

The Role of Investor Relations in the CVS-Caremark Merger Controversy:

A New Model for Corporate Communications

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CASE OBJECTIVE

The present case will offer an analysis of the investor relations strategies employed by Caremark Rx, CVS, and Express Scripts to win shareholder confidence for competing merger proposals during the time period of November 1, 2006 through early March, 2007. In doing so, it will present a new model for the analysis of key aspects of competitive corporate investor relations strategies, and demonstrate the utility of the model through its application to the Caremark controversy.

EXECUTIVE SUMMARY

On November 1, 2006, pharmacy benefits manager (PBM) [Caremark Rx](#) and retail pharmacy giant [CVS](#) publicly announced their plans for a “merger of equals,” in which CVS would purchase all Caremark shares for \$21.2 billion to form “the nation’s premier integrated pharmacy services provider, combining one of the nation’s leading pharmaceutical services companies with the largest pharmacy chain.” (CVS 11/1/06)¹ In the months following the initial joint press release from the two companies, tremendous controversy erupted in the media over whether the merger better served the shareholders or the upper management of CVS and Caremark (Stein, Becker, French, BLB&G) – especially given the rejection by Caremark of a hostile takeover bid by rival [Express Scripts](#), which on December 18, 2006 announced its intention to purchase Caremark’s shares for the higher value of \$26 billion (ES 12/18/06). Caremark and CVS obtained all appropriate regulatory clearances to proceed with their planned merger, but required shareholder approval to finalize the deal by proxy vote originally scheduled for mid-February 2007. Express Scripts, in anticipation of this vote, launched an aggressive communications campaign to convince Caremark shareholders of the superiority of its own bid. The result was an intense, heated, and very public debate between the public/investor relations teams from all three companies

¹Please excuse the slight diversion from strict MLA format when official statements from CVS, Caremark (CM), or Express Scripts (ES) are referenced in-text. Statement dates are much easier to interpret than partial titles would be in this case, especially given the quantity of statements cited, and I’ve opted for greater transparency for the reader.

as they attempted to demonstrate -- through a series of press releases, letters to shareholders, public statements, and paid advertisements in business periodicals -- the shareholder value of their respective positions, while at the same time responding to (or dodging) competitor accusations, and struggling to maintain a positive public image.

The present case study will provide a brief history of each of the three major players in the controversy, define the key events leading up to the March 2007 shareholder approval of the proposed CVS-Caremark merger, propose a new model for the analysis of the guiding principles of successful corporate investor relations strategies, and utilize the model to identify the ways in which those principles were adopted and applied by all three companies in their efforts to earn and/or maintain the support of Caremark shareholders.

CORPORATE BACKGROUND

CVS

Consumer Value Stores (CVS) was founded in 1963 as a single health and beauty products store in Lowell, Massachusetts in 1963 by Stanley and Sidney Goldstein and their partner, Ralph Hoagland. A year later, the store had expanded into a chain of 17, which added pharmacy services and quickly grew in size throughout the Northeastern United States. In 1969, CVS was sold to the Melville Corporation, which over the next 20 years developed the franchise into a retail pharmacy giant. In 1988, CVS celebrated its 25th anniversary with over 750 retail stores and annual sales of approximately \$1.8 billion. In 1994, CVS launched PharmaCare, the powerful pharmacy benefits management service provider that CVS today intends to merge with Caremark; the same year, long-time employee Tom Ryan was named president and CEO, a position he continues to hold in early 2007. In the years since, CVS embarked on a series of aggressive business acquisitions and geographic expansions, acquiring Eckerd Health Services in 2004 to become the largest pharmacy retailer in America, with over 5,000 locations across the United States. Prior to the CVS/Caremark merger in early 2007, CVS recently acquired two additional retail pharmacy chains to strengthen its presence in the Midwestern and Western United States, bringing the total size of the chain to 6,200 stores in 45 states. As of this writing, primary competitors for CVS include Rite-Aid, Walgreens, and Wal-Mart. (CVS "Company History", Hoovers "CVS")

Caremark

Caremark began as a subsidiary of Baxter Healthcare Corporation, and spun off as a stand-alone healthcare management company in 1992. Following several years of expansion into various sectors of healthcare and an acquisition in 1996 by physician practice management company MedPartners, Caremark in 1998 shifted its core business solely on pharmaceutical management services. Edwin “Mac” Crawford assumed the role of president and CEO of Caremark, where he remains as of early 2007. In 2003, Caremark merged with rival AdvancePCS to form what is now the second largest PBM in the United States, processing over 530 million prescriptions in 2005. The 2007 merger with CVS vastly expanded Caremark’s size and services, under the moniker “CVS/Caremark Corp,” into a new breed of healthcare entity – and the most powerful retail-pharmacy/PBM in history. As of this writing, top competitors include Express Scripts and Medco Health Solutions. (CM “Caremark History”, Hoovers “Caremark Rx, Inc.”)

Express Scripts

Express Scripts was formed in 1986 through a merger between drugstore chain Medicare-Glaser and HMO Sanus, and began managing third-party health programs two years later. In 1992, Express Scripts went public, for the next decade entered into an inconsistently successful but steady expansion of its core operations. Between 2001 and 2004, Express Scripts grew significantly, through the acquisition of drug-sample-fulfillment company Phoenix Marketing Group, PBM National Prescription Administrators, and specialty pharmacy CuraScript. In early 2007, Express Scripts remains the third largest PBM in the United States. Key competitors in early 2007 include CVS-Caremark, Medco Health Solutions, UnitedHealth Group, and Aetna. (ES “Corporate Overview”, Hoovers “Express Scripts”).

A CONTROVERSIAL MERGER

Following the November 1, 2006 merger announcement from CVS and Caremark, investor response was negative: stock from both companies fell the next day (“Drug-Benefit Behemoth”). The initial concerns were focused on uncertainty around whether the two companies would be able to gain anti-trust approval from the government for the deal, and, more pragmatically, suggestions that Walmart’s recent slashing of generic drug prices would weaken CVS’ retail profitability (“Big Deal?”). Other analysts found positives in the deal, most

notably in the “game-changing” implications of merging the PBM and retail strategies in one unified organization worth \$75 billion annually (Alexander “Landscape”).

But the controversy kicked off in earnest on December 18, 2006, with Express Scripts’ hostile bid to take over Caremark and create “the world’s eminent pharmacy management company.” The \$26 billion offer, as Express Scripts was eager to point out, amounted to a 15% premium over the CVS deal, and a 22% premium over Caremark’s average closing price on October 31, 2006 – the day before the CVS deal was announced (Express Scripts 12/18/2006). In all, this represented an approximately \$5 billion higher value than CVS’ offer. When it became clear in the days following that Caremark had no intention of considering the apparently superior bid from Express Scripts, controversy erupted. The Louisiana Municipal Police Employee’s Retirement System (LMPERS) issued a formal Shareholder Complaint against the Caremark management in late December, accusing the board of acting against the best interests of shareholders by merging with CVS in the presence of a superior bid; the complaint became a formal Class Action suit on January 5, 2007 (BLB&G). The suit argued to invalidate a deal protection clause in the CVS-Caremark agreement that requires Caremark to pay \$675 million to CVS in the event that they withdraw from the merger – effectively locking Caremark into the deal regardless of potentially higher-value offers such as that made by Express Scripts (BLB&G). Various media outlets raised additional key concerns, each of which held significant ramifications not only for the outcome of the planned merger, but for Caremark’s image as a company. Specifically, commentators observed that the original Caremark-CVS agreement proposal:

- a) provided large financial benefits to individual members of Caremark’s leadership board – CEO Mac Crawford, for example, would supposedly gain over \$50 million in severance compensation while remaining chairman of the board for the new company; and
- b) provided Caremark employees with immunity for any penalties or fines that may have resulted from an ongoing Security and Exchange Commission (SEC) investigation into alleged stock-option backdating. (Stein, French, Beck)

CVS and Caremark briefly dismissed such charges as being unfounded (French), and turned their attention toward convincing shareholders of the value offered by their merger, all the while fending off Express Scripts’ increasingly more determined attempts to put a stop to it. Then, in mid-February, a Delaware court ruled in favor of an independent shareholder motion to enjoin the scheduled February 29, 2007 Caremark shareholder vote

until at least March 9 – delaying the resolution of the deal even further to ensure stockholders an appropriate amount of time to analyze both sides of the issue (CM 2/13/2007, ES 2/13/2007). Investor communications continued to occur with a startling frequency, and increasing urgency, as the dates for the shareholder proxy votes approached. Ultimately, a significantly revised CVS-Caremark merger was approved by Caremark shareholders on March 16, 2007.

[Table 1](#) provides a timeline of key events in the controversy, along with access to the official communications released by all three major parties; these press releases, letters, public statements and advertisements serve as the primary mechanisms for all three companies' investor relations strategies. Taken together across time, these communications offer a complex map of the both the strategies and the tactics of three corporate giants engaged in heated battle for shareholder support. Numerous key principles of investor relations communications strategy have come into play, and present the opportunity for fruitful analysis from a variety of interrelated perspectives. The remainder of this paper will introduce a new model for the analysis of those perspectives, and demonstrate through this model the various ways in which several key principles of investor relations came together to decide the outcome of the controversy.

ANALYSIS

Investor Relations

Communications guru Paul Argenti has described the role of investor relations as “assum[ing] a marketing role with respect to a company’s stock . . . [and] play[ing] both proactive and reactive roles within an organization.” The investor relations function is responsible for proactively developing communications strategies to help guide investors through events such as a merger, and also for (reactively) responding, as necessary, when threatened by external stimuli. (Argenti 171) The CVS-Caremark debate offers numerous examples – several of which will be discussed in more detail below – of both types of communication behavior. The current case also provides an intriguing, informative opportunity to evaluate side-by-side the investor relations strategies of three different companies around one specific, ultimately quantifiable shareholder decision.

So what constitutes an effective investor relations strategy? It is, of course, “impossible to communicate effectively without a solid understanding of the audience you will be communicating with.” (Grensing-Pophal 26)

A 2003 survey identified the investment appeal of a company as being critically related to the company's cash flow, sales or revenue growth, quality of senior management personnel, adherence to fair disclosure and government regulations, corporate executive strategy, and company long-term strategy (Grensing-Pophal 94). Shareholder support is, quite literally, a vote of confidence in a company. In addition, Louis Thompson, Jr. offers the following comment related to the necessity for transparency in a successful investor relations program:

"I would re-emphasize that the role of investor relations is to minimize investor risk by assuring that the company is providing information that is clear and understandable through means that achieve full and fair disclosure. The lower the perceived risk in investing in a company, the lower the company's cost of capital. There is a true bottom line benefit of full and fair disclosure." (qtd. in Grensing-Pophal 96)

For financial as well as legal reasons, then, the communications strategies that drive investor relations must occur within the context of that "full and fair disclosure." Caremark shareholders were faced with two opposing sides of the same debate, each one with full and transparent access to all the facts, projections, statements, and opinions in the public domain. Thus, the ultimate outcome of the debate ultimately rested not on the *information* available to each – which was all by necessity fully disclosed to the public as well as to the parties involved – but rather on *the ways in which that information was interpreted and communicated* to investors.

A New Model for Competitive Investor Relations Strategies

Three companies with the experience, financial support, and intellectual power of Caremark, CVS, and Express Scripts most certainly knew what they wanted to say, and they knew their audience – the two key components of an effective message development program (Grensing-Pophal 36). They were challenged with developing investor messages and positioning statements that spoke to the direct and most important needs of their major investors. And they did this well -- it is no accident that every paragraph of every official corporate press release or shareholder letter released on the issue of the merger was directed at bolstering shareholder confidence related directly or indirectly to one or more of the investor needs identified above. Thus, corporate key messaging can be said to have been driven, quite appropriately, by investor needs above all else. But the

issue was not so straightforward. In this instance, two opposing sets of key messages were being targeted simultaneously to the same audience of Caremark shareholders; each company, then, was challenged to strike a successful balance between maintaining a *proactive*, investor-driven communications focus, and *reacting* to the potential impact of competitor communications activities on that same audience. And to complicate the issue further, this particular case drew a substantial amount of media attention, introducing a third set of “messages” to investors to be addressed *reactively* by the core players, even as they competed with each other *proactively* for leverage of external media opinion. Further still, each and every such interaction carried the potential for significant benefit or damage not only to investor perceptions of the profitability associated with the merger, but also to the overall corporate image of the companies involved -- both of which were potentially decisive factors in the outcome of the impending shareholder vote. Therefore, a comprehensive analysis of the investor relations principles relevant to the controversy must rely on a model that takes into account not only the ongoing relationship between each individual corporation and a core set of investors, but also the complex and necessarily dynamic inter-relationships between each company, its investors, its competitors, and the media.

The proposed model (illustrated in [Figure 1](#)) will therefore provide the framework for analysis of the present case, by focusing discussion on a) key messages as they related to investor priorities; b) key messages as they were impacted by competitor activity; c) the relationship between corporate messaging and the external media; and d) the relationship between investor relations and corporate image.

Key Messaging and Investor Priorities

First and foremost, as suggested by [Figure 1](#), a corporate investor relations strategy will appeal directly to the values, priorities, and needs of investors themselves. Through review of the dozens of back-and-forth communications released by the companies between November 1, 2006 and March 16, 2007, we are able to obtain an interesting insight into the nature of the messages crafted and disseminated by the Caremark, CVS, and Express Scripts investor relations teams. [Table 2](#) provides a matrix of the key messages, arguments, phrases and positioning communicated on multiple occasions by both sides of the debate, along with the associated investor priorities they were designed to address. These carefully chosen statements – crafted, tweaked, reviewed, approved, and prioritized by high-level investor relations strategists at all three companies -- formed the foundation for each companies’ position, and necessarily played into every aspect of their individual

investor relations strategies.

It is clear that all three companies knew their audience, and what drives them, well; all three chose, in fact, to craft and emphasize messages related to the same set of core investor concerns: company image, profitability/value, and certainty of deal completion. Statement after statement from CVS and Caremark emphasized the “immediate and concrete value,” the “high certainty of completion,” and the “compelling strategic and financial benefits” of the proposed merger, as well as the “established leadership team with a strong track record of creating value” (CVS 1/8/07, Caremark 1/24/07). This consistent rhetoric clearly was designed to appeal to investor interest in backing a deal with concrete, predictable, profitable outcomes. In a January 29, 2007 ad run in the Wall Street Journal, CVS stated that “ES is essentially asking Caremark shareholders to play a *dangerous game of jeopardy with their company's future*. In comparison, not only will our merger proposal deliver *concrete and superior long-term value* for shareholders, but it will do so while generating *significant earnings and revenue growth* beginning as early as next year” (emphases mine, CVS 1/29/2007). Such statements challenged investor confidence in the certainty and value of a potential Express Scripts merger, while simultaneously reinforcing the value and profitability to be found in a merger between CVS and Caremark.

Express Scripts, by the same token, emphasized its “significant premium and significantly higher value than the CVS transaction,” its “greater certainty of value through a significant cash payment for ... Caremark shares,” the “increase in value of the company's stock price resulting from ... growth driven by annual synergies of \$500 million,” and its “proven track record of creating additional value for stockholders by integrating and optimizing the performance of [its] acquired businesses, including PBMs” (Express Scripts 1/4/07): all statements appealing to the same set of core investor priorities.

Neither side ever lost sight of those core priorities, each presenting their version of the story, and leaving the shareholders to decipher which was more believable. Caremark stated in a letter to its shareholders that:

Express Scripts has had difficulty integrating even small acquisitions. The transaction proposed by Express Scripts would be roughly 20x the size of the largest transaction Express Scripts has undertaken in the past -- and Caremark is nearly three times bigger than Express Scripts itself. Given Express Scripts' poor track record of integrating its prior mergers, history of integration cost overruns, management attrition as well as other problems, we have substantial

concerns that Express Scripts could successfully execute a merger with Caremark, especially given the vastly different operating and business strategies of the two companies. (Caremark 1/23/2007)

In contrast, Express Scripts argued in a press release of its own that:

Express Scripts has a proven track record of integrating and optimizing the performance of our acquired businesses, thereby creating additional value for stockholders, having completed five successful acquisitions since 1998. ... We note that based on our past experience, each time we have acquired another PBM, the ensuing merged company increased in the number of customers beyond what both had initially. (Express Scripts 1/4/2007)

Both statements were designed to meet the same investor need; both were crafted in quantitative, data-driven language; in fact, both were true -- yet they carried contradictory messages. This phenomenon was even more apparent in the contradictory assertions from CVS/Caremark and Express Scripts that their respective proposals offered superior shareholder "value" (see [Table 2](#)). For months, Express Scripts successfully maintained its position emphasizing that their initial offer continued to provide a financial premium over both the CVS offer and the October 31, 2006 Caremark closing stock price (ES 12/18/06, ES 1/4/07, ES 1/8/07); they also repeatedly cited \$500 million as the value that could be derived from potential Caremark/Express-Scripts synergies (ES 12/18/06, 1/4/07, 1/8/07); and finally, they quoted their history of superior stock performance as a marker of future competitive success ("1,160% higher compared with CVS over the previous 10 years") (ES 1/4/07, 1/8/07). Caremark and CVS, on the other hand, relied heavily on their own estimates of cost savings to be derived from their own internal synergies, ranging from \$400 million to \$800 million (CVS 1/4/07, CM 1/7/07, CVS 1/16/07). They also consistently raised the threat of revenue loss resulting from client defections that they suggested could potentially result from a merger with Express Scripts (CVS 1/24/07, CVS 1/29/07), and argued that such a merger would result in a company with a very low credit score, effectively inhibiting it from operating with any financial leverage (CVS 1/4/07, CVS 1/29/07). Thus, we see the concept of "value" defined according to two differing sets of equally supportable criteria.

Such examples of factual yet contradictory public statements put both companies in the interesting position of having to react to their opponent's messages without sounding defensive, and at the same time reinforcing their core position. This harkens back to another key principle illustrated in [Figure 1](#) – that of the interplay between competing companies' messaging strategies. This interplay will be discussed in the following section.

Key Messaging and Competitive Activity

As we've seen in the previous discussion, key message development is critically tied to the perceived needs of the target audience. However, in the context of competitive investor relations campaigns, other variables will inevitably influence the ways in which those messages are communicated. [Figure 1](#) also describes the interplay between the key messages, statements, and actions of competing corporations, since those messages, statements, and actions are by their very nature intended to alter the dynamics of the debate. Companies competing for the support of the same audience must be ready to react to such events as they occur. The Caremark controversy demonstrates two aspects of this core principle: first, the importance of timing and transparency in acknowledging competitor actions; and second, the potential benefit to be derived from leveraging competitive communications to strategic advantage.

All three companies – though CVS and Express Scripts in particular – adopted an approach of consistently releasing public statements in almost immediate response to competitor activities. Within hours following the December 18, 2006 takeover bid from Express Scripts, CVS released a corresponding press statement, the entire text of which read:

“Earlier this morning, Express Scripts, Inc. announced a proposal to acquire Caremark Rx, Inc. in a highly leveraged transaction. We have not yet had an opportunity to review this offer carefully. However, we note that we have a definitive agreement with Caremark that will result in the creation of the nation's leading pharmaceutical services provider in a merger of equals transaction. We believe the prospects for completing that transaction are excellent and we remain confident in the long- term strategic value of our combination as well as the benefit to shareholders of CVS and Caremark.” (CVS 12/18/2006)

Caremark released a similarly brief statement of acknowledgement that same day (CM 12/18/2006). Both companies seemed to recognize the importance of responding to competitor actions *quickly*, perhaps because the absence of a response might have suggested disorganization or a lack of preparedness. Caremark and CVS both determined on December 18 that stating that they had nothing to say was preferable to saying nothing at all; the more fully developed arguments would come later. Similarly, Express Scripts took little time before issuing a press release acknowledging, without additional comment, the announcements from CVS and Caremark regarding the Hart-Scott-Rodino expiration for their antitrust filing (ES 12/20/06). This filing represented a major regulatory hurdle for Caremark and CVS, and had little to do with Express Scripts directly. Nonetheless, the company felt that immediate acknowledgement of the event had a value in and of itself, possibly to reassure the public of their competence and proactive monitoring of key events related to the merger.

In addition to issues of timing, it is worth noting that both Express Scripts and CVS/Caremark periodically recognized and exploited opportunities to transform competitor activity into an advantage, by attempting to gain the upper hand in the interpretation of those activities. Express Scripts, for example, attempted to leverage improvements to the CVS-Caremark deal into potential weaknesses. Citing the discrepancy between the initial CVS-Caremark estimate of \$400 million in annual synergy-related savings (CVS 11/1/2006, 1/4/07) and an updated estimate of \$500 million (1/7/2007), Express Scripts immediately observed that “Since the time of our [takeover] announcement, CM has conveniently found in excess of 25% of additional synergies, which had not [previously] been evident!” (ES 1/8/2007) CVS-Caremark did not respond to Express Scripts comment; in fact, on January 16, 2007 they upgraded their estimate again to \$800 million in projected annual savings. Similarly, following the January 16, 2007 announcement by CVS and Caremark that the proposed merger had been improved to offer investors a \$2/share dividend on their Caremark stock (CVS 1/16/2007), Express Scripts was quick to observe that “[t]he one-time dividend with its face value of \$2.00 represents merely \$1.09 per share to Caremark stockholders because Caremark stockholders are financing 45.5% of the payment due to their proposed ownership in the combined company” (ES 1/16/2007). Later, following the January 24 issuing by Express Scripts of special gold proxy cards to Caremark shareholders, CVS issued a counterattack on Express Scripts’ earlier analysis, calling the argument a “continuation of [Express Scripts’] sideshow attempt to distract Caremark shareholders from the obvious deficiencies of its own offer,” and claiming to be:

“particularly amused by the specious argument employed by Express Scripts that the \$2.00 dividend payable to Caremark shareholders upon closing of the CVS/Caremark merger is really worth \$1.09. If the same "logic" were applied to the Express Scripts' offer, which would be financed by a combined company that would be 57% owned by Caremark shareholders, the cash component of their offer would be worth 43% of its face value. In fact, since the announcement of the \$2.00 special cash dividend, the value of the CVS offer is up by more than \$4.40 or approximately 8.4%.” (CVS 1/24/07)

Similarly, CVS and Caremark jumped on the January 30, 2007 re-filing by Express Scripts of their anti-trust application as a sure sign of instability on the part of Express Scripts. The day following the filing, CVS called the development “the clearest indication yet of the substantial antitrust risks inherent in [Express Scripts'] hostile takeover proposal” (CVS 1/31/2007). Caremark responded with a slightly different, equally disparaging take on the issue:

“This is a transparent ploy by Express Scripts to avoid receiving an extensive second request for information and documents at this time from the Federal Trade Commission (FTC) and to mislead Caremark shareholders into believing that Express Scripts' risky and highly conditional offer may be close to receiving regulatory approval.” (CM 1/31/2007)

Both responses were carefully timed and carefully crafted examples of investor relations teams leaping at the opportunity to interpret competitive actions in a favorable light.

Key Messaging and Media Relations

As discussed above and illustrated in [Figure 1](#), the media plays both an active and a passive role in contributing to the development, and evolution, of investor relations messaging strategies. Much of the controversy, particularly in the latter half of the pre-merger period, was driven by the opinions, statements, and analyses of external commentators in the media. Clearly this dynamic had an impact on the communications strategies of both companies. Media criticism of the lavish payments and side benefits promised to Caremark

executives by CVS represented a direct, explicit challenge to the “quality of the senior management personnel” that, as discussed above, is a factor of major importance to investors (Grensing-Pophal 2006, 94). Caremark refrained from offering detailed comments on the issues raised by the LMPERS suit, opting instead to concentrate on addressing potential shareholder concerns by (re)emphasizing its core messages of value, certainty, and profitability.

Express Scripts, on the other hand, which had previously avoided any mention or implication of impropriety on the part of Caremark’s executive board, introduced in a press release on January 31, 2007 a new set of key messages highlighting the “lavish payments” offered to Caremark’s management, and citing full quotes from external press sources to bolster their criticism (Express Scripts 1/31/07); the position, complete with press quotations, was repeated on February 1, 2007, in a letter from Express Scripts to Caremark shareholders (Express Scripts 2/1/07). This move was an interesting illustration of a company drawing from ongoing, independent media activity to strengthen its own position. Given that the suit that sparked the media controversy had been around for over a month prior to Jan 31st, and that the details of the CVS-Caremark merger had been available long prior to that, one might wonder why Express Scripts didn’t raise the issue earlier. It could very well be that doing so would have been perceived as “fighting dirty” – but by the end of January, the story was all over the press anyway, offering Express Scripts the opportunity to introduce their new message with several objective external references to support it.

In mid-February as independent analyses from Institutional Shareholder Services, Inc. and Glass, Lewis, & Co opposing a CVS/Caremark merger began to escalate media criticism even further, Express Scripts continued to promote its position with direct reference to external statements of support (ES 2/12/2007); Caremark was able to publicly acknowledge those assessments, but could do little to counter them beyond emphasizing their opposing position (CM 2/9/2007, 2/12/2007). Perhaps most damaging of all for Caremark was the February 13, 2007 decision by a Delaware court to enforce the earlier motion from the Louisiana Municipal Police Employees’ Retirement System to enjoin the scheduled February 20 Caremark shareholder vote until at early March. Express Scripts once again pounced on this development as an independent confirmation of their position, quoting the court’s comment that “[Delaying the vote] is the right decision for Caremark stockholders. It is unfortunate that it was necessary for a court to enjoin the meeting rather than Caremark’s Board of Directors acting in the best interests of its stockholders” (ES 2/13/2007). And once again,

Caremark – now under legal obligation to delay the vote – could initially do little to respond but acknowledge and comply (CM 2/13/2007).

Ultimately, it was this very dynamic that decided the outcome of the controversy. Faced with what appeared to be the ever-increasing possibility that Caremark shareholders would be persuaded to reject the planned merger, CVS and Caremark were forced for the third time to improve the substance of the merger offer, increasing the shareholder dividend to \$7.50/share on March 8, 2007. And at last, the tide began to turn for Caremark and CVS. The Delaware Chancery court overruled Express Scripts' efforts to further enjoin the Caremark shareholder vote. The ISS provided a revised assessment of the CVS proposal based on the new offer, and reversed their previous position – a strong statement of external support that became the foundation for all subsequent communications from CVS and Caremark. Express Scripts attempted as before to leverage two additional independent assessments opposing the merger (ES 3/13/07, 3/14/07), but was unsuccessful, possibly because both assessments, i.e., by Glass Lewis and PROXY Governance, Inc., were based more on Caremark credibility issues than on the monetary value of the revised and improved CVS offer. In the end, value and profitability emerged as the most decisively critical of the investor needs, and shareholders at last felt they were getting the value they deserved. Attempts by Express Scripts to improve on its own offer (ES 3/07/07) were unable to compete, and CVS-Caremark was born – albeit for a substantially higher price than either company initially anticipated.

Investor Relations and Corporate Image

Long before this controversy, PBMs struggled with a negative public image. Stephen Schondelmeyer, director of the PRIME Institute at the University of Minnesota at Minneapolis, observed that PBMs “are not known for passing on (savings) to consumers. They're known for creating margin and then keeping it in earnings or profits” (quoted in Becker 2007). The opening sentences of Ben Stein's January 21, 2007 *New York Times* editorial criticizing the Caremark upper management's dealings with CVS illustrated quite effectively the core of the corporate image problem faced by the entire PBM industry: “Caremark RX is a large pharmaceuticals benefits manager. Generally, this means that it makes money by denying benefits of various kinds, especially prescriptions, to patients and employees, thus supposedly saving money for employers and keeping a big chunk of that money for itself. (I know this is an oversimplification, but it's basically true.)”

It was never the intention of Caremark, CVS, or Express Scripts to address such broad public relations concerns in the course of the merger controversy. Their audience was specifically investors, who clearly aren't particularly bothered by the business models or methods of the PBM industry – or at least, they aren't bothered enough not to invest. Nevertheless, all three companies were obligated to address impact of the debate on their image with *investors*, if not the general public. Thus, the issue of maintaining a positive corporate image with investors became critical for all three companies, largely because every statement made or action taken by a company during a time of controversy can impact that image significantly (see [Figure 1](#)). Thus, we observe in [Table 2](#) the frequent and consistent linking of communications with company strategy and “vision” (Argenti 157). CVS/Caremark's assertion that a merger between Caremark and Express Scripts would result in significant client defections implied that clients would flee the new company in order to avoid having to work with Express Scripts (CVS 1/29/07, Caremark 1/30/07) – a positioning that was potentially damaging to Express Scripts' reputation as a company striving to deliver a high-quality product to its clients. Express Scripts' persistent emphasis on its customer-oriented vision helps counter this concern – for example, through the careful reiteration on every possible occasion of its mission to create the “world's eminent pharmaceutical management company” to “bring significant value to stockholders, plan sponsors, and patients” (ES 12/18/06, 1/4/07, 1/8/07). The use of such language reflected the high level company vision, provided a sense of purpose and direction for the company, and implied a clear customer orientation – all of which remain key components in a company's corporate image with investors.

CVS and Caremark, in turn, referred repeatedly to the “full range of pharmacy services” that their new company would offer to help realize economic efficiencies. In a January letter to its shareholders, Caremark stated that “together with CVS, we will define and lead the transformation of the industry and significantly improve the delivery of pharmaceutical services, differentiating us from our competitors and creating significant value for shareholders” (Caremark 1/23/2007). Here, the emphasis was on the “landscape-changing” potential of the deal, suggesting an aggressive and far-reaching vision.

Notably, each company's vision for the future was always accompanied by reference to a “proven track record” of bringing value to shareholders, in one form or another. Such language, in addition to building investor confidence in the certainty of a profitable merger (discussed above), evoked and reinforced the image of a corporation with a consistent history of demonstrable success.

CONCLUSION

There was much at stake in the CVS-Caremark merger controversy for shareholders, for the corporate image (and profit margins) of all three companies involved, for other PBM competitors – and most importantly, for the consumer, who of course is the ultimate recipient of the services that PBMs provide. A merger between CVS and Caremark has, for better or worse, forever altered the landscape of both the retail pharmacy and the PBM industries -- the two entities most responsible for driving consumer access to medicine in the U.S. Above all else, Investor Relations strategy played a key role in determining this outcome.

The communications model proposed above attempts to demonstrate the complexity of the multiple internal and external dynamics underlying the controversy, and provide a framework for analysis of those dynamics through application to this real-world case. It may also prove useful for future communications-related analyses of investor relations strategies in competitive contexts.

QUESTIONS FOR DISCUSSION

- A) Was there a “turning point” at which the debate began to favor CVS-Caremark? Identify which components of the investor relations model described in Figure 1 may have been most influential in determining the outcome of the CM shareholder vote.
- B) What recommendations would you have made to the Express Scripts Investor Relations team that might have altered the outcome of the March 2007 Caremark shareholder vote?
- C) In what other cases might the model proposed in Figure 1 be applied?

Table 1. Timeline: Key Events, Company Investor/Media Relations Activity

Milestones	Company Investor Relations Actions
<p>November 1, 2006 CVS-CM Merger Announcement</p>	<p>CVS and CM issue joint press release announcing CVS will buy out CM stock for \$21.2 billion in a merger of equals form a new type of company with “a full range of health services” offering high “value for employers, health plans, and consumers.” (CVS 11/1/2006)</p>
<p>December 18, 2006 ES announces intention to purchase all CM shares for \$26 billion</p>	<p>ES issues press release containing letter to CM declaring intention to purchase all CM shares for \$26 billion and form “the world’s eminent pharmacy management company.” (ES 12/18/2006)</p> <p>CVS responds with short public statement reinforcing confidence in CVS-CM merger. (CVS 12/18/2006)</p> <p>CM responds acknowledging receipt of offer, but refers to impending merger with CVS. (CM 12/18/2006)</p>
<p>December 20, 2006 Hart-Scott-Rodino waiting period expires for CVS-CM merger (i.e., major regulatory hurdle for CVS and CM to overcome)</p>	<p>CVS issues press release announcing “significant step forwards” towards merger completion. (CVS 12/20/2006)</p> <p>CM issue press release acknowledging H-S-R expiration. (CVS 12/20/2006)</p> <p>ES issues press release acknowledging H-S-R expiration. (ES 12/20/2006)</p>
<p>December 21, 2006 Initial shareholder complaint filed by LMPERS</p>	<p>---</p>
<p>January 3, 2007 ES applies for antitrust clearance with the U.S. government.</p>	<p>---</p>
<p>January 4, 2007</p>	<p>CVS issues press release reiterating firm commitment to merger with CM, raising several concerns about potential ES-CVS merger (CVS 1/4/2007)</p> <p>CM issues press release acknowledging Jan 3rd filing by ES with the government. (CM 1/4/2007)</p> <p>ES issues letter to CM shareholders entitled “Protect Your Caremark Investment, Vote Against the Proposed CVS Merger.” (ES 1/4/2007)</p>
<p>January 5, 2007 Formal Amended Class Action Complaint filed by LMPERS</p>	<p>---</p>
<p>January 7, 2007</p>	<p>CM publicly rejects ES takeover offer, issues press release reinforcing value and benefits of CVS offer. (CM 1/7/2007)</p>
<p>January 8, 2007</p>	<p>CVS issues statement of being “pleased” with CM decision, citing anti-trust risk with ES offer, and raising concern about potential CM customer defections if ES-CM deal were to be approved. (CVS 1/8/07)</p>

	<p>ES responds to rejection of offer, calls antitrust argument a “red herring.” (ES 1/8/07)</p> <p>ES announces nomination of 4 directors to CM board. (ES 2, 1/8/07)</p>
January 10, 2007	<p>ES files lawsuit to invalidate \$675 M “break-up” fee in CVS-CM deal.</p> <p>CVS responds with press release dismissing validity of suit. (CVS 1/10/07)</p> <p>CM CEO Mac Crawford offers statement that a CVS-CM merger will offer consumers “exactly what they are asking for.” (CM 1/10/07)</p>
January 16, 2007 Merger deal modified; ES initiates formal exchange offer to CM shareholders.	<p>CVS raises its bid for CM, issue joint press release with details, including major emphasis on new \$2/share dividend for shareholders. (CVS 1/16/07, CM 1/16/07)</p> <p>ES issues formal exchange offer announcement, citing refusal of CM management to respond to requests for discussion. (ES 1/16/07)</p> <p>ES responds to increased bid, challenging value of dividend (ES 2, 1/16/07)</p>
January 19, 2007 SEC approves S-4 Registration Application for merger (i.e., final regulatory hurdle for CM and CVS)	<p>CVS and CM issue joint press release announcing SEC approval, setting dates for shareholder vote. (CM 1/19/07)</p>
January 23, 2007	<p>CM issues letter to its shareholders, criticizing ES past performance and suggesting that ES merger is putting current and future CM business at risk. (CM 1/23/07)</p>
January 24, 2007	<p>ES issues letter to CM shareholders containing special gold proxy card to be used to vote against merger. (ES 1/24/07)</p> <p>CVS issues caustic press release in response. (CVS 1/24/07)</p>
January 29, 2007	<p>CVS runs ad in Wall Street Journal: “Caremark Shareholders Beware: Express Scripts’ Proposal Puts Your Investment at Risk.” (CVS 1/29/07)</p>
January 31, 2007	<p>ES issues press release criticizing CM management benefits, and quoting various external media criticisms about the merger. (ES 1/31/07)</p> <p>CVS issues press release condemning ES’ renewal of its H-S-R (anti-trust) filing as a sign of instability. (CVS 1/31/07)</p> <p>Caremark issues press release responding to ES’ H-S-R filing renewal. (CM 1/31/07)</p>
February 1, 2007	<p>ES issues letter to CM shareholders with strengthened language suggesting CM management impropriety, and responding to Jan 23rd CM suggestion that ES offer could cause CM client retention problems. (ES 2/1/07)</p>
February 2, 2007	<p>ES runs counter-ad in Wall Street Journal. (ES 2/2/07)</p>

February 5, 2007	CVS issues letter to CM shareholders attacking conditional nature of ES offer. (CVS 2/5/07)
February 8, 2007	CVS runs ad in Wall Street Journal stating that “Everyone Loses” with ES merger. (CVS 2/8/07)
February 9, 2007	Caremark issues press release disagreeing with (independent analyst) Glass Lewis assessment regarding CVS-CM merger. (CM 2/9/07)
	ES issues letter to CM shareholders emphasizing refusal of CM board to discuss options. (ES 2/9/07) ES issues letter to CM board of directors requesting discussion. (ES 2, 2/9/07)
February 12, 2007 Independent ISS analysis formally opposes CVS-CM merger.	ES issues press release quoting independent ISS analysis strongly supporting ES position. (ES 2/12/07) Caremark issues press release disagreeing with ISS assessment regarding CVS-CM merger. (CM 2/12/07)
February 13, 2007 Delaware court decision on LMPERS suit orders postponement of February 20 CM shareholder vote until early March.	CVS and Caremark issue press release increasing cash dividend from CVS-CM merger to \$6/share. (CM 2/13/07)
	ES issues press release responding to dividend announcement. (ES 2/13/07)
	Caremark issue press release acknowledging Delaware court’s decision (CM 2, 2/13/07)
	CVS issues press release postponing CVS shareholder vote until early March. (CVS 2/13/07) ES issues press release quoting Delaware court decision, emphasizing involuntary nature of shareholder vote postponement. (ES 2, 2/13/07)
February 23, 2007 Delaware court decision to deny LMPERS motion to enjoin merger.	CM issues press release responding to court decision. (CM 2/23/07) ES issues press release responding to court decision, citing excerpts from decision in criticism of CM board ethics. (ES 2/23/07)
February 24, 2007	CM issues press release announcing formal final shareholder vote date of 3/16/07. (CM 2/24/07)
February 26, 2007	CVS issues press release responding to 2/23 court decision. (CVS 2/26/07)
March 7, 2007 Court rules against ES proposal to delay CM shareholder vote further. FTC makes second request for information from ES regarding merger proposal.	ES issues press release announcing offer improvement of additional 6%/annum, and announcing second FTC request for more information regarding its offer. (ES 3/7/07)
	CVS Issues press release responding to FTC request for more information from ES, citing anti-trust concerns with potential CM-ES merger. (CVS 3/7/07)
	CVS issues press release responding to court decision against ES. (CVS 2, 3/07/07)

<p>March 8, 2007</p>	<p>CVS posts “best and final” offer for CM, upgrading cash dividend to \$7.50/share. (CVS 3/8/07)</p> <hr/> <p>CM issues press release announcing offer improvements. (CM 3/8/07)</p>
<p>March 9, 2007</p>	<p>CM issues press release responding to FTC request from ES, and commenting on 2/7 court decision. (CM 3/9/07)</p>
<p>March 12, 2007</p>	<p>ES confirms that current offer is the “best and only”, in absence of duly diligent evaluation process. (ES 3/12/07)</p>
<p>March 13, 2007 ISS reverses previous position in light of improvements to CVS offer, now supporting merger. PROXY Governance, Inc. opposes CVS-CM merger based on distrust of CM management.</p>	<p>CVS issues press release quoting revised ISS assessment now supporting CVS-CM merger. (CVS 3/13/07)</p> <hr/> <p>CM issues press release responding to reversal of ISS opinion, citing enhanced benefits of revised offer. (CM 3/13/07)</p> <hr/> <p>ES issues press release commenting on ISS decision, stating that shareholders would benefit most from a bidding process with all parties granted access to equal information. (ES 3/13/07)</p> <hr/> <p>ES issues press release citing independent analysis by PROXY Governance, Inc. against CVS-CM merger based on CM management benefits. (ES 2, 3/13/07)</p> <hr/> <p>CVS re-states position at Bank of America Consumer Conference. (CVS 2, 3/13/07)</p>
<p>March 14, 2007 Glass Lewis analysis opposes CVS-CM merger based on concerns about negotiation process.</p>	<p>CVS releases final pre-vote position statement, restating all core position statements and emphasizing ISS assessment. (CVS 3/14/07)</p> <hr/> <p>ES issues press release citing Glass Lewis statement that CVS-CM negotiation did not proceed in a manner reflective of best shareholder interest. (ES 3/14/07)</p> <hr/> <p>ES issues letter to CM shareholders urging them “not to leave money on the table”. (ES 2, 3/14/07)</p>
<p>March 15, 2007 CVS shareholders vote to approve CVS-CM merger.</p>	<p>CVS issues press release announcing outcome of internal shareholder vote. (CVS 3/15/07)</p> <hr/> <p>CVS issues final brief statement of warning against ES offer. (CVS 2, 3/15/07)</p> <hr/> <p>ES issues final statement opposing CVS-CM merger, promising to improve offer if additional synergies were to be discovered during due diligence analysis of CM, and restating all core messages. (ES 3/15/07)</p>
<p>March 16, 2007 CM shareholders vote to approve CVS-CM merger.</p>	<p>CM issues press release announcing merger approval. (CM 3/16/07)</p> <hr/> <p>CVS issues press release responding to CM shareholder merger approval, and reinforcing core identity principles of new company. (CVS 3/16/07)</p> <hr/> <p>ES issues press release supporting their position of strong growth following CVS-CM merger approval. (ES 3/16/07)</p>

Figure 1. A New Model for Competitive Investor Relations Messaging Analysis

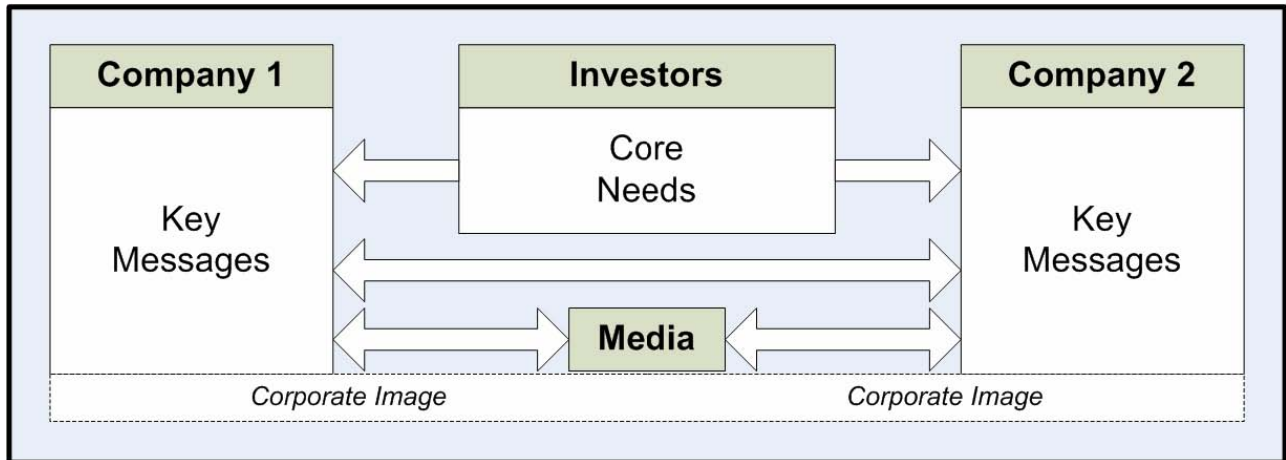


Table 2. Key Investor Relations Messaging

		<u>Caremark, CVS Messaging</u>	<u>Express Scripts Messaging</u>
		Pro CVS-CM Merger	Pro ES-CM Merger
Investor Needs	Company Image	-Emphasis on “full range of pharmaceutical services” -Value “for employers, health plans, and consumers”	-Merger would form “world’s preeminent pharmacy management company” -“Significant value to stockholders, plan sponsors, and patients”
	Value/ Profitability	-Emphasis on “concrete and superior long-term value” -“Compelling strategic and financial benefits” -Value derived from company synergy	-Premium over CVS offer -Premium over pre-CVS-announcement stock price -\$500 million in synergies -Superior stock performance vs CVS (by 1,160% over 10 years)
	Certainty/ Confidence	-Emphasis on certainty of deal completion -Emphasis on company track record	-“Proven track record of integrating with companies to increase shareholder value” (5 previous acquisitions since 1998)
		Anti ES-CM Merger	Anti CVS-CM Merger
Investor Needs	Company Image	-Threat of potential client defections resulting from dissatisfaction with low-quality of ES product	-Unwillingness of CM executives to discuss deal -“Lavish payments” to CM upper management -CVS inconsistency in reporting value of projected company synergy (\$400M, \$500M, then \$800M)
	Value/ Profitability	-Threat of potential client defections resulting from dissatisfaction with low-quality of ES product -Low credit score = inability to obtain funds	-No premium on share price -No cash involved in transaction – only (uncertain) stock -Risks historically associated with “vertical” vs “horizontal” PBM mergers
	Certainty/ Confidence	-Anti-trust concerns -ES history of integration problems -Merger would be “20x larger than any previously undertaken by ES” -High uncertainty of completion (timing, regulatory approval, highly conditional)	-CVS limited experience acquiring a PBM

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