

CVS purchase of Aetna pitched as antidote to US health maze

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CVS Health's proposed takeover of insurer Aetna is being pitched as a cost-effective antidote to the complex and at times frustrating American health care system, with pharmacies playing a broader role in patient care.

Architects of the \$69 billion deal unveiled Sunday said CVS's nearly 10,000 stores could be remade to include wellness and medical testing areas, allowing customers easy access to medical professionals and treatment while containing costs.

The shift could encourage more preventive care and cut unnecessary emergency room visits, including by the almost 60 percent of the American population who do not have a regular doctor, executives said on a conference call with analysts.

The goal is to create a "new front door to healthcare," CVS chief executive Larry Merlo said, noting that the morass of health care players including the government, insurers and medical providers can be confusing for consumers to navigate.

The transaction creates a health care giant by fusing one of America's biggest pharmacy chains with an insurer that serves about 46.7 million people, nearly 15 percent of US population.

Analysts see the deal as partly preemptive in case internet retail powerhouse Amazon enters the pharmacy business, as it has entered

groceries through its takeover of Whole Foods Market. But the reactions were not all positive.

S&P placed CVS and Aetna on credit watch negative, saying their financial risk profile would be impacted by the deal, which could lead to a one-notch downgrade for CVS and as much as three notches lower for Aetna.

While Aetna represents an "attractive" acquisition, it will likely require time before the deal boosts earnings for CVS, which will need to issue debt to finance the transaction, the ratings agency said.

Regulatory concerns

Wall Street analysts expect the deal to receive heavy scrutiny from government regulators, who have often been hostile to big health care deals.

The FTC blocked Aetna's 2015 proposed takeover of rival insurer Humana and balked at Walgreens Boots Alliance's proposed takeover of Rite Aid, forcing the pharmacies to radically scale back the transaction.

"While we believe (Federal Trade Commission) risk is ultimately relatively low, we would expect the deal to be tied up in the regulatory review process for an extended period," JPMorgan Chase said.

Unlike those deals, the CVS-Aetna transaction is a "vertical" merger that unites companies from different sectors, which has not usually sparked government action.

An exception is the government's suit to block telecom giant AT&T's vertical takeover of Time Warner, a sign President Donald Trump's administration may be taking a different approach.

The deal also sparked misgivings among some critics on Twitter about the risks of consolidation. Still, as of midday Monday, major groups such as AARP had not taken a stance on the merger. Public Citizen, a consumer advocacy organization, was studying the bill, a spokesman said.

The companies do not expect to complete the transaction until late next year.

More direct care

Founded in 1963 in Lowell, Massachusetts and now based in Rhode Island, CVS had revenues of \$177.5 billion in 2016.

It already provides insurance under its pharmacy benefits management system. It also has introduced "one-minute clinics" into some stores that provide vaccines and some other basic services.

CVS envisions building on these programs following the Aetna [deal](#), repurposing more store space to enable more direct consumer health services.

Noting that 41 percent of [health care costs](#) are shouldered by consumers out of pocket, Aetna chief executive Mark Bertolini said a key objective was to "offer people a better cost experience."

And perhaps more critically "people are really confused" about [health care](#), and are "wandering through the systems, multiple doctors, multiple medications."

"So I would say eliminate the confusion, number one consumer issue," Bertolini said.

An integrated process also would aim to help patients with chronic illnesses, such as diabetes, allowing for face-to-face counseling or assistance with home monitoring of the condition.

Executives said they plan to test various concepts, with all retailers in the chain sharing some common offerings and some stores having enhanced services.

The executives likened the concept to the Apple Genius Bar in Apple's retail stores, that allow customers the "ability to walk in a store and get help."

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