

# CVS Caremark plans to stop tobacco products sales (Update)

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CVS Caremark, America's second-largest drugstore chain, is quitting selling tobacco products at its more than 7,600 U.S. drugstores as it focuses more on providing health care.

The Massachusetts-based company said Wednesday that it will phase out cigarettes, cigars and chewing tobacco by Oct. 1, a move that will cost about \$2 billion in annual revenue but won't affect its 2014 earnings forecast. CVS Caremark leaders say removing tobacco will help them grow the company's business of working with doctors, hospitals and other care providers to improve customers' health.

CVS Caremark competitor Walgreen Co., the largest U.S. drugstore chain, sells tobacco, as does the world's largest retailer, Wal-Mart Stores Inc., which also operates pharmacies in its stores. But Target Corp., another major retailer with pharmacies in its stores, does not.

Tobacco is responsible for about 480,000 deaths a year in the U.S., according to the Food and Drug Administration, which gained the authority to regulate tobacco products in 2009.

The federal government has renewed efforts to reduce the death and disease caused by tobacco use on the heels of the 50th anniversary of the landmark 1964 surgeon general's report that launched the anti-smoking movement. A new 980-page report issued last month by acting Surgeon General Boris Lushniak also urged new resolve to make the next generation a smoke-free generation.

Most independent pharmacies also do not sell tobacco, according to the National Community Pharmacists Association.

Several cities, including San Francisco and Boston, have considered or passed bans on tobacco sales in stores with pharmacies. Other places like New York City have sought to curb retail displays and promotions and raise the legal age someone can buy tobacco products.

CVS notches about \$1.5 billion annually in tobacco sales, but it expects the \$2 billion drop in revenue from phasing out tobacco because smokers often buy other products when they visit their stores. The company brought in more than \$123 billion in revenue in 2012 and ranks 13th on the 2013 Fortune 500 list of biggest U.S. companies.

CVS Caremark Corp. and other major drugstore chains have been adding clinics to their stores and expanding their health care focus for several years now. They've been preparing, in part, for an aging U.S. population that will need more care and for the millions of people who are expected to gain health insurance coverage under the federal health care overhaul. Their pharmacists deliver flu shots and other immunizations, and their clinics also have been expanding the scope of care they deliver. They now help people manage chronic illnesses like high blood pressure and diabetes in addition to treating minor illnesses like sinus infections.

CEO Larry Merlo noted that conditions like those are made worse by smoking.

"We've come to the conclusion that cigarettes have no place in a setting where health care is being delivered," he said.

The company declined to say what will take tobacco's prominent shelf place behind cash registers at the front of its stores. CVS Caremark will

test some items and may expand smoking cessation products that are already sold near cigarettes. Its drugstores do not sell electronic cigarettes, devices that heat a liquid nicotine solution and create a water vapor that users inhale.

CVS Caremark has been working to team up with hospital groups and doctor practices to help deliver and monitor patient care, and the presence of tobacco in its stores has made for some awkward conversations, CVS Chief Medical Officer Dr. Troyen A. Brennan said.

Walgreen spokesman Michael Polzin said in an email his company has been evaluating tobacco products "for some time to balance the choices our customers expect from us, with their ongoing health needs." He said the company will continue to do this while also providing smoking cessation products.

On the flip side, discounters such as Family Dollar have started selling tobacco over the last couple years. They note that smokers make more frequent stops at retailers in order to buy tobacco, and their customers are more likely to be tobacco users.

While CVS Caremark trails only Walgreen in terms of number of drugstores, it actually draws most of its revenue from its pharmacy benefits management, or PBM, business. PBMs run prescription drug plans for employers, insurers and other customers. They process mail-order prescriptions and handle bills for prescriptions filled at retail pharmacies.

CVS Caremark shares slipped 55 cents to \$65.56 Wednesday more than an hour before markets opened and after the company made its announcement.

U.S. retail sales of tobacco, which is comprised largely of cigarettes,

were about \$107.7 billion in 2012, according to market researcher Euromonitor International. Less than 4 percent of retail cigarette sales come from drugstores like CVS and Walgreens.

The share of Americans who smoke has fallen dramatically since 1970, from nearly 40 percent to about 18 percent. But the rate has stalled since about 2004, with about 44 million adults in the U.S. smoking cigarettes. It's unclear why it hasn't budged, but some market watchers have cited tobacco company discount coupons on cigarettes and a lack of funding for programs to discourage smoking or to help smokers quit.

Tobacco companies also have increasingly relied on their packaging and displays at retailers to build brand loyalty and grab consumers because it is one of the few advertising levers left to them after the government curbed their presence in magazines, billboards and TV.

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