



Payer

CVS, Express Scripts provide a rare moment of transparency on rebate profits

by [Evan Sweeney](#) | Aug 10, 2018 3:07pm

CVS says it will make \$300 million on drug rebates. Express Scripts pulls in \$400 million. (Mike Mozart/CC BY 2.0)

Amid questions about the future of drug rebates, the nation's largest pharmacy benefit managers have provided a rare moment of



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difficult to pin down. As recently as June, CVS **told** Department of Health and Human Services Secretary Alex Azar that its PBM, CVS Caremark, passes 95% of rebates to commercial clients and their members.

But during an earnings call this week, CVS Health CEO Larry Merlo told investors the company keeps just 2% of rebates, passing the rest on to clients and consumers. For 2018, the company expects to retain \$300 million of rebates, which amounts to 3% of annual earnings.

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Meanwhile, a **financial disclosure** from Cigna indicates that Express Scripts retains approximately \$400 million per year from rebates and passes on 95% of "purchase discounts, price reductions and rebates" back to clients. Cigna reiterated its support for the merger, noting that the "elimination of rebates does not pose a material threat to the value of Cigna and Express Scripts combination."

In May, Express Scripts **said** it passes 90% of rebates back to clients, in line with **figures** from the Pharmaceutical Care Management Association.

The Office of Management and Budget is currently reviewing a proposed rule that **hints at changes to pharmacy rebates**, prompting questions from analysts about the financial impact that could have for companies like CVS and Express Scripts. This week's numbers were significantly less than Wall Street had previously assumed.

RELATED: Cigna reaffirms support for Express Scripts merger, calling Icahn's views 'shortsighted'

For both companies, which have pushed to downplay any possible changes to the rebate structure, the disclosures are more than a little self-serving. Cigna's disclosure comes as activist investor Carl Icahn issued a **second open letter** urging Cigna shareholders to block the company's merger with Express Scripts. In it, he pointed to a report by Ross Muken and Michael Newshel of Evercore ISI, who estimated that Express Scripts earns closer to \$1.1 billion on rebates. Regulatory changes to the rebate structure, he argued, would hurt the company's bottom line.

In a **previous letter**, he said the merger "may well become one of the worst blunders in corporate history."

CVS, meanwhile, is looking to close its own acquisition of Aetna, a deal that would tighten the PBM market, according to California regulators.

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But Merlo said the pass-through rates show the industry is benefiting from existing competition and that means insurers will continue to see a large portion of rebates.

"This is a good thing," he said. "It demonstrates that the market techniques used by PBMs do in fact work. And no matter what may happen to the ability to rebate, PBMs will still be needed to drive discounts and cost savings for their clients and members. And the PBM model will continue to evolve as a result."

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