

Target selling pharmacy, clinic businesses to CVS Health (Update)

June 15 2015, by Tom Murphy



This Tuesday, May 17, 2011, file photo, shows a Target sign on the front of a Target Store, in Wilsonville, Ore. Target announced Monday, June 15, 2015, that it is selling its pharmacy and clinic businesses to the drugstore chain CVS Health for about \$1.9 billion in a deal that combines the resources of two retailers seeking to polish their reputations as health care providers. (AP Photo/Rick Bowmer, File)

Target will sell its pharmacy and clinic businesses to CVS Health in the latest twist behind a push from big retailers to become all things to all customers.

The nation's second-largest drugstore chain will pay about \$1.9 billion to run Target's in-store health operations and expand what they offer for customers who have come to expect that they will be able to fill a prescription when they shop at Target.

Drugstores, grocers and big retailers like Target and Wal-Mart all have been pushing into each other's turf for several years now, blurring traditional retail boundaries, as they try to attract customers who want to make fewer stops when they go shopping.

The number of stores the average consumer visits over a month has dropped 15 percent over the last five years, according to market researcher NPD Group.

"In other words, they're not running from place to place to place like they used to," said Marshal Cohen, NPD's chief retail industry analyst. "It doesn't mean I am shopping less, it just means I am going to less stores."

In response, retailers have been adding clinics and pharmacies. Drugstores, in turn, have started stocking groceries.

All these businesses are chasing health care dollars as they watch Baby Boomers grow older and start using the health care system more and as the number of insured people climbs due to the health care overhaul.

Target Chairman and CEO Brian Cornell said CVS Health will bring more expertise and scale to its pharmacies and clinics than the retailer could offer on its own. He said research shows that their customers

"absolutely expect" to have pharmacy services available at Target locations.



This March 25, 2014, file photo, shows a CVS store in Philadelphia. Target announced Monday, June 15, 2015, that it is selling its pharmacy and clinic businesses to drugstore chain CVS Health for about \$1.9 billion in a deal that combines the resources of two retailers seeking to polish their reputations as health care providers. (AP Photo/Matt Rourke, File)

"They want to see the convenience of that inside our stores," Cornell said.

Target customers will be able to use CVS Health programs that provide specialty drugs, a fast-growing slice of the pharmaceutical market, or help those with chronic conditions stay on their medications.

CVS Health customers who get prescriptions through the company's Caremark pharmacy benefits management business also will be able to grab refills at Target stores.

"I think this is creating an opportunity to define convenience in a way the customer wants to define it," CVS CEO Larry Merlo said.

Target has nearly 1,800 stores and also sells products through its Target.com website. The retailer, which caters to customers who have a little more money than Wal-Mart shoppers, is trying to reinvent itself as a more nimble and innovative company under Cornell.

Cornell said that the CVS Health deal strengthens its health care business while allowing the retailer to focus more on other areas like improving its food offerings.

The deal announced Monday includes more than 1,660 pharmacies in Target stores that will be branded as CVS/pharmacy. The agreement also calls for new Target stores to include a CVS/pharmacy if they are going to offer pharmacy services.

Target Corp.'s nearly 80 clinic locations will be rebranded under the CVS Health MinuteClinic label. CVS Health also will open up to 20 new clinics in Target stores within three years of the deal's closing.

That will help the drugstore chain reach its goal of expanding from running nearly 1,000 of the walk-in clinics to 1,500 by 2017

In addition, Woonsocket, Rhode Island-based CVS Health and Minneapolis-based Target plan to develop five to 10 smaller stores over two years. The stores will be branded as TargetExpress and include a CVS/pharmacy.

Target expects after-tax proceeds from the deal of about \$1.2 billion. It also will receive about \$20 million to \$25 million in rent payments annually from CVS.

CVS Health runs about 7,800 drugstores and gained national attention last year when it announced that it would pull tobacco from its store shelves to help improve its reputation as a health care provider. The drugstore chain also changed its name to CVS Health from CVS Caremark last year.

CVS Health executives said the deal will help it expand its retail pharmacy reach at about one-fifth the cost of building new drugstores. It also exposes CVS clinics and pharmacies to a different type of convenience shopper who is seeking to buy more than he or she would at a drugstore.

Shares of CVS Health Corp. climbed 52 cents to \$102.74 Monday afternoon, while broader indexes slipped. Target rose 94 cents to \$80.41.

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