

**Total healthcare solutions for the way we live.**

# Solutions

## Pharmacy Solutions

CVS is leading the way in providing new pharmacy solutions for its customers. As a result, we have seen significant growth in the pharmacy business; a 24.4 percent increase in 1999 retail pharmacy sales to \$10.6 billion, now representing 59 percent of our total revenues; and a similarly positive outlook for the future.

The demand for prescription drugs is rising for a variety of reasons. Managed care organizations are relying increasingly on pharmaceuticals as the first line of defense in managing illness and injury. New drugs are entering the market at a breathtaking pace. Pharmaceutical makers also are marketing those drugs more directly and aggressively to consumers than ever before.



*CVS pharmacies provide a total healthcare solution for patients and dispense more prescriptions than any other pharmacy in America.*

Generic drugs, which generate higher gross profit for CVS than branded drugs, will increase dramatically in the coming years as well. The Food and Drug Administration estimates that some \$6.2 billion worth of drugs sold under brand names will be coming off patent in the year 2000 alone, more than four times the 1999 level. Those patent expirations pave the way for considerable generic drug introductions, which lower costs for our customers.

The aging population in the United States also translates into an increased demand for pharmaceuticals. Research shows that an average 60-year-old takes 16 prescriptions per year compared with six taken by an average 30-year-old.

Increased demand for pharmaceuticals represents only half of the growth story. CVS has leveraged innovative ideas and cutting-edge technology to capitalize on those growth opportunities, resulting in an industry-leading drugstore chain that captures new business by serving customers the way they want to be served.



*Each day, more than 12,000 CVS pharmacists help us fulfill our mission to help people live longer, healthier, happier lives by providing professional expertise and personal care.*

CVS has made a long-term commitment to Excellence in Pharmacy Innovation and Care (EPIC), a comprehensive, multiyear project to develop breakthrough capabilities across the many complex dimensions of pharmacy operations and delivery of healthcare services. The objective is to enhance pharmacy productivity, lower costs and improve service by enabling our pharmacists to spend more time with customers.

We are creating a paperless environment by reinventing pharmacy work flow and increasing the sophistication of our clinical tools. We also are using the latest in pill-counting automation, which has had a significant impact on higher-volume pharmacies. Labor is reduced, capacity is increased, customer wait times are cut in half, and customer satisfaction ratings improve, all of which contribute to improved performance.

Rapid Refill remains an important part of the pharmacy business, accounting for more than half of all prescription refills in 1999. Patients enjoy the speed and convenience of renewing prescriptions using a touch-tone telephone system, because it eliminates their wait time and makes their lives easier. An increasing number of drive-thru windows, now totaling more than 1,000, make the prescription pickup process even faster and more convenient.

PharmaCare, our pharmacy benefit management (PBM) subsidiary, is a shining example of how CVS has developed cost-saving solutions for the managed care community. PharmaCare appeals to managed care companies by providing a proprietary formulary management tool and risk-sharing arrangements to help them deliver the best healthcare in the most cost-effective manner. CIMS, PharmaCare's unique communication system that helps direct utilization to the most appropriate and cost-effective medications, has won the favor of more than 50,000 physicians. Since its start in 1995, PharmaCare has demonstrated rapid sales and earnings growth, making it one of the top 10 PBMs in the nation.

*Drive-thru pharmacy windows  
at more than 1,000 CVS stores combine  
convenience and service for our customers.*



and cutting-edge technology to provide service **On the Corner, On the Phone** and **On the Web.**





*The high quality and value pricing of CVS brand products, which include approximately 1,500 items across a variety of categories, continue to be popular with our customers.*

### Front Store Solutions

Americans are more focused on healthy lifestyles than ever before, and the drugstore is their most accessible resource to facilitate that lifestyle. Our strategy for front store growth is multifaceted, designed to win new customers and build customer loyalty.



*CVS is one of the top beauty retailers in the nation. We were the first to offer these new cosmetic lines from Oil of Olay and Neutrogena chainwide, enabling us to capture significant market share.*

We are committed to being the first to bring new products to market, because the first-mover advantage creates significant market share. We were the first to offer the new Neutrogena® and Oil of Olay® lines of cosmetics chainwide, enabling us to gain significant market share. Market shares in virtually all of our core categories are on the rise, including vitamins, baby care, diet and nutrition, beauty, photo developing, film and batteries, among others.

We also are committed to introducing differentiated, unique-to-CVS products. Our exclusive collection of bean bag toys representing characters from the Rudolph the Red-Nosed Reindeer® television special is a good example. With the soaring popularity of toy collecting, it was no surprise that these toys sold rapidly in our stores and on our Web site.



We continue to be **first to market** with key products, and we have **more than doubled** the

The high-margin photo business has been the focus of substantial improvement efforts during the past year, resulting in significant growth. In 1999, we more than doubled the number of one-hour photo labs in our stores to 2,000 labs, and project a total of 3,000 by the end of the year 2000. The investment is paying off handsomely, with photo sales rising approximately 30 percent in 1999 and gross margins in this category among our highest. We are working in partnership with Kodak to develop a photo services business plan that will look well into the future, exploring such possibilities as enhanced in-store and Web-based digital photo services.

The CVS brand business is still another category where innovation has brought reward. We continue to introduce high-quality, excellent-value private label products that aim to lift sales of their entire category without cannibalizing the sales of leading brand products. We added 270 new CVS brand products in 1999 to raise the total number of products throughout the store to nearly 1,500. Our category focus for 2000 is cosmetics and bath items, where we intend to introduce superior quality products at affordable prices.

As a result of what we learned in integrating Arbor into our stores, we reduced some non-core departments to expand our seasonal offerings. The results have been very encouraging, with existing seasonal programs growing at twice the rate of overall front store sales.

### Real Estate Solutions

The cornerstone of our plan for long-term growth is our capital commitment to increase the number and improve the quality of our retail locations. We are investing in achieving the optimum in retail positioning for the future and we are seeing promising results, all while we continue to deliver solid financial performance in the present.

For 1999 alone, we opened a record 433 new CVS stores, including about 300 CVS relocations. In addition, at year-end 1999, we had 12 ProCare apothecaries open and another eight under construction. We expect to open 400 to 450 new

stores each year in the foreseeable future. To achieve this measure of success, we formed CVS Realty Co., a fully integrated captive development company led by a dedicated team of real estate professionals, affording CVS in-house expertise and the ability to take a more active role in every aspect of retail site development. This strategy, in combination with the strong sales generated by new stores, has enabled us to reduce our cost by \$4 to \$5 per square foot and to continually decrease our occupancy costs as a percent of sales.

Our real estate strategy involves capital investment on several different fronts. First, we are strengthening our position in existing markets with new stores. With our market research capabilities and our emphasis on selectivity and quality, our real estate experts continue to discover untapped opportunities for new store locations where existing drug outlets are inadequate to serve the population.

Additionally, we are building new stores in new markets. We are the No. 1 provider in 30 of the top 100 drugstore



*CVS opened 433 new stores in 1999 and opened or began construction of 20 ProCare apothecaries. Plans call for the opening of 400-450 stores annually in existing and new markets.*

number of one-hour photo labs to **2,000** labs, and project **3,000** by the end of the year 2000.



markets in the United States, yet we have no retail stores in nearly half of those 100 markets. As such, CVS is committed to entering at least two to three new markets every year.

In 2000, we are entering Tampa, Florida, the 13th largest drugstore market in the United States, and Grand Rapids, Michigan, which is a natural extension of our significant presence in metropolitan Detroit. The movement into Tampa is just the start of an aggressive expansion program in Florida, an attractive market because of its large population of older people and its overall population growth.

We are relocating existing stores to new sites where we know we can increase sales and our return on investment. Freestanding stores typically sell 25 to 30 percent more front store merchandise than stores in shopping centers, yet only 33 percent of our stores are in freestanding locations. We expect to increase that to approximately 80 percent over the next six to seven years.

### Online Solutions

With our 4,100 retail stores and our fast-growing Web site at CVS.com, CVS enjoys the advantage of being the first “clicks and mortar” drugstore. We are well-positioned to be a leading healthcare player on the Internet, with plans to build the business that are both aggressive and prudent.

At CVS.com, customers can order prescriptions for pickup or mail delivery, order refills using the Express Refills feature, and buy general merchandise using a personalized shopping list feature. They can receive the latest health news, unparalleled general health information, and even join a health community as a result of our exclusive content agreement with Healtheon/WebMD. They also can ask our pharmacists

questions and check for potentially harmful drug interactions as we create one place for all their healthcare needs.



*With CVS.com, online customers can choose to have their prescriptions mailed to their homes from our fully automated mail service facility or pick them up at their nearby CVS store.*

CVS.com has thousands of high-quality, over-the-counter medicines and general health products available for purchase. Additional offerings, such as greeting cards, beauty products, seasonal goods and enhanced digital photo services, will be available in the future.

With CVS.com, we can reach new markets and new customers, expanding CVS as a national pharmacy brand. And as we leverage new technology throughout our business, the possibilities for cross-selling and personalizing services are numerous.

CVS.com represents a significant competitive edge, because half of all pharmacy orders are for in-store pickup. Our customers can get both their chronic and acute health needs met any way they find most convenient *On the Corner* (in our 4,100 conveniently located stores), *On the Phone* (through our Rapid Refill system), or *On the Web*. And no matter which way a customer chooses, the information is completely integrated to provide a comprehensive drug utilization review and ensure the best health outcome possible.

We see the Internet as a high potential channel for CVS. We plan to capitalize on this opportunity by leveraging the advantages of our 4,100 stores, 55 million customers, our advertising and purchasing clout, our merchandising expertise, strong third-party relationships, and especially the trust of CVS/pharmacy.



*CVS ProCare customers receive personalized, one-on-one counseling from pharmacists with knowledge of and expertise in complex disease states and conditions.*

### Specialty Care Solutions

Our specialty pharmacy business, CVS ProCare, is another example of how we leverage the strong assets of CVS into new, related areas. Our accessible points of care, our highly trained pharmacists and our expertise in finding cost-containment solutions for our managed care partners afford us an excellent position and potential in the specialty pharmacy business. We wanted to better address the special needs of certain customers who require unique products and services.

Announced in June 1999, CVS ProCare is committed to the complex and expensive drug therapies required by patients with a number of chronic diseases and conditions. These include HIV/AIDS, organ transplants, infertility and other conditions such as multiple sclerosis and growth hormone deficiency requiring biotechnology-based injectable products.

CVS ProCare reflects a new business model in specialty pharmacy, with its integrated retail and mail delivery system. We are the first with a state-of-the-art infrastructure that is equipped for the special handling



requirements of drugs in the targeted disease states. We also will be the first with a national retail apothecary store network that is totally dedicated to these disease states and well-stocked with these unique inventory items. At year-end, we had 12 ProCare apothecary stores open and eight others under construction. Our goal is to have more than 100 nationwide within three to four years. This will enable us to cover the majority of the targeted patient population.

We have invested in the technology required for complex billing and benefit management and, most importantly, we can support the high level of counseling needed by specialty pharmacy patients. Our ProCare pharmacists are specially trained to provide one-on-one case management. In fact, ProCare has a 24-hour call-in number to assist patients with their needs.



advantage of being the **first** "clicks and mortar" drugstore to have a fully integrated pharmacy.





ProCare already holds a leading position in the \$14 billion specialty pharmacy industry with a number of exclusive contracts for specialty pharmacy mail order business. ProCare has contracts with United Healthcare, PharmaCare and Merck-Medco that together provide exclusive access to the specialty pharmacy needs of nearly 70 million members or 25 percent of the U.S. population. The specialty pharmacy market is highly fragmented and served largely by independents, and we believe it is ripe for consolidation.

### **Community Solutions**

Demonstrating its caring commitment to good health, CVS provides and supports a number of community programs that seek to nurture healthy life skills and to create opportunities to succeed.

The national partnership with Reach Out and Read (ROR) is an example of how we provide community services that promote better health and enable a more fulfilling life. ROR is a child literacy program that supplies age-appropriate books to children at their pediatric well visits. CVS Health Smarts<sup>SM</sup> is another example. By supporting Healthy Families DC, CVS Health Smarts is offering new and expectant parents in the Washington, D.C. area support and information that promote child health, safety and learning readiness.

The CVS Innovation Grants Program works with elementary and secondary public schools to re-examine teaching approaches and explore innovative ways to help children learn. The program provides multiyear financial grants, on-site technical assistance, conferences and other opportunities for educators to share experiences with their colleagues. Other initiatives include support for heart disease and hypertension research, neighborhood projects, community sponsorships, United Way agencies and other local and national programs of every size and description.

*"Care that touches everyone...one at a time" extends to our commitment to the community. CVS invests in health and education programs in our neighborhoods, providing resources, volunteers and financial support.*

**CVS provides and supports** a number of programs that seek to nurture **healthy life skills.**