

**NACDS Chairman of the Board Larry Merlo
President, CVS/pharmacy
2010 NACDS Annual Meeting**

Good Morning,

I'd like to begin by expressing my appreciation and gratitude for being selected as your Chairman for the next (12) months. It is certainly exciting to be heading up this very dynamic and impactful Association

It's also very humbling to be following a very long list of icons who have been responsible for building our very strong industry. It is truly an honor to represent the Chain Drug industry, and something I'll look at as one of the highlights of my career.

Before going any further, I'd like to ask all of us to show our appreciation for Andy Giancamilli for his leadership to NACDS over the past 18 months.

Andy, you've done an outstanding job for the Chain Drug industry. There have been many issues this past year that will impact our industry for years to come. You've navigated us on a steady course, and have us positioned in a very good place.

Obviously, one couldn't accept this position without the support and dedication of my colleagues at CVS. That all starts with my boss and someone you all know; Tom Ryan. Tom, thank you for your mentoring and support.

I'd like to also recognize the CVS Team that's here in attendance. I know all of us believe we have the most talented and hard working teams in the industry, and I'm no exception to that claim when I look at the job these individuals do every day. [Although I think they're looking forward to getting me out of the office a little more over the next year.]

I also want to recognize the outstanding leadership of Steve Anderson, who in (3) short years has shaped and redirected NACDS as one of the most outstanding trade associations in the industry. This past July, Steve was recognized by his association peers as one of the top Association CEO's.

We should also acknowledge the NACDS staff who have been hard at work, not just here at the Annual meeting, but throughout the year on our behalf. I'm looking forward to working closely with everyone over the next year.

And finally, the two most important people in my life, my wife of 31 years, Lee Ann; and our daughter, Kristen, who turns (16) in a few months.

My story starts with having an interest in Pharmacy back in high school. I loved the sciences and thought I wanted to be a Doctor. My mother kept saying, "Why do you

want to be a Doctor? They work too many hours!” Well, we certainly didn’t get that part right.

I had a Chemistry teacher who talked me into Pharmacy and off I went to the University of Pittsburgh.

While in Pharmacy school I got a job with Thrift Drug. I was very fortunate to have worked for several talented Thrift Managers who really peaked my interest in pursuing a career in Chain Drug.

That fortune continued with People’s Drug upon graduation. That was where I was introduced to NACDS. I’m sure there are a few people here that recall NACDS Annual, in 1983, being held in Washington, DC (it was actually the 50th Anniversary of NACDS).

Sid Dworkin of Revco was Chairman and Bud Fantle was the Anniversary Chairman. At that time I was a District Manager in DC and remember getting a call from Bud. “Larry, we have this meeting coming up, my friends, peers and colleagues are going to be here. I’m going to take them to a few stores and they better be standing tall.”

People’s was a great organization that led me to CVS through the People’s Acquisition in 1990. I quickly appreciated what CVS had to offer, where it was going, and its passion for the customer as well as its values.

I look back on the past 30+ years and reflect on all the experiences and ask myself, what would you change? My answer is nothing, I consider myself very fortunate and very lucky to be able to make such a claim.

Now that you know a little bit about my background, let’s talk about Pharmacy. While the role and value of the Pharmacist in a community setting has been a constant, a lot has changed in the Pharmacy business over the years.

Twenty years ago, cash customers represented 62% of our business vs. 5% today. The percent of prescriptions that are generics have more than doubled; and 20 years ago E-prescribing didn’t exist and today it represents 18% of eligible scripts.

And more change is on the way:

A positive for our industry is what some refer to as the Silver Tsunami – the fact that the over 65 population is expected to grow 65% by 2025, and we’ve heard this stat many times, those over 65 average 18 scripts/yr, almost 3 times that of a 35 year old.

There’s a lot to talk about with healthcare reform. Another positive for our industry is the gradual elimination of the Medicare Part D donut hole for Seniors, making

prescriptions more affordable, along with 32M Americans currently uninsured being provided coverage. Preliminary research calculates, when fully phased in, an additional 91 to 116M Rx's per year.

That being said, there are certainly challenges ahead; challenges that we must confront this year.

The first centers around the AWP Pricing Benchmark. It goes away no later than Sept 2011. Today, it remains unclear what the new benchmark will be. We must work with all interested and affected parties to ensure we have a new benchmark that provides the correct basis for fair and appropriate reimbursement.

We talked about some positives of healthcare reform, but what will the next phase bring? Over the past year, we have witnessed a historic debate over how to improve the healthcare system. In particular, how to increase access, improve quality and lower cost. I think we all agree that the federal government has opted for broadening access. We certainly play in that space. Today 92% of the U.S. population lives within 5 miles of a retail pharmacy.

However, solutions for the critical issue of controlling the costs of healthcare remain unresolved. Very few of the new mechanisms in the reform package will tame healthcare inflation, and ideas for controlling costs will be in greater demand as access widens. I think this is where we come to play.

As an industry, I believe we are positioned to help control the costs of healthcare by advocating for the value of what I'm going to call Pharmacy Care. We know Chronic Disease treatment drives costs in American medicine.

Our strategy for ensuring the use of cost effective medications is pretty clear; we need to promote adherence and effectiveness.

Adherence is simply a matter of ensuring that patients are filling and taking the medications that providers have prescribed.

Effectiveness, defined by the Institute of Medicine, is ensuring care is delivered in accordance with evidence based guidelines, working with Physicians to prescribe the correct medications for chronic diseases. In both areas, current research would suggest there are tremendous gaps.

One in three patients who start on a maintenance script will decide to discontinue its use before their first refill is even due. Three out of 4 people will stop their medication within the first year of treatment and fewer than one-half take in their doses as prescribed. Poor medication adherence is costing the U.S. healthcare system 290B a year in avoidable and costly health complications.

So if we signal patients to take their medications, and suggest to Physicians when there are gaps in care that need to be filled, we are pursuing excellent pharmacy care. By that definition, pharmacy care is the cost effective treatment of disease, particularly chronic disease through better mechanisms to promote adherence and effectiveness.

The terminologies have been out there for years: MTM (Medication Therapy Management), DM (Disease Management). It doesn't matter what we call it, the time is now to examine the trends in the delivery of healthcare and the role of community pharmacy, not just today but into the future as well.

We're hearing more and more about pharmacogenomics and personalized medicine; defined as the use of an individual's clinical, genetic and environmental information to choose a therapy or recommend preventive measures. This type of testing and treatment will certainly contribute to effective utilization and optimize health outcomes, but what is community pharmacy's role in that space?

We must define the value for community pharmacy in a reformed healthcare delivery system. If you want to define the healthcare equation as access – cost – and quality, I would offer that our industry, community pharmacy, is in the best position to effectively and positively contribute to all three pillars of that healthcare equation.

Most important of all, we must ensure that the value of the pharmacy industry and its pharmacists are recognized by payer reimbursement policies; not just for the products we sell, but for the services we provide.

I've been talking a lot about change. It would be interesting to be able to add up the years of service to this industry represented by the people here today. Collectively, we have seen a lot of change in this industry over the past 70+ years, from that very first NACDS Annual Convention in Rye, NY attended by some 400 people.

And different today is the diversity of our organization, and the many different successful business models represented in this room. There are club stores and mass merchants operating pharmacies. The Supermarkets, the Regional and National chains, and yes the fact that some of those chains also own a PBM.

That being said, there is more that unites us, than divides us. That unity is exhibited by the job performed by the 118K Pharmacists our member companies employ, as well as our collective belief that the value our Pharmacists bring to healthcare delivery is unmatched by any other distribution channel.

There is just no substitute for the face-to-face interaction and relationship that exists between a retail pharmacist and their customers.

The name on the door proves no boundary, from Wal-Mart to Walgreen's, HEB, Target, Rite Aid, Bartells, Kerr Drug, Lewis Drug, Kinney Drug, CVS/pharmacy, along with the corner drug store. Our Pharmacists are doing wonderful things helping to improve the quality of life for millions of people every day.

The pillar of trust that Americans have in their Pharmacist is something that makes all of us proud; and it is a trust that has been earned and continues to be earned each and every day.

1981 was the first listing of Pharmacists in the Gallup Poll of most trusted professions. Pharmacists have been the only profession to be listed in the top 3 in each of the past 28 years.

As I said earlier, there will be issues and challenges we will have to overcome, and through the NACDS agenda, we will continue to work hard to navigate through the complexities the future brings.

But again there is more that unites us than divides us, and it's the value our Pharmacists bring to the healthcare equation, as well as role they play in their communities. It's the trust exhibited and the emotional connection with patients. That story needs to continue to be told many times over. That's what earns us a seat at the table.

Once again, thank you for allowing me to serve NACDS. I look forward to working with all of you.