

## CVS Announces Potential Acquisition of Aetna

As of October 26, 2017, the *Wall Street Journal* announced that CVS Health Corporation is in discussions with Aetna Inc. regarding a prospective acquisition.<sup>1</sup> This transaction would potentially give CVS a strategic marketplace advantage over one of its main competitors, Amazon,<sup>2</sup> which is expected to enter the pharmacy business after having acquired licenses in several states to operate as a pharmacy wholesaler.<sup>3</sup> The acquisition would join Aetna's insurance division with CVS's *pharmacy benefit management* (PBM) division,<sup>4</sup> allowing CVS to expand on and secure the number of members for its PBM,<sup>5</sup> as well as providing the entity with more leverage over pharmaceutical manufacturers when negotiating the cost of drugs.<sup>6</sup> The consolidation could happen as early as December 2017,<sup>7</sup> and would be the largest business transaction of the year,<sup>8</sup> totaling more than \$70 billion.<sup>9</sup> However, the *Department of Justice* (DOJ) may challenge this acquisition, given the large market shares held by both Aetna and CVS, and the acquisition's potential negative effects on consumers.<sup>10</sup> The acquisition may also significantly impact the healthcare industry, and may pose a direct threat to competitors of CVS and Aetna, including: Amazon, Anthem, Express Scripts, Centene, WellCare, and Humana.<sup>11</sup> In this *Health Capital Topics* article, the potential effects of consolidation between Aetna and CVS on both consumers and the healthcare industry will be discussed.

It remains to be seen whether this proposed consolidation will elicit attention from the DOJ, which could ultimately lead to the abandonment of acquisition plans.<sup>12</sup> In the past, several proposed consolidations failed to advance after encountering legal scrutiny from the DOJ and federal judges, such as the proposed 2017 Cigna-Anthem merger and the proposed 2017 Aetna-Humana merger,<sup>13</sup> because they had the potential to harm consumers.<sup>14</sup> However, unlike the proposed Cigna-Anthem or Aetna-Humana mergers, which were examples of *horizontal* integration, i.e., integration between two similar types of entities, the CVS-Aetna proposed merger is an example of *vertical* integration, or integration between a buyer and supplier, making the effects of the acquisition more unclear due to the lack of legal precedence for these types of antitrust cases.<sup>15</sup> The DOJ may argue that the CVS-Aetna merger is more harmful to consumers than the Cigna-Anthem or Aetna-Humana mergers because of an effect termed the *double margins puzzle*.<sup>16</sup> With vertical integration, at least two types of organizations with

different profit-earning motives consolidate to form two profit centers along a supply chain, unlike horizontal integration, in which at least two types of organizations with similar profit-earning motives consolidate to form one profit center.<sup>17</sup> Vertical integration may be more harmful to consumers because the formation of two profit centers along a supply chain may give the companies more leverage to negotiate for higher prices, increasing the price of goods and services more so than if the companies only had one profit center.<sup>18</sup> Conversely, CVS and Aetna may argue that the integration of CVS's PBM division and Aetna's insurance division facilitates cost savings that will ultimately lower the cost of services for consumers.<sup>19</sup> Such efficiencies may primarily arise from the increased leverage that the joined companies would have over pharmaceutical companies when negotiating drug prices.<sup>20</sup> However, the DOJ may argue that CVS and Aetna will have little incentive to allocate some of the cost savings to consumers, and will instead retain the profits for themselves.<sup>21</sup>

The acquisition of Aetna by CVS will likely alter the dynamic of the healthcare industry. For example, consolidation is likely to make CVS and Aetna a competitor to Amazon, which, as noted above, is seeking to enter the pharmaceutical wholesaler business after receiving licenses to do so in several states.<sup>22</sup> Further, vertical integration between CVS's PBM arm and Aetna's health insurance arm allows for the elimination of a separate PBM middle-man, increasing organizational efficiencies, and posing a threat to stand-alone PBMs such as Express Scripts, as well as insurers, such as WellCare, Centene, Anthem, and Humana, who are all direct competitors.<sup>23</sup> Anthem, which recently terminated its partnership with Express Scripts,<sup>24</sup> is now partnering with CVS to form its own PBM.<sup>25</sup> An acquisition of Aetna by CVS may generate a conflict of interest, in which CVS may have to terminate its relationship with Anthem, requiring Anthem to find a new PBM with which to partner.<sup>26</sup> Overall, the acquisition is likely to spur change within the healthcare industry, with not only horizontal integration continuing to occur, but with vertical integration becoming increasingly common as well.

If the acquisition of Aetna by CVS is allowed to proceed, it would be one of the largest transactions in the U.S. healthcare industry, as CVS currently holds 25 percent of the U.S. market share for prescription drug sales,<sup>27</sup> and

Aetna holds 6 percent of the market share for health insurance plans.<sup>28</sup> An acquisition of this size may give rise to regulatory scrutiny from the DOJ due to concerns over the potential negative effects that the consolidation may have on consumers.<sup>29</sup> If the DOJ determines that the acquisition is in fact harmful to consumers, then acquisition plans are likely to come to a halt, and a legal precedent is likely to be set for future vertical integration cases among other healthcare organizations.<sup>30</sup> However, CVS and Aetna may argue that vertical integration between the two companies will help lower the cost of providing healthcare services through increased efficiencies, effectively benefitting consumers.<sup>31</sup>

Consolidation among the two entities may also bring significant change to the healthcare industry, and may pose a threat to their competitors, such as other health insurers and PBMs.<sup>32</sup> In recent years, consolidation has become a more common practice among healthcare entities, as the cost of providing healthcare services is becoming increasingly unaffordable for these organizations, due to the rising costs of medical supplies and pharmaceuticals,<sup>33</sup> as well as declining reimbursement rates from payors.<sup>34</sup> Consolidation may help these organizations persevere in an increasingly competitive healthcare environment.

1 “CVS Makes Blockbuster Aetna Bid” By Dana Mattioli, Sharon Terlep, and Anna Wilde Mathews, *The Wall Street Journal* (October 26, 2017), <https://www.wsj.com/articles/cvs-health-is-in-talks-to-buy-aetna-sources-1509047642> (Accessed 11/10/2017).  
2 *Ibid.*  
3 “A merger between CVS Health and Aetna could be what the doctor ordered” *The Economist* (November 4, 2017), <https://www.economist.com/news/business/21730906-vertical-integration-could-put-brake-americas-unsustainably-soaring-health-care-costs> (Accessed 11/13/2017).  
4 “The CVS-Aetna Merger Hinges on One Question: What Do Consumers Get Out of It?” By Benjamin Gomes-Casseres, *Harvard Business Review* (November 7, 2017), <https://hbr.org/2017/11/the-cvs-aetna-merger-hinges-on-one-question-what-do-consumers-get-out-of-it> (Accessed 11/10/2017).  
5 Mattioli et al., October 26, 2017.  
6 “CVS, Aetna aim to finalize deal as early as December: Report” Reuters, CNBC (November 3, 2017), <https://www.cnbc.com/2017/11/03/cvs-aetna-aim-to-finalize-deal-as-early-as-december-report.html> (Accessed 11/10/2017).  
7 *Ibid.*  
8 “CVS and Aetna’s mega health insurance merger could set a record” By Nathaniel Meyersohn, *CNN Money* (October 27, 2017), <http://money.cnn.com/2017/10/27/news/cvs-aetna-largest-deal/index.html> (Accessed 11/10/2017).  
9 Reuters, November 3, 2017.  
10 Gomes-Casseres, November 7, 2017.  
11 *The Economist*, November 4, 2017.  
12 Gomes-Casseres, November 7, 2017.  
13 *Ibid.*; “Aetna-Humana & Anthem-Cigna. Two mergers die in one day” By Aaron Smith and Jackie Wattles, *CNN Money*,

(February 14, 2017)  
<http://money.cnn.com/2017/02/14/investing/aetna-humana/index.html> (Accessed 11/17/2017).  
14 Gomes-Casseres, November 7, 2017.  
15 *Ibid.*  
16 *Ibid.*  
17 *Ibid.*  
18 *Ibid.*  
19 *Ibid.*  
20 Reuters, November 3, 2017.  
21 Gomes-Casseres, November 7, 2017.  
22 *The Economist*, November 4, 2017.  
23 *Ibid.*  
24 *Ibid.*  
25 Mattioli et al., October 26, 2017.  
26 *The Economist*, November 4, 2017.  
27 *Ibid.*  
28 “Profiles of the Eight Largest Health Insurers: 2016” Atlantic Information Services, Inc., AIS Health Data, 2016, <https://aishealth.com/sites/all/files/bp82016.pdf> (Accessed 11/17/2017), p. 4.  
29 Gomes-Casseres, November 7, 2017.  
30 *Ibid.*  
31 *Ibid.*  
32 *The Economist*, November 4, 2017.  
33 *Ibid.*  
34 “Declining Reimbursement and the Physicians” SPi Healthcare, SPi Healthcare Insights, [http://www.hfma.org/brg/pdf/Insights%20-%20Declining%20Reimbursement%20and%20the%20Physician%20s\\_89A10412-E469-ECA9-B0A0CC017A883888.pdf](http://www.hfma.org/brg/pdf/Insights%20-%20Declining%20Reimbursement%20and%20the%20Physician%20s_89A10412-E469-ECA9-B0A0CC017A883888.pdf) (Accessed 11/17/2017).



(800)FYI - VALU

Providing Solutions  
in the Era of  
Healthcare Reform

Founded in 1993, HCC is a  
nationally recognized healthcare  
economic financial consulting firm

- [HCC Home](#)
- [Firm Profile](#)
- [HCC Services](#)
- [HCC Experts](#)
- [Clients & Projects](#)
- [HCC News](#)
- [Upcoming Events](#)
- [Contact Us](#)
- [Email Us](#)

## HCC Services

- [Valuation Consulting](#)
- [Commercial Reasonableness Opinions](#)
- [Commercial Payer Reimbursement Benchmarking](#)
- [Litigation Support & Expert Witness](#)
- [Financial Feasibility Analysis & Modeling](#)
- [Intermediary Services](#)
- [Certificate of Need](#)
- [ACO Value Metrics & Capital Formation](#)
- [Strategic Consulting](#)
- [Industry Research Services](#)



**Robert James Cimasi**, MHA, ASA, FRICS, MCBA, CVA, CM&AA, serves as Chief Executive Officer of **HEALTH CAPITAL CONSULTANTS (HCC)**, a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Master in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Institution of Chartered Surveyors (FRICS – Royal Institution of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Certified Valuation Analyst (CVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, and is the author of several books, the latest of which include: *“The Adviser’s Guide to Healthcare – 2nd Edition”* [2015 – AICPA]; *“Healthcare Valuation: The Financial Appraisal of Enterprises, Assets, and Services”* [2014 – John Wiley & Sons]; *“Accountable Care Organizations: Value Metrics and Capital Formation”* [2013 – Taylor & Francis, a division of CRC Press]; and, *“The U.S. Healthcare Certificate of Need Sourcebook”* [2005 – Beard Books].

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious *“Shannon Pratt Award in Business Valuation”* conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows. In 2011, he was named a Fellow of the Royal Institution of Chartered Surveyors (RICS). In 2016, Mr. Cimasi was named a *“Pioneer of the Profession”* as part of the recognition of the *National Association of Certified Valuators and Analysts (NACVA) “Industry Titans”* awards, which distinguishes those whom have had the greatest impact on the valuation profession.



**Todd A. Zigrang**, MBA, MHA, ASA, FACHE, is the President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 20 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 1,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of *“The Adviser’s Guide to Healthcare – 2nd Edition”* [2015 – AICPA], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Accountant’s Business Manual* (AICPA); *Valuing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies: Business Appraisal Practice*; and, *NACVA QuickRead*. In addition to his contributions as an author, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); the National Association of Certified Valuators and Analysts (NACVA); Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.

Mr. Zigrang holds a Master of Science in Health Administration (MHA) and a Master of Business Administration (MBA) from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives (FACHE) and holds the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers, where he has served as President of the St. Louis Chapter, and is current Chair of the ASA Healthcare Special Interest Group (HSIG).



**John R. Chwarzinski**, MSF, MAE, is Senior Vice President of **HEALTH CAPITAL CONSULTANTS (HCC)**. Mr. Chwarzinski’s areas of expertise include advanced statistical analysis, econometric modeling, as well as, economic and financial analysis. Mr. Chwarzinski is the co-author of peer-reviewed and industry articles published in *Business Valuation Review* and *NACVA QuickRead*, and he has spoken before the Virginia Medical Group Management Association (VMGMA) and the Midwest Accountable Care Organization Expo.

Mr. Chwarzinski holds a Master’s Degree in Economics from the University of Missouri – St. Louis, as well as, a Master’s Degree in Finance from the John M. Olin School of Business at Washington University in St. Louis. He is a member of the St. Louis Chapter of the American Society of Appraisers, as well as a candidate for the Accredited Senior Appraiser designation from the American Society of Appraisers.



**Jessica L. Bailey-Wheaton**, Esq., is Vice President and General Counsel of **HEALTH CAPITAL CONSULTANTS (HCC)**, where she conducts project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions and provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. Ms. Bailey-Wheaton is a member of the Missouri and Illinois Bars and holds a J.D., with a concentration in Health Law, from Saint Louis University School of Law, where she served as Fall Managing Editor for the *Journal of Health Law & Policy*.



**Daniel J. Chen**, MSF, is a Senior Financial Analyst at **HEALTH CAPITAL CONSULTANTS (HCC)**, where he develops fair market value and commercial reasonableness opinions related to healthcare enterprises, assets, and services. In addition he prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services and applies utilization demand and reimbursement trends to project professional medical revenue streams and ancillary services and technical component (ASTC) revenue streams. Mr. Chen has a M.S. in Finance from Washington University St. Louis.