfill this mission not only in the way we do business, but also through our corporate contributions and community involvement programs. Our charitable giving activities demonstrate the core values of our business: teamwork, openness, and willingness to embrace change. Whether it’s a team of CVS volunteers walking to raise money for the American Cancer Society, a pharmacist who spends time each week at a housing facility for the elderly talking to residents about drug interactions, or a market-wide initiative to promote education and information to first-time parents about child development, CVS is reaching out to others.

In addition to developing health programs for our customers and identifying nonprofit partners

Freestanding CVS stores offer increased convenience for our customers, and increased sales and profitability. The relocation of existing stores to new freestanding sites represents a major growth opportunity for CVS.



to promote awareness and education on health issues, CVS invests in educational initiatives that educate our youth and help prepare them for the future. From scholarships to innovative school reform grants—CVS is engaging its colleagues,



enlightening young minds and bringing together educators in a collaborative effort to improve our education system. CVS focuses

on curriculum reform, encourages the use of new teaching techniques and supports professional development for secondary-school teachers. We are particularly proud of the level of community involvement demonstrated by our associates.

Our commitment to care extends beyond our stores to the communities we serve, through educational, healthcare and other nonprofit initiatives.



Care about communities

CVS ended the year with 4,122 stores in 24 states and the District of Columbia. It is the leading drugstore chain in the Northeast, Mid-Atlantic, Midwest, and Southeast.



CVS Store Count by State

Alabama	144
Connecticut	122
Delaware	3
Florida	22
Georgia	304
Illinois	70
Indiana	291
Kentucky	71
Maine	20
Maryland	170
Massachusetts	321
Michigan	225
New Hampshire	29
New Jersey	183
New York	363
North Carolina	296
Ohio	414
Pennsylvania	319
Rhode Island	52
South Carolina	196
Tennessee	146
Vermont	2
Virginia	253
Washington, D.C.	47
West Virginia	59