

T O O U R S H A R E H O L D E R S

CVS Corporation made great strides in 1999 in reaching out to customers everywhere they want to shop—*On the Corner, On the Phone and On the Web™*. Our tireless commitment to service, convenience and innovation has enabled us to become a leader in providing *total healthcare solutions* to our customers.

On the Corner, we opened and relocated a record number of stores to make the shopping experience pleasant and productive for time-starved consumers, increasing our number of 24-hour stores and drive-thru pharmacies. With 4,100 stores, we have more retail locations than any other drugstore chain in the United States. *On the Phone*, our Rapid Rxfill service makes it easy for customers to refill their prescriptions quickly and conveniently. *On the Web*, CVS.com provides prescription filling options, comprehensive healthcare information and a wide range of front store merchandise with the added convenience of mail delivery or in-store pharmacy pickup.

At the heart of our long-term growth strategy is cutting-edge technology, which we use aggressively to achieve breakthroughs in service. We are exploring new and innovative ways to provide more personalized service and product offerings that build customer loyalty.

Our CareCheck PlusSM program, for example, combines health advice, prescription education and direct marketing capabilities to target consumers with appropriate health information and over-the-counter product offers related to their prescription purchases.

In January 2000, we became the first and only drugstore chain in America to use technology to protect patients from dangerous drug interactions between prescription medications, over-the-counter remedies, vitamins and herbal products. We extend this critical service to all CVS customers, wherever they like to shop.

And we are leveraging our industry leadership position by forming technology-based alliances with other healthcare leaders that enable us to provide more complete and meaningful solutions for our customers. In January 2000, we entered an alliance with Healtheon/WebMD, the leader in physician connectivity and the leading provider of healthcare information on the Internet, to become the exclusive e-pharmacy for several major Internet portals, including WebMD, Excite, Lycos, and the Microsoft Network. WebMD will become the exclusive health content provider for all CVS businesses. This will dramatically increase our exposure on the Internet, drive new traffic to CVS.com and bring new customers into the CVS/pharmacy family.



The establishment of CVS as the first major “clicks and mortar” pharmacy in the nation provides us with a significant competitive advantage in the growing field of e-pharmacy.

We plan to jointly create an integrated, full-service Internet healthcare offering and make CVS.com the most comprehensive, online destination for healthcare information and pharmacy needs. We will partner to develop new healthcare services and programs to benefit consumers, such as a method for electronically generating, transmitting and billing prescriptions.

CVS also entered a broad-based strategic alliance with Merck-Medco Managed Care to collaborate on enhanced Internet, retail and specialty pharmacy services for Merck-Medco's 51 million health plan members. The Merck-Medco agreement makes CVS.com the exclusive provider of over-the-counter and general health products to Merck-Medco's Internet customers.

We announced another exciting new business in 1999, CVS ProCare, our specialty pharmacy business that has already established a significant position in this \$14 billion, fast-growing segment of the pharmacy market. CVS ProCare services individuals with HIV/AIDS, organ transplants, infertility and those requiring biotechnology-based injectable products for conditions such as multiple sclerosis or growth hormone deficiency. By leveraging our core capabilities and experience with managed care, CVS ProCare is uniquely positioned to support our managed care clients in effectively servicing this customer segment.

We have truly created a new business model in specialty pharmacy with CVS ProCare. Services are provided through a dedicated specialty pharmacy mail order facility located in Ohio and through retail apothecary stores to be located across the nation that are distinct from our core CVS stores. We expect CVS ProCare to be a \$1 billion business in the next three to four years.

The key to maximizing the potential of all of our offerings is to weave them seamlessly together so customers can make purchases any time, anywhere and any way they find most convenient. We also will remain committed to pursuing alliances with leaders in healthcare that leverage the CVS brand and our significant market leadership position so we can provide end-to-end solutions as the delivery of healthcare services evolves. We already are experiencing new growth and market penetration with this strategy, and we have continued to deliver strong financial performance, including another year of record sales and earnings.

Sales for the 53-week period ended January 1, 2000, increased 18.5 percent to \$18.1 billion compared with the 52-week period ended December 26, 1998, fueled by a 12.5 percent increase in same-store sales over the prior year. Pharmacy same-store sales grew a robust 19.4 percent in 1999, driven by the vibrant dynamics of our industry as well as our success in operating in a managed care environment, our outstanding customer service and the trust customers have in our pharmacists. To give perspective to our outstanding growth record, consider



Thomas M. Ryan
Chairman of the Board and
Chief Executive Officer (left)

Charles C. Conaway
President and
Chief Operating Officer (right)

On the Corner

annual earnings growth rate from continuing operations of nearly **28%**. At year-end, we operated

On the Phone

that our one-year sales gain of \$3 billion in 1999 is greater than our entire sales level for 1990.

Our front store business delivered a 3.6 percent increase in same-store sales. We experienced substantial growth in key front store destination categories across the chain, including photo, beauty and seasonal merchandise, that enabled us to continue to gain market share. Most significantly, our photo business experienced rapid growth as we more than doubled the number of one-hour labs in our stores and dramatically increased market share. We expect that growth to continue with the strategic alliance we formed with Kodak to provide innovative new services and position CVS as one of the largest and fastest-growing photo retailers in the United States.



CVS offers complete photo-finishing services, including one-hour photo, digital and online capabilities, and a variety of film and camera products.

We also remain one of the largest and fastest-growing beauty retailers in the nation, achieving significant market share gains in key beauty categories, including hair care, skin care and hair color. We continue to leverage our dominant health franchise to gain market share in pharmacy as well as substantial gains in categories such as vitamins, stomach remedies and baby care products. Our success is evidenced by our strong organic comparable store sales gains, which continue to lead the industry.

Careful management of our front store mix has helped us achieve improved front store gross margins while we continue to invest in reducing everyday prices in high traffic key categories, such as baby care. We expect our focus on branding, innovation, convenience and execution to drive new growth in our front store business. We have grown our market share position in 1999 and expect continued gains in 2000.

We also are very pleased with how the integration of the former Revco stores into our business has bolstered our front store position. We continue to see steady gains in front store sales in the former Revco markets, which are experiencing the most rapid same-store sales growth of any geographic area of our chain.

We demonstrated substantial improvement in inventory productivity, which ended 1999 at 4.0x. We expect continued improvement in our inventory turns, with a goal of 5.0x in the next few years, and continued increases in free cash flow. We generated \$165 million in free cash flow in 1999, exceeding our goal.

During all of this exciting business development activity, we remained focused on our core business and delivered quality earnings throughout 1999, with comparable earnings per share rising 23 percent to \$1.55. Our outlook for 2000 remains quite positive, even as we continue investing in new long-term growth opportunities.

If there can be any disappointment for 1999, it was in our stock price, which fell from a record high in February 1999. However, we were not alone in experiencing fluctuations caused more by market activity than our own performance. We are confident that our continued positive results and our commitment to growing our business for the long term will be recognized for the value they provide to our customers and our shareholders.

We have good reason to be optimistic. CVS remains a powerful leader in a vibrant industry. The pharmaceutical market is projected to grow by approximately 13 percent per year for the next several years. We hold the No. 1 share of this growing market, and we are well-positioned to continue to capture more than our fair share of that growth. We are the No. 1 provider in 30 of the nation's top 100 drugstore markets, more than any other drugstore chain. Yet there are still 48 of those top 100 markets where CVS currently has no retail stores, presenting significant growth potential. We opened a record 433 new or relocated CVS stores and 12 ProCare apothecaries in 1999, and we expect to open 400 to 450 new or relocated stores each year for the foreseeable future.

We expect continued strong growth in our pharmacy business, and healthy increases in our front store business as we emphasize convenience and service. New stores and relocations, as well as the rapid development of our new strategic business units, will further accelerate our long-term growth rate. All of these initiatives will help us achieve our long-term goal of our return on invested capital to equal two times our weighted average cost of capital.

Of course, it is the wise counsel of our distinguished board of directors and the fervent commitment of our employees that enable us to capitalize on these opportunities. We are fortunate to benefit from the wealth of leadership experience in social service that Marian L. Heard brought to the CVS board of directors when she joined in 1999. We want to express our sincere gratitude to our 100,000 employees for their dedication and commitment to our customers.

CVS enters the new millennium ideally positioned to build on its success. It is with good reason that a special year-end issue of *Fortune* magazine selected CVS as one of "10 Stocks for the Millennium," noting our ability to combine the best of the virtual and real worlds into our "clicks and mortar" retail format. We invite you to visit us—*On the Corner, On the Phone and On the Web*—to see for yourself how we continually enhance the delivery of *total healthcare solutions* for the way we live.

Sincerely,



Thomas M. Ryan

Chairman of the Board and Chief Executive Officer



Charles C. Conaway

President and Chief Operating Officer



CVS has created a new business model in the fast-growing specialty pharmacy field. CVS ProCare provides specialty pharmacy mail services and plans to have more than 100 retail ProCare apothecaries, which serve patients requiring complex and expensive drug therapies, in cities across the nation.