

CVS to Stop Selling Cigarettes, Tobacco Products by October

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Photographer: Victor J. Blue/Bloomberg

Pedestrians walk past a CVS Caremark Corp. store in New York.

CVS Caremark (CVS), the largest provider of **prescription drugs** in the U.S., plans to stop selling cigarettes and tobacco-related products across the nation by Oct. 1 in an effort to support the health of its patients and customers.

CVS, operator of 7,600 pharmacy stores in the U.S., would be the first national pharmacy chain to take this step, the Woonsocket, Rhode Island-based company said in a statement today. The decision will cut annual **revenue** by about \$2 billion, equating to 17 cents a share, CVS said.

The move comes as the company repositions itself as a health-care provider rather than solely a retail chain. In recent years, Chief Executive Officer Larry J. Merlo has been opening clinics -- there are now more than 700 -- and began a venture with Cardinal Health Inc. to be the biggest source of generic medicines in the U.S. CVS's retail operation generates about 70 percent of its sales selling prescription drugs.

CVS is also aligning itself with public policy. U.S health officials are trying to educate about 42 million U.S. adult smokers about the dangers of lighting up. Last month, a report from the acting U.S. Surgeon General, Boris Lushniak, cited new evidence that common ailments such diabetes, arthritis and impotence can be linked to tobacco use.

“Anytime a company puts public health and the long-term good ahead of short-term profit, it’s sort of an eye opener,” [Ross Muken](#), a New York-based analyst at ISI Group, said in a phone interview today.

Earnings Impact

The impact for 2014 earnings per share will be 6 cents to 9 cents following the change, CVS said. The company has identified “incremental opportunities” to offset the profitability impact, according to the statement.

CVS could make up some of the loss by reducing costs, said John Ransom, a [St. Petersburg](#), Florida-based analyst for Raymond James & Associates. Ransom has the equivalent of a buy rating on the shares.

“It was a lower-margin product, but \$2 billion in sales, that’s a pretty big number,” Ransom said in a phone interview today. “Until the market’s clear on what the offsets are the stock is going to be lower.”

The decision to abandon tobacco is the most recent step CVS has taken in a multi-year move to rely less on retail sales that started with its \$21.7 billion acquisition of benefits manager Caremark in 2007. Last year, CVS agreed to buy Coram LLC from Apria Healthcare Group Inc. for about \$2.1 billion, bringing the company into the business of providing medicines through needles and catheters.

CVS Competitors

“Ending the sale of cigarettes and tobacco products at CVS/pharmacy is the right thing for us to do for our customers and our company to help people on their path to better health,” CEO Merlo said in the statement. “Put simply, the sale of tobacco products is inconsistent with our purpose.”

CVS’s competitors could now be forced to explain their reasons for selling tobacco products and to weigh the profits against the risk of creating an inconsistent message to the consumer, ISI’s Muken said.

[Walgreen Co. \(WAG\)](#), the largest U.S. drugstore chain, will “continue to evaluate” tobacco products while providing education and alternatives to help reduce demand, Jim Graham, a spokesman for the Deerfield, Illinois-based company, wrote in an e-mailed statement today.

At the same time, discount dollar stores have been seeking to lure smokers. Last year, Dollar General Corp. Chief Executive Officer Richard Dreiling began an “aggressive rollout” of cigarettes and other products. The company sells tobacco in about 10,000 stores.

President [Barack Obama](#) applauded CVS’s move.

“As one of the largest retailers and pharmacies in America, CVS Caremark sets a powerful example,” he said in a separate statement. “Today’s decision will help advance my administration’s efforts to reduce tobacco-related deaths, cancer, and [heart disease](#), as well as bring down health care costs.”

CVS’s [shares](#) fell 1.3 percent to \$65.24 at 10:22 a.m. in [New York](#). The stock advanced 48 percent last year.