company in the news

Company Watch
tracking corporate financial health

January 2007

Express Scripts Inc & Caremark Rx Inc

“Express Scripts yesterday launched a formal $25bn hostile offer for Caremark Rx, its larger rival in the US drug benefits management sector. The move is aimed at breaking up Caremark’s agreed deal with CVS, the retail pharmacy chain.”

“Express Scripts with a market capitalisation of $9bn would also have to borrow heavily to finance the acquisition”

Financial Times, London, 17 January 2007

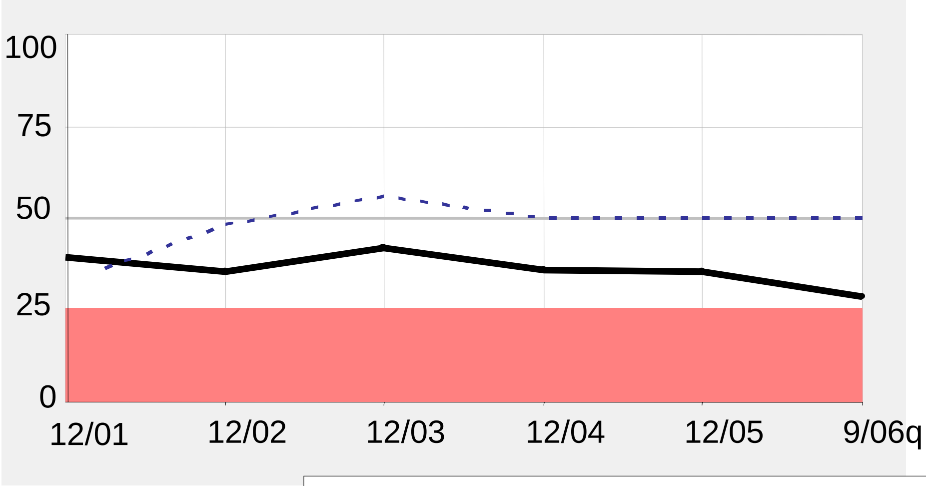
what the Company Watch model says

Company Watch tracking corporate financial health

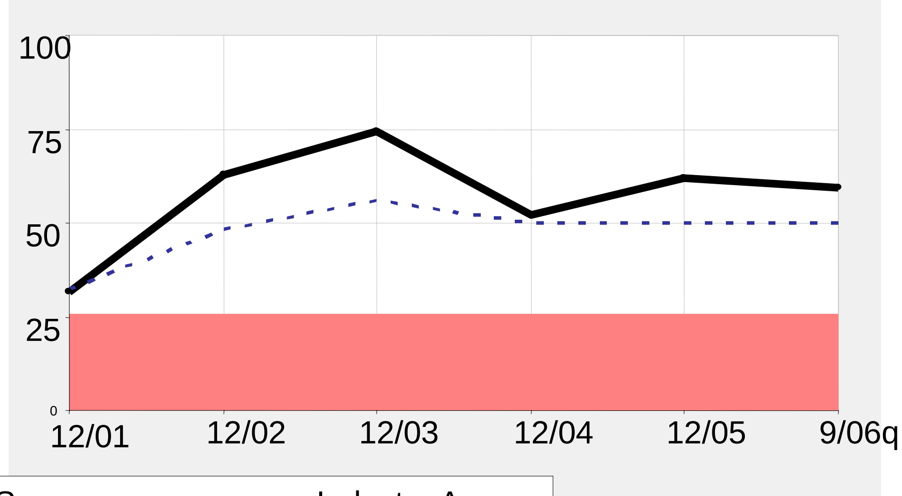
A comparative review of Express Scripts Inc and its target Caremark Rx Inc

Overview

Express Scripts Inc



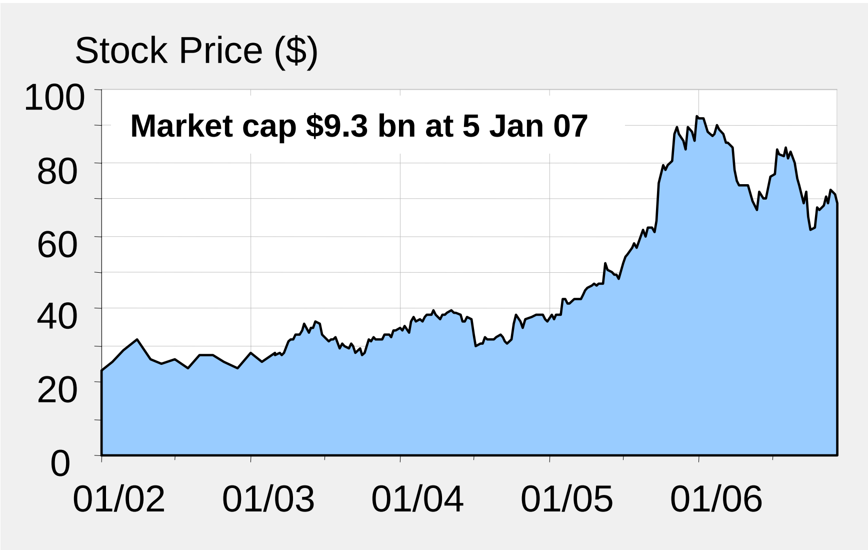
Caremark Rx Inc

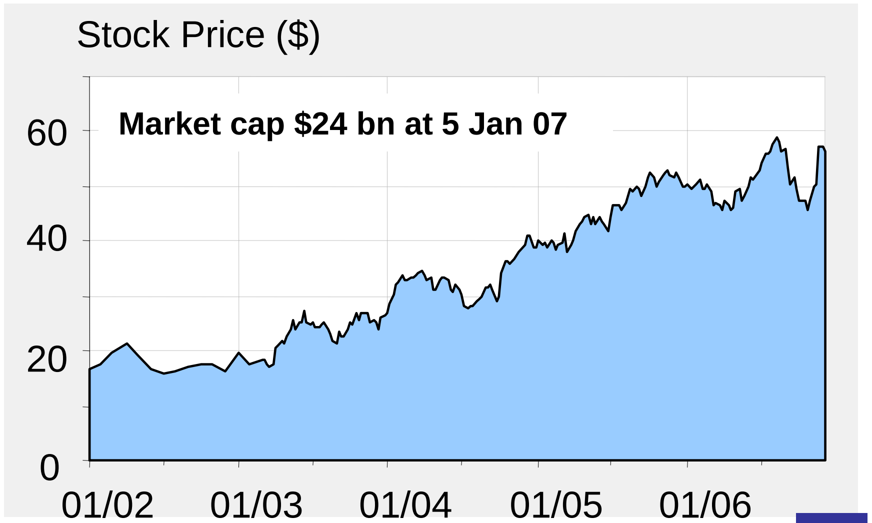


Warning Area (0 to 25) H-Score Industry Average

Latest H-Score 29 and declining.

Latest H-Score 59. Much stronger than Express





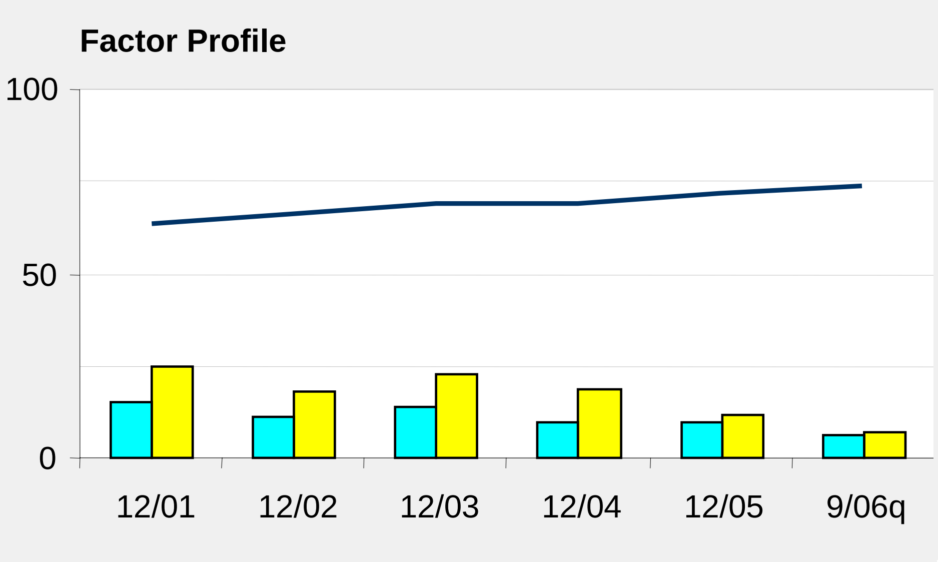
Overview

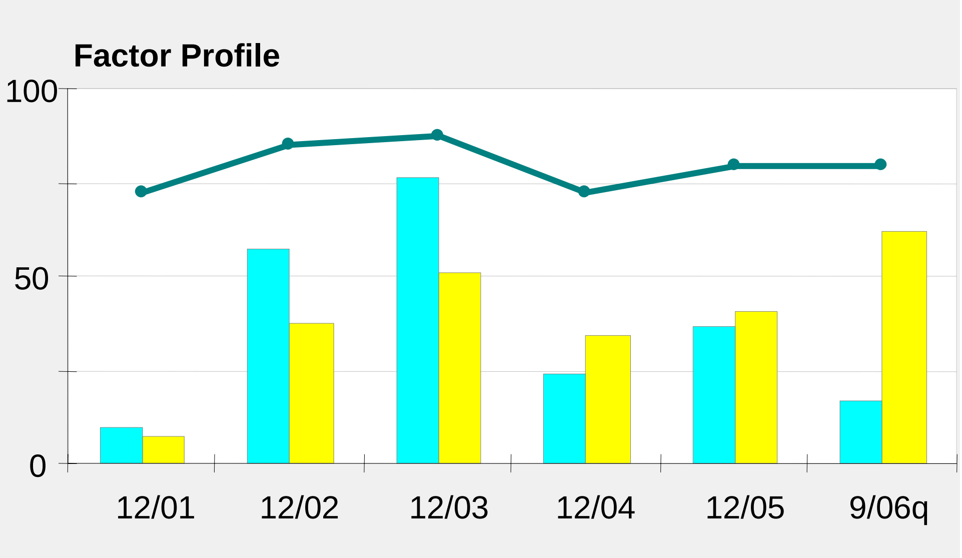
Express Scripts Inc

Caremark Rx Inc

The line measures the strength of profits and the bars the strength of the balance sheet

The higher the stronger





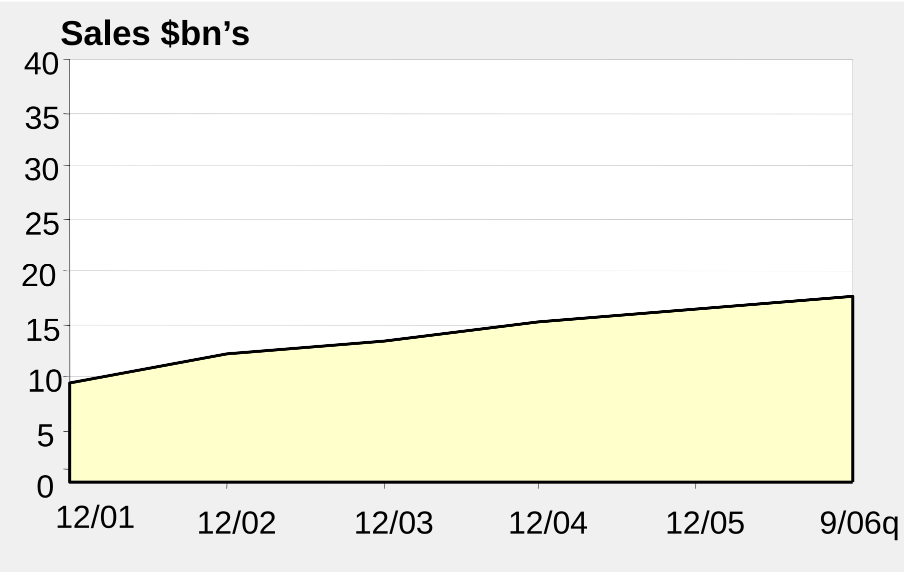
Funding management   Asset management   Profit management

Strong contribution from the profits. Well below-average balance sheet in all years

Strong contribution from the profits and strength of the funding.

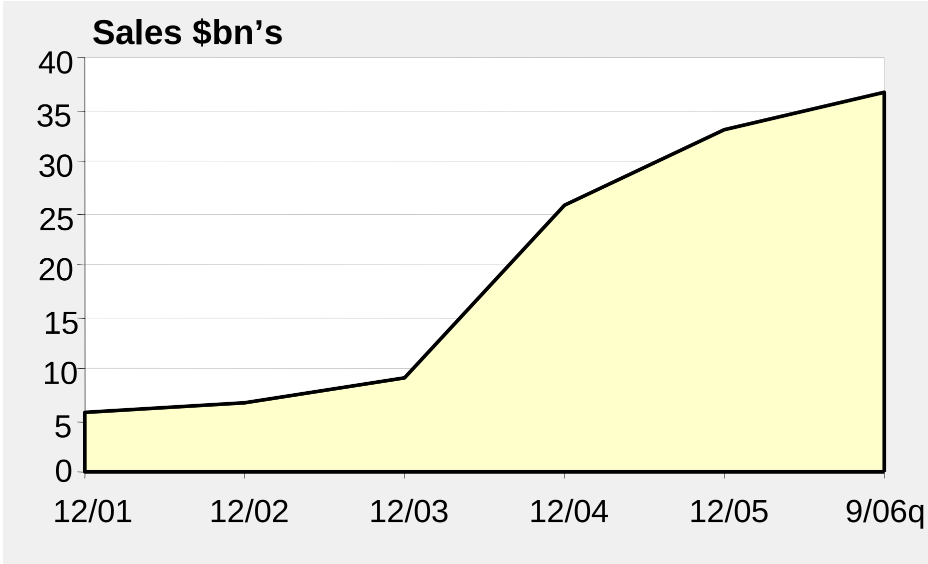
Financial trends

Express Scripts Inc



Sales rising steadily

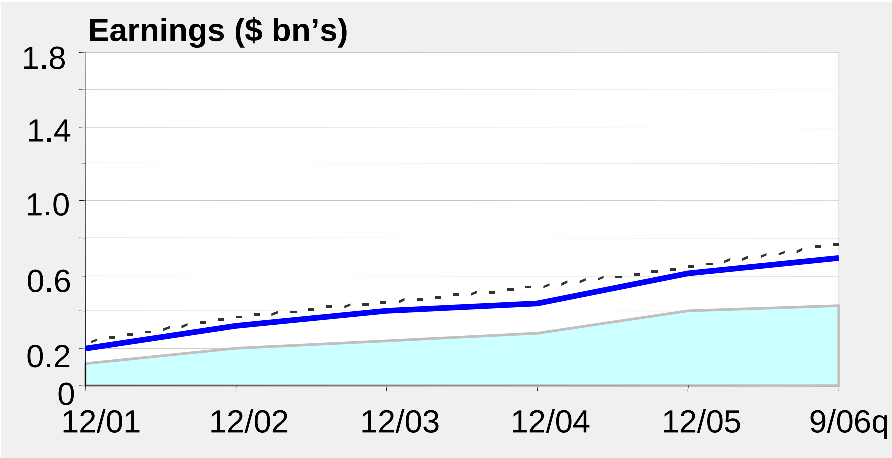
Caremark Rx Inc

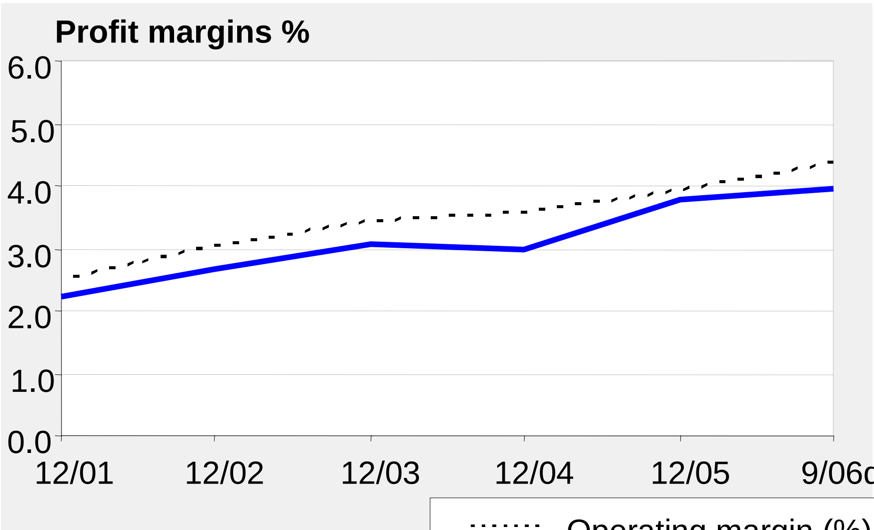


Rapid sales growth since 2003
Now over double that of Express Scripts

Financial trends

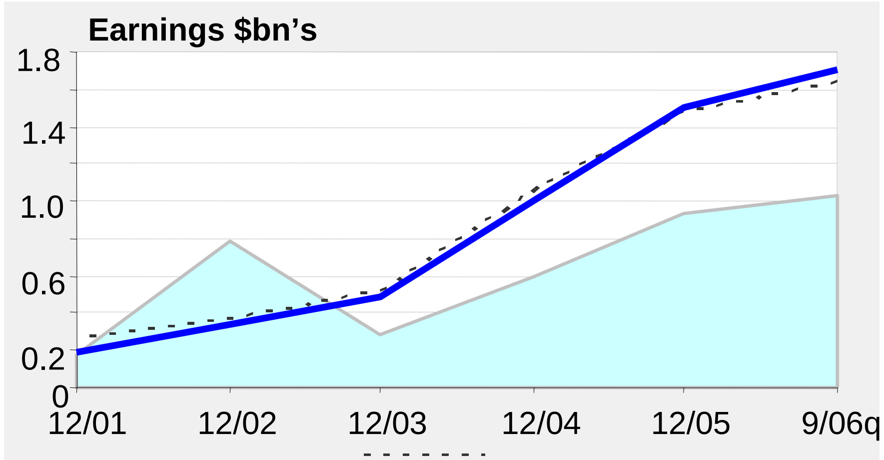
Express Scripts Inc



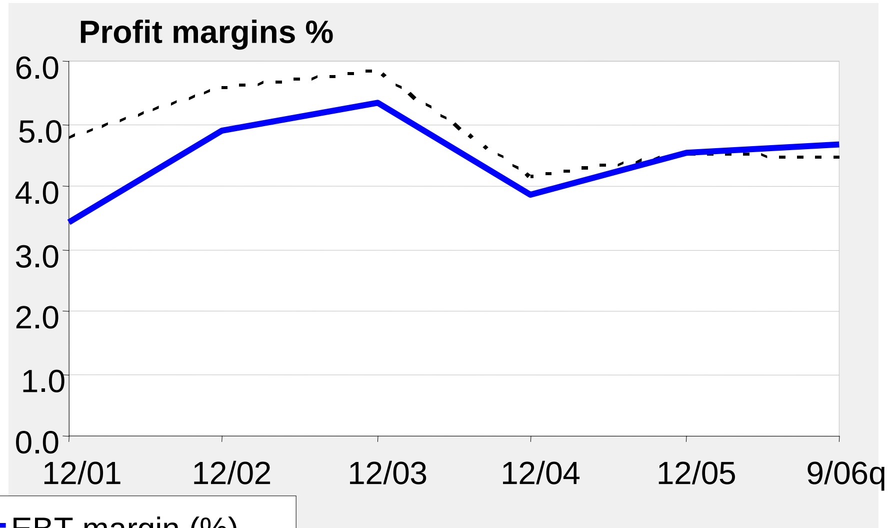


Rising earnings and rising margins

Caremark Rx Inc



Net income — Operating income — EBT

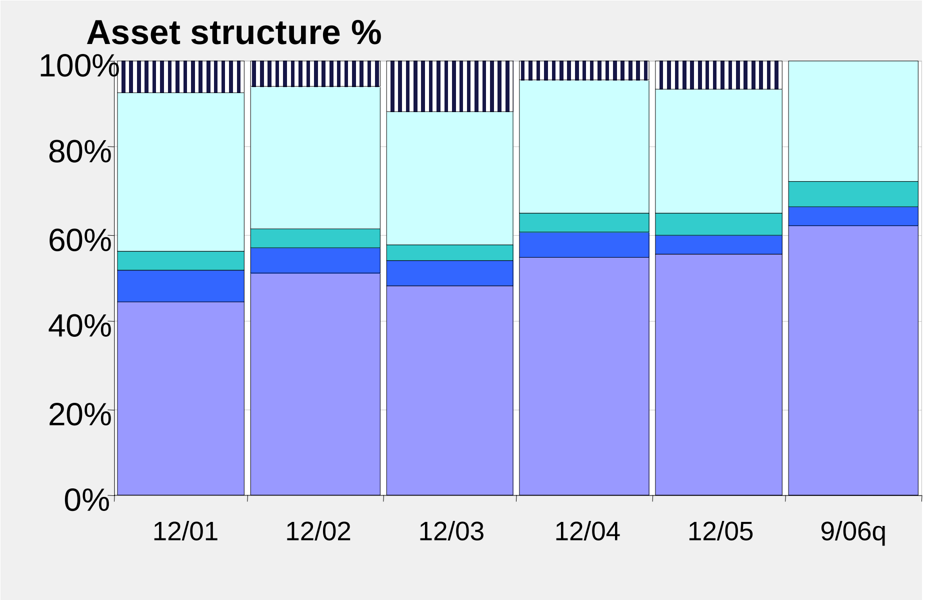


Operating margin (%) — EBT margin (%)

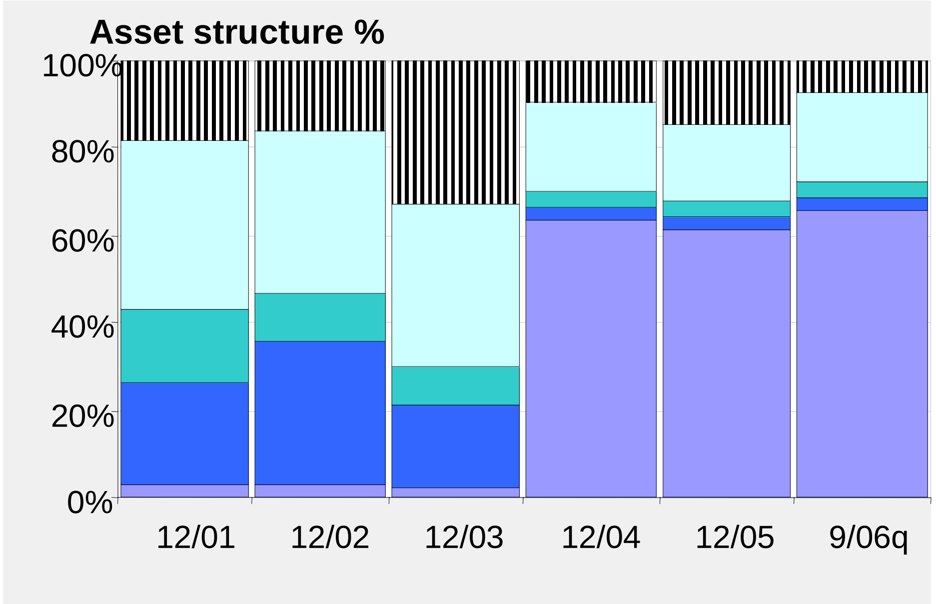
Earnings over double those of Express

Financial trends

Express Scripts Inc



Caremark Rx Inc



Intangibles Long assets Inventory Receivables Net cash

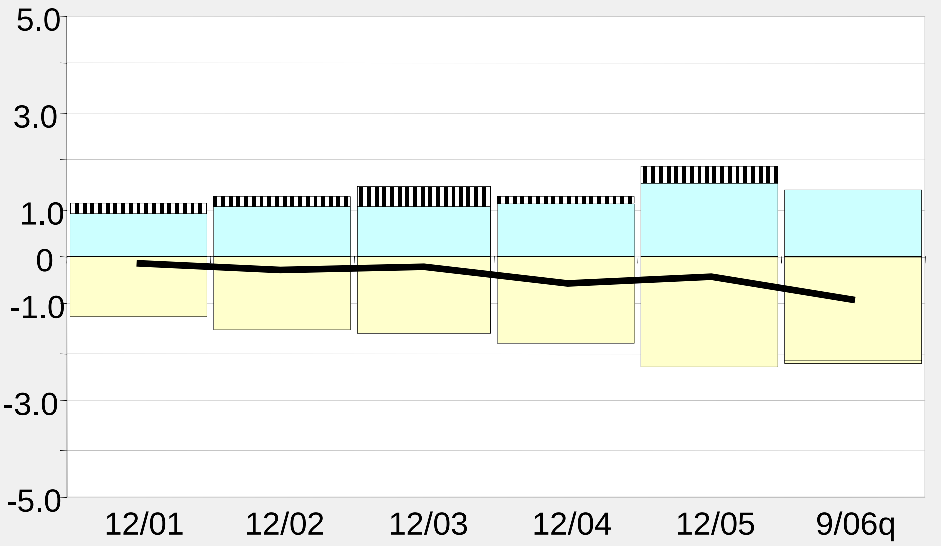
Similar asset structure in both companies with a huge investment in goodwill, low fixed assets and high liquid current assets

Financial trends

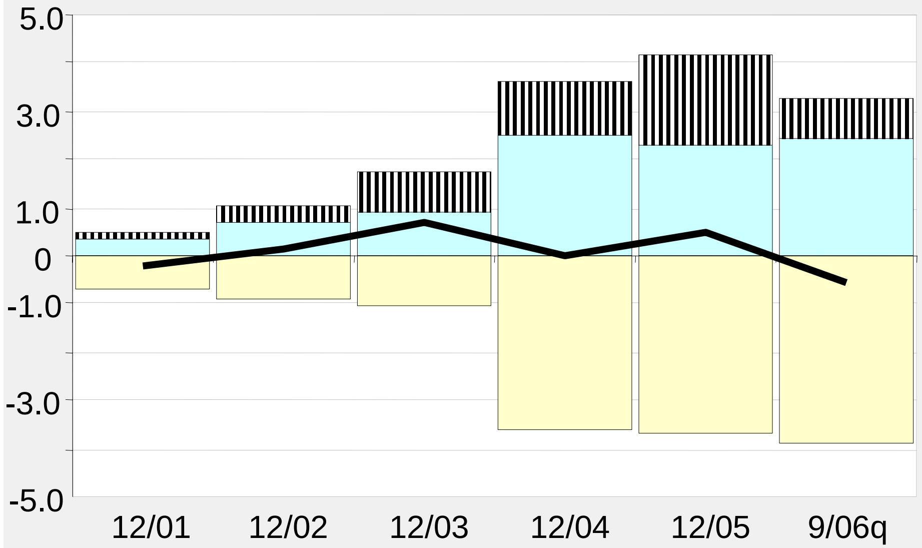
Express Scripts Inc

Caremark Rx Inc

Net quick assets ($ bn's)



Net quick assets ($ bn's)



Receivables   Payables   Net cash or Short debt   Net QA

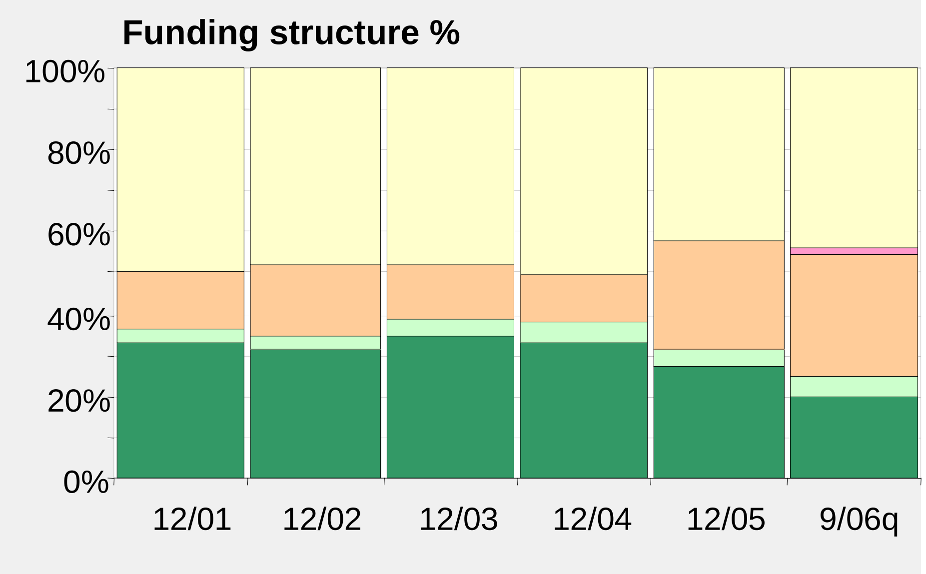
Net Quick assets consistently negative with payables higher than liquid assets

Net Quick assets usually positive but became negative at the September quarter

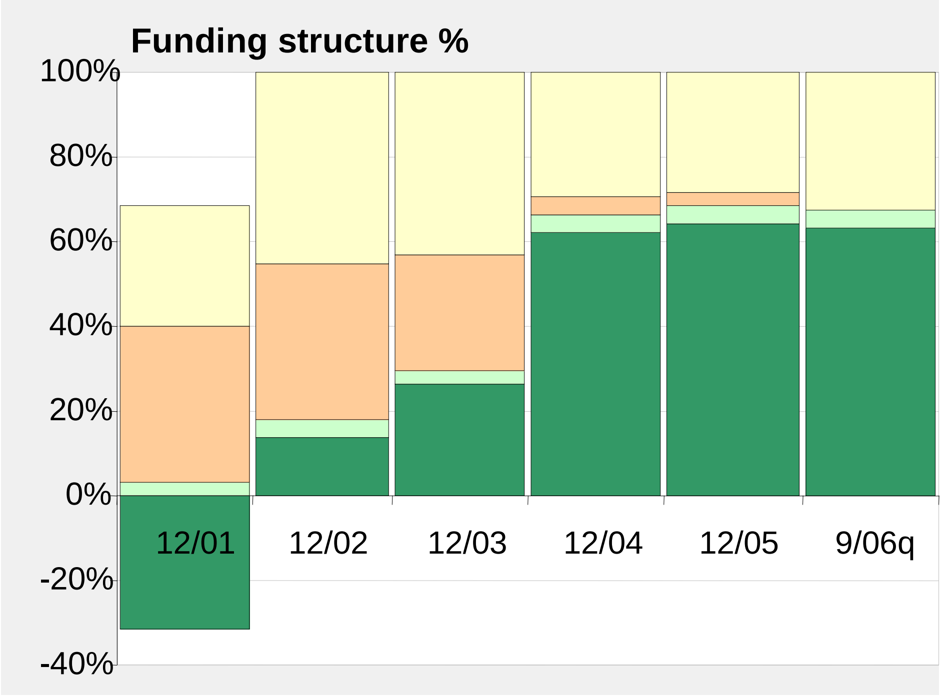
Net quick assets = Receivables + cash & equivalent - current liabilities

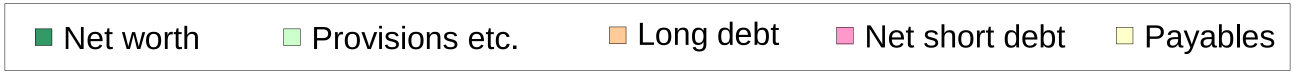
Financial trends

Express Scripts Inc



Caremark Rx Inc



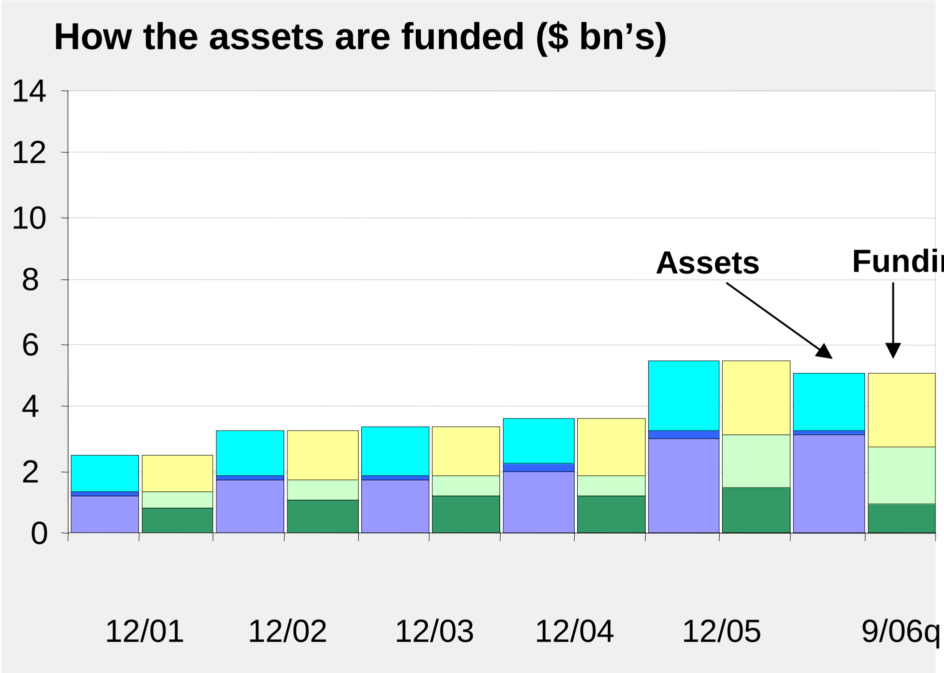


Low equity base, high debt and high payables

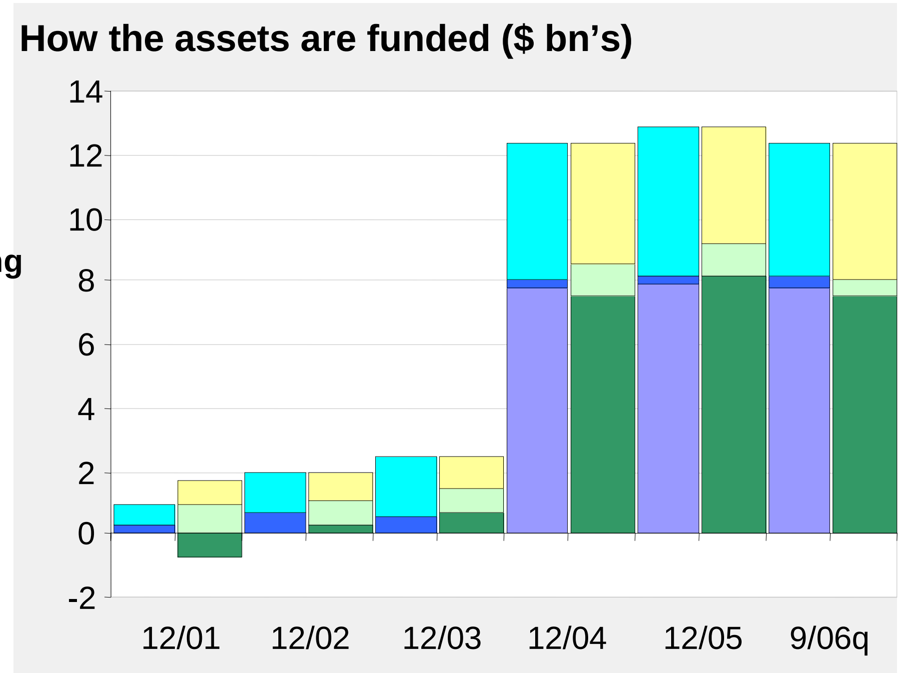
Strong equity base in last 3 years and now no debt

Financial trends

Express Scripts Inc



Caremark Rx Inc



Intangibles | Long term assets | Current assets | Net worth | Long term liabilities | Current liabilities

Intangibles not only absorb the company's entire net worth, they also absorb the total debt and, even some of the current liabilities

Although the net worth is totally absorbed by the intangibles, there is no debt. A stronger funding structure than Express Scripts

Company Watch tracking corporate financial health

Company in the News

Diagnosis

The H-Score model views any company from 7 points of view simultaneously

This provides the opportunity of understanding where the model has detected strengths or weaknesses with their trends over the past 5 years.

The next screen measures the contribution that profits have made towards reducing the risk from current liabilities.

The following two screens focus on the balance sheet. The first displays the strength of:

- Liquidity (Quick assets less current liabilities in relation to the rate of expenditure)
- Inventory & Receivables (What support is the working capital getting from the long term funding?)
- Current asset cover (To what extent do the current assets provide cover for the total liabilities of the business?)

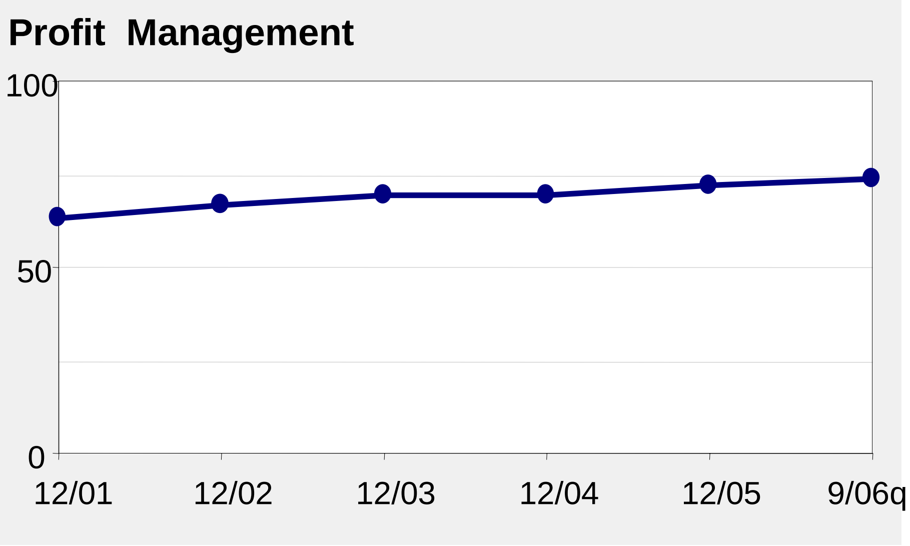
The second screen displays the strength of the funding:

- The strength of the equity base (Equity net of intangibles in relation to total liabilities)
- How dependent is the company on its current liabilities? (Current liabilities in relation to total tangible assets)
- How dependent is the company on debt with greater emphasis on short term debt? (Total debt in relation to tangible assets)

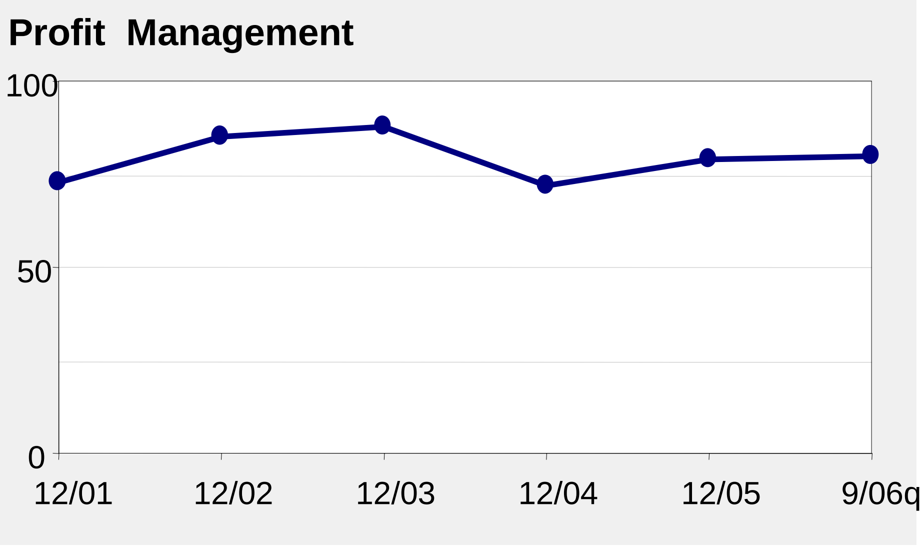
Diagnosis - Strength of the Profits

The higher the score, the stronger the company on that measure

Express Scripts Inc



Caremark Rx Inc



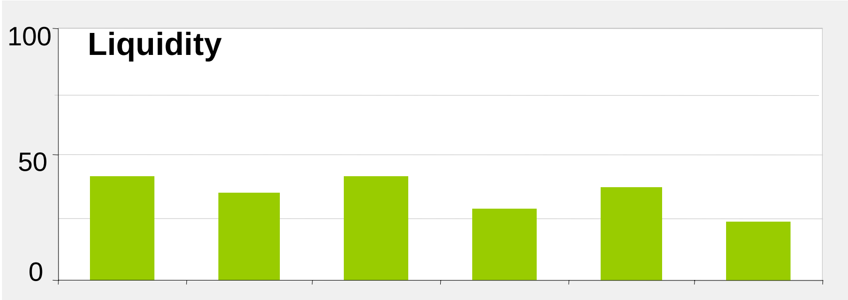
The profits of both companies make a valuable contribution to their financial health

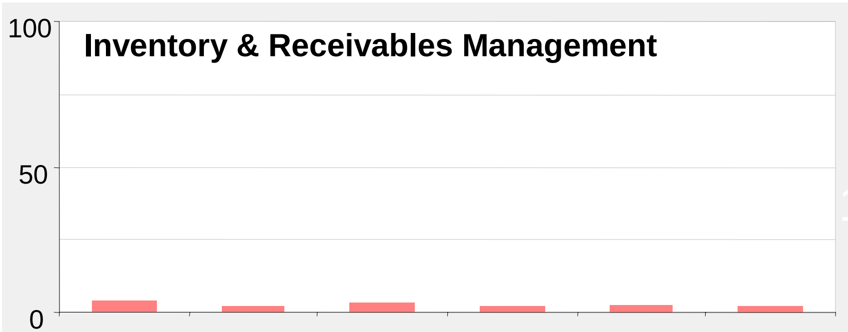
Diagnosis - Strength of the Balance Sheet - Assets

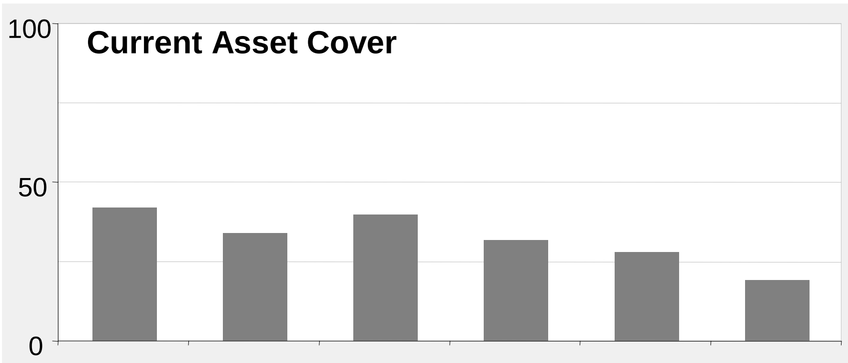
The higher the score, the better.

Express Scripts Inc

12/01 12/02 12/03 12/04 12/05 9/06q

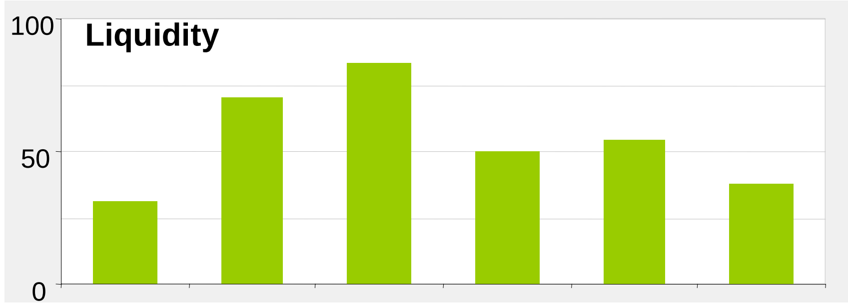


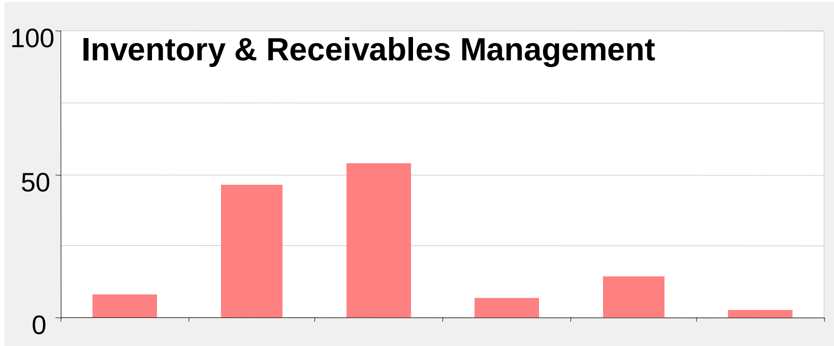


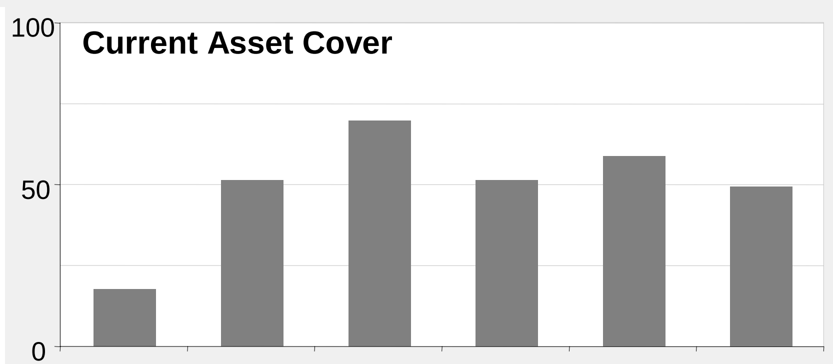


Caremark Rx Inc

12/01 12/02 12/03 12/04 12/05 9/06q







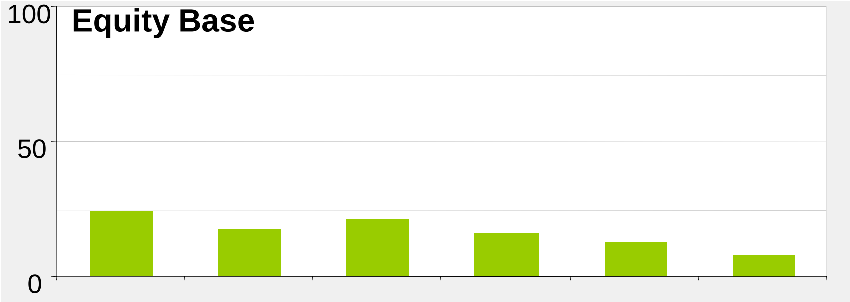
Express Scripts shows weaknesses on all measures. Liquidity is weak, long term funding in support of working capital is very low and there is little cover from current assets for the liabilities of the business. Caremark's liquidity is stronger but still below average, and the same low level of long term funding in support of working capital. Cover from current assets is stronger.

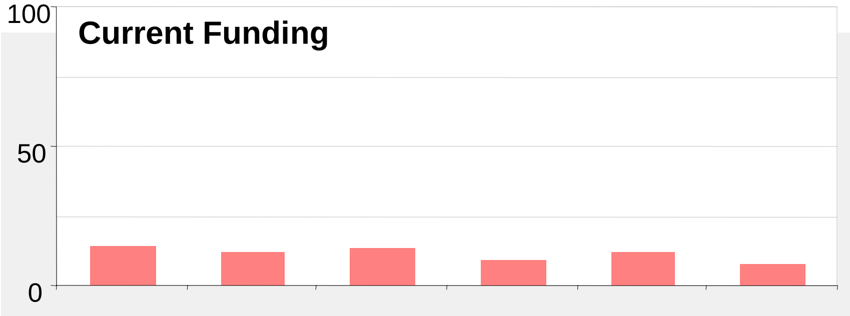
Diagnosis - Strength of the Balance Sheet - Funding

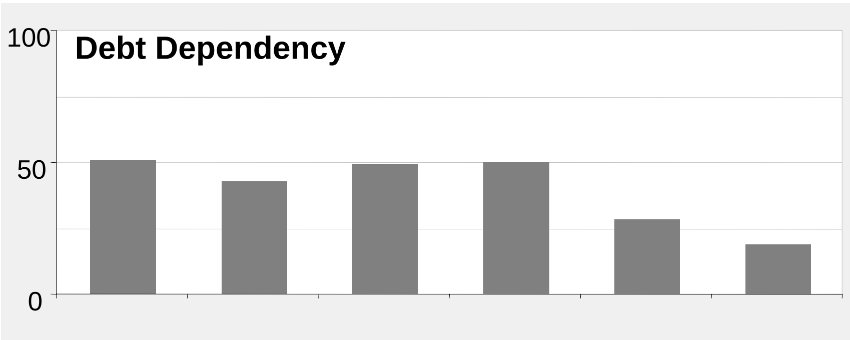
The higher the scores, the better

Express Scripts Inc

12/01 12/02 12/03 12/04 12/05 9/06q



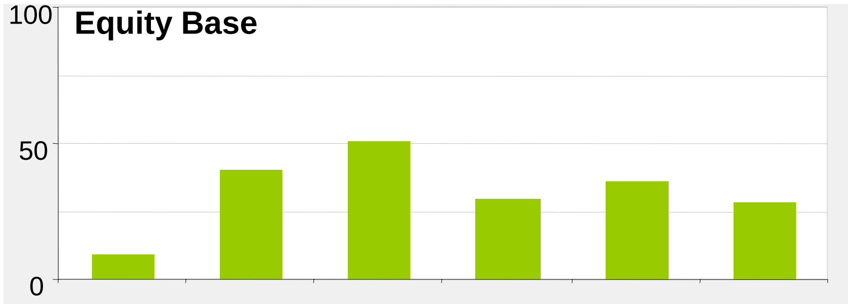


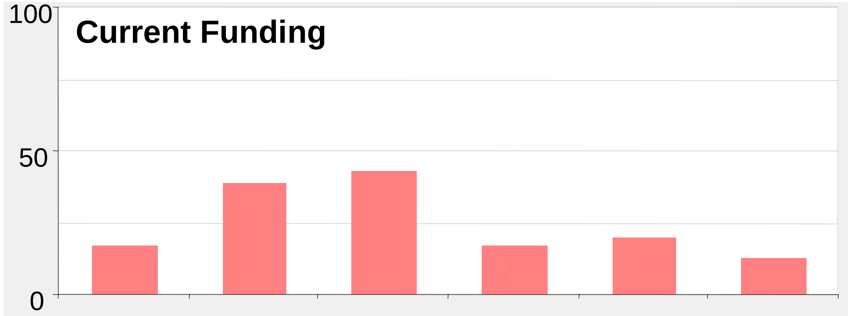


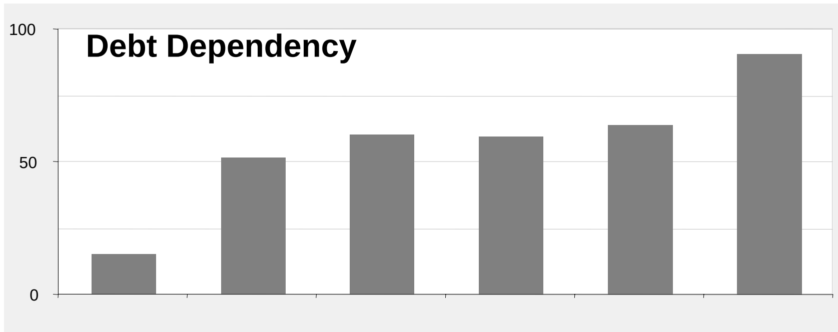
Express Scripts' funding structure is seen to weak on all 3 measures. Very low equity base, high dependence on current liabilities and on debt.

Caremark Rx Inc

12/01 12/02 12/03 12/04 12/05 9/06q







Caremark is stronger. Equity base is low but not as low as Express, High dependence on current liabilities but they score very well on debt as they have none

Conclusion

Express Scripts is making a bid for Caremark, a company well over double its size with substantially higher earnings and greater balance sheet strength.

Half of the $25bn offer is expected to be in the form of debt which will have a negative impact on the combined group financial health profile.

They will require substantial increases in earnings to compensate for the weakening of their balance sheet.