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PTC 642 Individual Podcast: Final Script

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PODCAST TITLE:

Corporate Communication Podcast Series on Investor Relations: The Role of Investor Relations in the CVS-Caremark Merger Controversy.

PODCAST DESCRIPTION AND LEARNING OBJECTIVES:

This segment features a discussion and analysis of the role of Investor Relations strategy in determining the outcome of the controversial 2007 merger between CVS and Caremark. Following participation in this activity, students and scholars of Corporate Communications should be able to:

- a) Explain the interplay between the corporate Investor Relations function, shareholder needs and perceptions, competitor communication activity, and external media opinion.
- b) Apply the basic principles of a formal Investor Relations analytic model to future research.

SUPPLEMENTARY MATERIALS:

<[Download PDF](#)> of “The Role of Investor Relations in the CVS-Caremark Merger Controversy: A New Model for Corporate Communications,” which includes a full analysis of the CVS-Caremark merger, as well as a list of references used in the development of the audio podcast. (213k)

PODCAST AUDIO SCRIPT

TW: Welcome to the Corporate Communication Podcast Series on Investor Relations. My name is Tom Woodworth, and the title of this podcast is “The Role of Investor Relations in the CVS-Caremark Merger Controversy.” Today we will be discussing and analyzing the role of Investor Relations in deciding the outcome of what turned out to be a highly controversial merger between the retail pharmacy giant CVS and the Pharmacy Benefits Manager Caremark in early 2007. This case may well go down in history as among the most highly and heatedly debated mergers ever to occur within the U.S. healthcare system, and for us – students of Corporate Communication – it offers a substantive and fruitful opportunity to explore the complexity of an outright war between rival corporate Investor Relations teams competing for support of the same group of shareholders. In the following segment, I am being interviewed by Kristina Woodworth, who is the President of SciMantis Communications and a professional medical writer and healthcare journalist.

<pause>

KW: **So you chose the Caremark- CVS Merger as a topic for analysis recently. Can you give us a little bit of background information and history of the merger, and the controversy that ensued?**

TW: [Responds according to following notes:]

-November 1, 2006, CVS launches takeover bid; 6 weeks later, on December 18, ES counter-offer at a better price sparks controversy.

-Fact that CM rejected competitive bid overnight apparently without refusing to consider it sparked all sorts of controversy among press and shareholders themselves. Lawsuit against Caremark management alleging impropriety, acting against best interests of its shareholders.

-Over the course of next several months, competing campaigns to win Caremark shareholder confidence – press releases, public statements, ads in WSJ, all aimed at swaying investor vote

scheduled for late February. All this occurred in the context of heavy media attention, much of which was very critical of the CVS/Caremark deal, as well as of the CM Management Board specifically.

-Both offers were repeatedly modified and improved throughout entire debate. Ultimately CVS won out – but only after modifying its original offer substantially to increase cash benefits of the merger for CM shareholders.

KW: Why select this case in particular for analysis here?

TW: [Responds according to following notes:]

-Typically investor relations is thought of as = keeping shareholders happy to maintain stock price, delivering yearly financial report, etc.

-This scenario is particularly interesting – offers an example of IR principles in practice when they matter most, in a high-stakes situation with major implications. This merger has literally changed the landscape of the U.S. Healthcare system.

-Secondly, I would refer students to the CorpCommPodcast website to download a PDF I've included with the link to this podcast; it contains the full record of press releases and official investor relations communications that is available to us for analysis. These are a goldmine for students of Corporate Communications. What we see is a situation characterized by multiple principles of investor relations coming into play at the same time in interesting ways, all documented and all linked with measurable outcomes. Potential for learning a lot about subtleties of IR strategy.

KW: You mention “multiple principles of investor relations” that come together to create a unique situation. Can you be more specific?

TW: [Responds according to following notes:]

In concept, IR seems still about influencing shareholder perception of the company, which is of course accomplished with attention to the basic principles of communication – knowing one’s audience, crafting communications with due consideration of their needs, clear and consistent platform of messages, and so forth; but in practice, at least in the CVS-CM case, reality can be much more complex than theory. [CVS-CM corporate position; audience was clear; messages were defined; suddenly, landscape changes entirely with entry of parallel set of contradictory messages from ES; CVS-CM were of course obligated to respond with a new set of now defensive messaging, and the cycle continues; so we see both sides attempting to proactively target their audience with messages customized for that audience, but also reactively updating their messaging to respond to the potential impact of competitive communications and other activity. Then there is the external media, which in this case had plenty to say about both sides of the controversy – so both companies, then, had to react to, and also control, this set of independent messaging, as well. And underlying these complexities are the larger issues – faced by any large corporation – of company image and reputation, both of which had the potential to be damaged or threatened in a very real way in this scenario. Thus, we see a relatively straightforward model operate in a manner that is actually quite complex, w/ multiple interrelated factors influencing the messaging of both companies all at the same time.

KW: What do you mean by messaging?

TW: [Responds according to following notes:]

[Phrasing, positioning. All three companies know their audience.

Core Investor Priorities: company image, profitability/value, and certainty of deal completion.

[example of contradictory messaging]

KW: In the example you just cited, CVS and Express Scripts make claims that are supportable but also outright contradictory.

TW: That's right. Both are credible statements, that are, in fact, true. Which as you can imagine adds a layer of complexity for communications strategists for both companies, who now are put in a position to maintain an balance between reacting to their opponent's messaging without sounding defensive, and simultaneously reinforcing their own core positioning. This dynamic, that is, the interplay between the messaging of the two companies, is another major driver of investor relations strategy in this situation.

KW: **Earlier you talked about the impact of the external media on the communication strategies adopted by the two companies. How did the media impact the controversy?**

TW: [Responds according to following notes:]

High-profile, multi-billion \$\$ merger; good level of coverage in financial publications. Editorials, external analyses and independent commentary are real-life influencers of investor perception. By and large, media take on the CVS/CM merger was very negative. Criticism of the merger and the CM management board in particular grew very harsh, making it all the more important for CVS/CM to position their merger as being in the best interest of their shareholders. ES, on the other hand, certainly was able to use external media criticism of the CVS proposal as well as of the CM management board, to their advantage, at least for a time.

KW: **How so?**

TW: [Responds according to following notes:]

In mid-Jan, a rash of independent commentators had come down publicly against the CVS/CM merger (Ben Stein, etc.), calling into question the motivations of the CM management board. Specifically, CVS deal is worth less to shareholders, and offers lavish severance payments to members of management who would in fact not be "severed," they'd remain on the board; also, CVS deal offered immunity to CM employees for any future fines or penalties that might hypothetically result from an ongoing SEC investigation into stock-option backdating charges.

Both accusations damaging to corporate image and reputation of CM, as well as being a threat to the merger.

By end of January, ES, which had previously shied away from reference to direct attacks on the character of CVS/CM management, saw opened the newspaper, saw an opportunity and changed their strategy to leverage such independent attacks against Caremark. We note that quite suddenly at the end of January, ES press releases and official communications begin to explicitly cite independent analysts' criticisms of the merger and of the CVS board, where they had not before. And at the time, there was little CVS could do to respond, and it certainly appeared to be an effective strategy, at least for a time.

KW: Do you think CVS or Caremark suffered any long-term damage to their corporate image or their reputation as a result?

TW: [Responds according to following notes:]

Already perceived as bad guys, but fixing overall PBM image wasn't concern here. The uphill battle that CVS-CM faced was that because of the factors we've been discussing, the merger itself became associated with bad corporate practice. ES and the external media had done a very effective job of attacking CM's corporate image, making the management board look unreasonable and selfish. Certain analysts were never dissuaded from this opinion, even after CVS put forth the "best and final offer" that was ultimately improved – but again, Caremark's primary goal was win shareholder support for the merger, and they succeeded.

KW: Why do you think that the CVS/CM merger was ultimately approved?

TW: [Responds according to following notes:]

ES put together and implemented a compelling investor relations campaign, one that CVS and CM appeared, at least by the middle of February, to be losing. It was not until CVS improved its offer for the third time since November 1st that the tide began to turn for them. Independent

Shareholder Services – an independent analyst who had previously come down strongly against the merger – reversed its opinion, right around the same time that Express Scripts lost their injunction to delay the Caremark vote even further. Not all analysts were in favor of the merger, but the remaining objections had more to do with the quality of the way Caremark had handled the situation than they did about the value of the merger to shareholders. Ultimately, the core shareholder priority of profitability won out. But only because ES had forced their competitor's hand. Ironically, then, shareholders were left with a much, much better deal than they were initially offered. Which is good for shareholders, but not, unfortunately, for ES, which employed a superior IR campaign that ultimately backfired on them.

KW: What is the primary lesson here for students of Corporate Communication?

TW: [Responds according to following notes:]

There are two. The first is: don't underestimate the value of a formal, flexible, and strategic investor communications strategy. Ultimately the success or failure of this or any other major venture undertaken by a corporation involves having the support of its primary customers. And since what is "best" for shareholders is not always obvious, it falls to the investor relations teams within a company to build a case to obtain that support.

Thus, we see the impact of corporate communications to affect real-world, big-dollar decisions. CVS-Caremark would have been happy to approve their merger according to the original terms proposed in November 06, which would have cost them less and avoided them the hassle and expense of engaging in the controversy they were forced into; instead, ES was able – on multiple occasions – through the application of its aggressive and organized messaging campaign, to force repeated modifications/improvements to the CVS-Caremark deal. No way of knowing whether a merger with Express Scripts would have been a better decision, but good news is that the modifications ultimately benefited shareholders far more than the original CVS-CM deal would have.

The second takeaway here is that this case that seems to contain the seeds of what could potentially be a formal framework for the study of investor relations theory in practice. I found it very valuable in my analysis to differentiate the dynamics of the interplay between a corporation and its investors, its competitors, and the media. Each of these relationships drove different aspects of the situation in unique but interrelated ways, and I think deserve attention as individual dynamics contributing to the application of basic investor relations principles. More work is required to validate this initial analytic model, but cases such as this are a wonderful place to start. I would encourage students of Corporate Communications to take up the challenge.

<pause>

TW: This concludes today's Corporate Communication Podcast on Investor Relations. Supporting references are too many to list here, but are listed in the Case Study Analysis available for download accompanying the link to this podcast on the CCP website. Again, this is Tom Woodworth. You have just listened to a Corporate Communications Podcast on Investor Relations. Thank you for tuning in.