

CtW Investment Group

January 9, 2007

Thomas M. Ryan
Chairman, President and Chief Executive Officer
CVS Corporation
One CVS Drive
Woonsocket, RI 02895

George Paz
Chairman of the Board, President, and Chief Executive Officer
Express Scripts, Inc.
13900 Riverport Drive
Maryland Heights, Missouri 63043

Dear Messrs Ryan and Paz:

Yesterday's decision by the Caremark board of directors to reject Express Scripts' \$26 billion cash and stock bid means that Caremark shareholders will soon vote on a proposed all-stock merger with CVS at a special meeting. In response, Express Scripts has announced its intention both to solicit proxies against approval of the proposed CVS merger and to nominate four directors for election at Caremark's annual meeting in the spring. As a result, the CVS merger vote will in effect be a decision between competing merger proposals.

I therefore write on behalf of the CtW Investment Group to invite you and members of your respective company's boards and management to participate in a forum for Caremark shareholders on February 7, 2007 in New York City. We are organizing this forum so pension funds and other institutional Caremark shareholders may better evaluate these competing proposals and raise their concerns with each of you in separate, back-to-back sessions.

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a federation of unions representing more than 6 million members. Many of these funds are substantial long-term Caremark shareholders with an estimated 1.5 million shares. In addition to these funds, their investment managers, and proxy voting fiduciaries, we also plan to invite public pension funds in which CtW union members participate. We estimate these funds own an additional 18.7 million Caremark shares.

Our work with union-sponsored and public pension funds includes review of major transactions, such as the rival bids for Caremark, and other contests for corporate control. We believe active engagement with corporate boards and/or shareholders at these critical junctures can help to prevent, or change the terms of, transactions that would otherwise reduce shareholder value. In the past year, we have spearheaded shareholder engagements with Heinz, Gold Kist and Lafarge North America that we believe helped lead to improved terms for investors, or helped to prevent changes in corporate control and strategy that could have destroyed shareholder value. At present, we are urging Rite Aid shareholders to vote against the company's acquisition of Brooks and Eckerd drugstores because we believe it is paying too much and assuming too much risk.

With respect to the competing Caremark offers, we believe shareholders will ultimately support the bidder that best combines a reasonable premium, a compelling strategic rationale that takes into account financial and regulatory risks, and a realistic prospect that the merged company will be responsibly governed by an independent board dedicated to holding management accountable to shareholders. We have reviewed the preliminary materials disclosed to shareholders by both CVS and Express Scripts, and have serious reservations about both possible mergers as currently proposed. We outline our assessment of the competing proposals below, and ask that you address those issues relevant to your respective bid as part of your presentations to shareholders. In addition, since Caremark shareholders will remain owners following a merger with either bidder, we ask that you also review your corporate governance, including executive compensation policies and the qualifications, independence and performance of your respective directors and nominees.

I. CVS's Bid: Undervalues Caremark and Provides No Collar

Is the CVS Deal at a Fair Price?

We have two major concerns with the “merger of equals” agreement with CVS that Caremark’s board approved: first, it fails to provide fair value for Caremark shares, and second, it does not adequately protect Caremark shareholders against declines in CVS’s share price.

We arrived at our first conclusion after considering both the premiums and EBITDA multiples obtained by shareholders of pharmacy benefit managers and specialist pharmacies in recent years. As Table 1 below shows, the consideration CVS proposes for Caremark shareholders values the company at a much smaller multiple to trailing EBITDA than other recent pharmacy-benefit related transactions. In particular, we note that in 2004 Caremark itself provided Advance PCS shareholders with consideration valuing their company at almost 18 times trailing EBITDA. In fact, CVS’s proposed consideration provides by far the lowest premium to the pre-announcement price of any target company in the table.

Table 1: Recent PBM Transactions

Year	Target	Acquirer	EBITDA* Multiple	Premium**
2002	NPA	Express Scripts	12.16	N.A.
2004	Advance PCS	Caremark	17.88	75.60%
2005	Accredo	Medco	14.66	53.37%
2005	Priority Healthcare	Express Scripts	16.00	8.32%
1-Nov-2006	Caremark	CVS	11.38	-1.42%
20-Dec-2006	Caremark	CVS	11.72	1.67%

*trailing fiscal year ** to pre-announcement price

Independent equity analysts share our view that the current merger proposal undervalues Caremark: Jack Russo at A.G. Edwards commented that the consideration proposed for Caremark shareholders is “not exactly what we’d call a premium valuation.” Kemp Dolliver at Cowen and Company, moreover, describes the Caremark valuation as “disappointing.”

Express Scripts’ decision to offer a significantly higher bid for Caremark, and the market’s response to that bid, reinforce our view that CVS’s proposal undervalues the company. In the week following

Express Scripts' announcement, Caremark's share price traded at an average of \$56.20, up from an average of \$50.02 in the prior week. Currently (January 9, 2007) Caremark closed at \$55.55, which represents a 7.3% premium to the current value of CVS's proposal, and a 13% premium to Caremark's price on October 31, 2006, the day before CVS' announcement.

Lack of Collar Puts Caremark Shareholders' Value at Risk

On top of an underwhelming valuation of Caremark, the current CVS proposal fails to secure the value it does provide through a collar on CVS's share price. As a result, Caremark shareholders are exposed to downside price risk unrelated to the fundamentals of their company, without any compensation for bearing the burden of this risk. That this downside risk would manifest in declining share prices for both CVS and Caremark was in our view not at all surprising given the well-known trading practices of hedge funds pursuing merger-arbitrage strategies. In contrast to CVS, public companies that have proposed the winning bid in other recent headline-grabbing transactions have provided a collar to their share price even when the consideration they propose includes a substantial cash component.

During their November 1 conference call announcing their merger, CVS and Caremark executives explained that the consideration of 1.67 CVS shares for each Caremark share "approximates a 90-day average ratio of the two company's[sic] closing stock prices." Additionally, in its November 15, 2006 Power Point presentation (pg. 11), CVS depicts the ratio between Caremark and CVS's share prices over the five years prior to the merger announcement. Because each bar (representing the historical price ratio) is very close to the dotted line (representing the proposed exchange ratio), this slide seems to imply that this relationship has been stable for a significant period of time. But in fact, the ratio between the companies' share prices has been quite unstable: over the past five years, this ratio has ranged from 0.45 to 2.15, and the ratio's 0.46 coefficient of variation is greater than that of either company's share price. Contrary to the impression created by CVS's presentation, at the time this merger was announced shareholders had good reason to anticipate that the actual CMX/ CVS ratio would diverge from the proposed exchange ratio in the months between announcement and closing.

Moreover, the pattern according to which an acquirer's share price falls while the target's jumps following a merger or acquisition announcement has become commonplace. Harvard Business School professor Erik Stafford and his coauthors have found persuasive evidence that hedge funds pursuing merger arbitrage strategies are responsible for significant downward pressure on acquiring company share prices during the months after deals are announced. Hedge fund insiders corroborate this observation, and further note that speculative investors bid up the target company's price to capture part of the transactional premium.

And indeed, immediately following the announcement of the Caremark/ CVS merger agreement, CVS's share price fell 7.4%, and by November 27 it had fallen 13.4% below its October 31, 2006 closing price. While CVS's share price has subsequently rebounded, on average since the announcement of the proposed merger CVS has traded at 5.47% below its pre-announcement close. For much of this time, Caremark also traded below its pre-announcement close, in contrast to the expected pattern: between November 1 and December 15, 2006 Caremark traded at an average of 2.5% below its preannouncement close. We believe that this unusual decline was a direct consequence of the fall in CVS's own share price, the negative impact of which would have been substantially ameliorated if CVS had provided a collar to secure the value of its bid to Caremark shareholders.

Finally, we note that public companies that have prevailed in recent, high-profile bidding wars have often included a collar on their share price or a similar provision in their winning bids. In the late-2005, early 2006 contest for Guidant, Inc., both Boston Scientific and Johnson & Johnson included collars on the stock portions of their bids. Whirlpool, Inc. included a collar on the stock portion of its bid for Maytag, Inc., which won out over the rival proposal from Ripplewood Partners. And in its 2005 acquisition of MCI, Verizon guaranteed the value of the stock component of its bid, partly in response to a rival bid from Qwest that included stock consideration subject to a collar. These recent precedents demonstrate that other strategic acquirers have recognized the risk that stock-for-stock transactions pose for target company shareholders, and have prevailed over other bidders by providing collars or similar devices that limit the downside price risk stemming from downward pressure on the acquirer's share price. CVS's failure to date to appreciate these precedents and act accordingly further reduces the attractiveness of its bid to Caremark shareholders.

II. Express Scripts' Bid: Significant Regulatory, Integration and Financial Risk

Can Express Scripts' Proposal Win Regulatory Approval?

We are concerned that the Express Scripts' bid, while it provides an attractive premium to Caremark's pre-announcement share price, may contain too much regulatory risk prior to closing, and too much integration and financial risk for shareholders in the combined company.

According to the most recent publicly available industry data (from AIS's Q1 2005 survey), the proposed merger of Express Scripts with Caremark would create a company with a market share of approximately 28% by prescription volume or 30% by covered lives. By either measure, the resulting company would be nearly twice the size of Medco, its nearest rival. Jon Kregar of William Blair & Co. argues that based on the FTC's evaluation – and eventual approval – of Caremark's 2004 merger with Advance PCS, the FTC's view of an Express Scripts/Caremark merger would hinge on the impact in the large-employer segment of the market. Kregar estimates that a combined Caremark/Express Scripts would have 55% of the large-employer segment. In contrast, when Caremark and Advance PCS merged in 2004, they had a combined market share of 20% by covered lives.

Kregar additionally points out that, while the FTC is moving away from market-share based analysis of business combinations, an Express Scripts/Caremark merger would raise the Herfindahl-Hirschman Index (HHI) of the PBM industry from 1370 to 2040. The FTC considers a HHI score between 1000 and 1800 “moderately concentrated,” and a score over 1800 “concentrated.” Indeed, a merger potentially raises “serious competitive concerns” under the FTC's 1992 Horizontal Merger Guidelines if it increases the HHI score by more than 100 points in a concentrated market. According to Kregar's analysis, an Express Scripts/Caremark merger would increase the HHI for PBMs 670 points overall, and 200 points past the “concentrated” threshold.

Express Scripts' Past Acquisitions Raise Questions About Integration Challenges

Beyond the risk of being unable to close the transaction it has proposed, we are skeptical that Express Scripts has the capacity to deliver on the performance it projects following its acquisition of Caremark. In various public documents, Express Scripts' executives tout past successes in integrating acquired companies. While Express Scripts' Power Point presentation provided to analysts on its December 18 conference call catalogs a series of apparently successful acquisitions over the past nine years, we are concerned that these integration experiences have not prepared the company for

the challenges it will face executing a merger with Caremark. Instead, Express Scripts may only reinforce the classic disclaimer “past performance is no guarantee of future success.”

We note that in value terms, this merger would be roughly 20 times the size of the largest transaction Express Scripts has managed in the past; in fact, it would be eight times the combined size of all the acquisitions listed in its Power Point presentation. Whereas its past acquisitions appear to have involved much smaller companies, Caremark has nearly as many employees (13,628) as Express Scripts (14,020) and nearly twice the annual revenue. Express Scripts has never integrated an acquired company of anywhere near Caremark’s absolute size, and only its Value Rx and Diversified acquisitions in the late 1990s were of similar size relative to itself. Moreover, all of these transactions were negotiated on a friendly basis, while Express Scripts has announced its intention to launch a hostile proxy solicitation to block the CVS merger. We are concerned that Express Scripts could have greater difficulty retaining Caremark executives and managers, and would therefore find these integration challenges even more daunting.

Our analysis of Express Scripts’ past integration efforts reinforces these concerns. When Express Scripts acquired Value Rx in 1998 and DPS in 1999, it anticipated integration related costs of \$6-\$10 million and \$10-\$20 million, respectively. However, through the first quarter of 2000, Express Scripts reported \$43.3 million in costs associated with these two transactions, including expenses to integrate software systems and to consolidate facilities. Subsequently, Express Scripts’ reporting of integration costs has been harder to untangle from other elements of its SG&A and capital expenditures. But given that the Value Rx and DPS acquisitions are the most comparable to the proposed Caremark acquisition (in the sense that each company was close to the same size as Express Scripts at the time it acquired them), we believe that Express Scripts must do more than point to its recent history in order to persuade shareholders that it is not proposing to bite off more than it can chew.

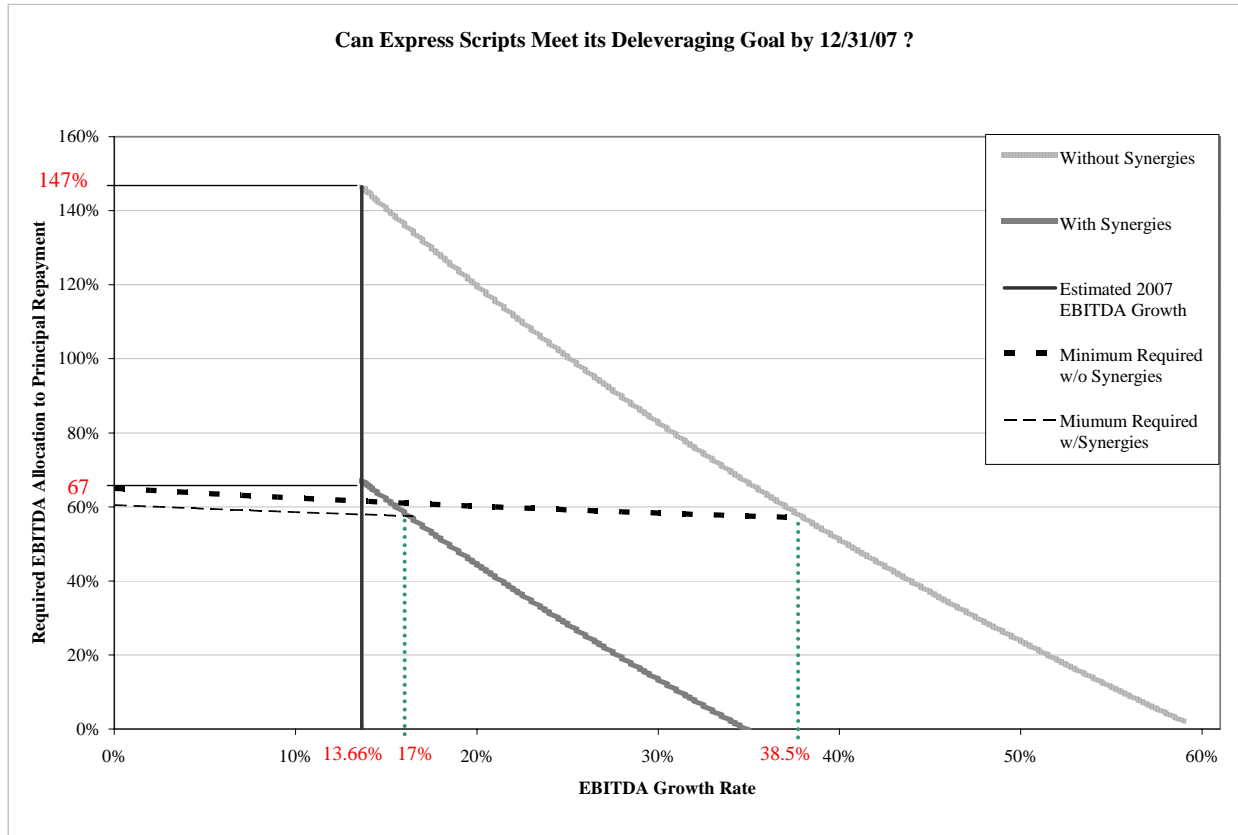
How Much Debt is Too Much for Express Scripts?

In addition to touting its past successes in integrating operations, Express Scripts also points to its rapid pay down of acquisition-related leverage. But the scale of leverage Express Scripts proposes to take on in order to acquire Caremark dwarfs its previous experience. Express Scripts intends to use \$13.4 billion in new debt to finance the cash portion of their consideration for Caremark: currently, Express Scripts carries only \$1.6 billion in total debt, and \$4.05 billion in total liabilities, while Caremark has \$450 million in total debt and \$4.8 billion in total liabilities. Express Scripts is projecting that the combined company would have over \$2.7 billion in EBITDA for 2006, implying a Total Debt/EBITDA ratio of 5.7x, and a Total Liabilities/EBITDA ratio of 8.2x.

This very large increase in leverage would come at a time when Express Scripts’ own financial strength has apparently been declining: both its reported EBITDA/Interest and its Operating Cash Flow/Interest ratios have declined by over 70% since September 30, 2005. Express Scripts’ ratio of Total Current Assets to Total Current Liabilities has also fallen sharply, from 0.94 at the end of 2005 to 0.74 as of September 30, 2006. Following the announcement of its merger proposal, Fitch placed Express Scripts on credit watch with negative implications.

Express Scripts projects that by the end of 2007 the combined company will have reduced its Debt/EBITDA ratio to 3.6x: this seems to us to be a very aggressive estimate. Our analysis indicates that the 2006 increase in EBITDA for the combined company (weighting each company’s growth rate by its share of combined EBITDA) was 13.66%. Applying this growth rate to the combined

company, we would expect 2007 EBITDA of \$3.06 billion. Express Scripts is currently projecting cost savings from synergies of \$500 million; on page 12 of its Power Point presentation, Express Scripts implies that the post-merger company will realize all such savings in 2007, which would increase its estimated EBITDA to \$3.56 billion. The graph below depicts the allocations of EBITDA to principal repayment that would be required in order to meet Express Scripts' de-leveraging goal by year end 2007 at various rates of EBITDA growth.



The solid vertical line represents our estimate for the post-merger company's 2007 EBITA growth rate: 13.66%. The solid horizontal lines running from the left-hand axis to each curve's intersection with the solid vertical line show that the post-merger Express Scripts would need to allocate 147% of EBITDA to principal repayment with no synergies, or 67% with synergies. Is even the lower of these numbers realistic?

We assume that at a minimum, the post-merger company would require cash for normal capital expenditures, for interest payments, and for taxes. We estimate 2007 capital expenditures at the same level as the combined total for Caremark and Express Scripts in the four quarters ending September 30, 2006, or \$184 million; we conservatively assume that the interest rate for the combined company's new debt will equal the most recently reported rate on Express Scripts' existing debt (6.01%). Finally, we assume that these interest payments will be entirely tax deductible, and apply the 2006 combined tax rate on EBTDA (EBITDA less interest expense) to estimated 2007 EBTDA (EBITDA less interest expense). As a result, we estimate that the post-merger company would require over \$1.7 billion, or 65% of estimated 2006 EBITDA, for capital expenditures, interest payments, and taxes.

The two dashed lines running from the left hand axis to the curves show these required expenditure levels, which fall as EBITDA growth increases (because we treat both capital expenditures and interest payments as constants). The dotted lines running to the bottom axis of the graph show the intersection between this baseline for required uses of cash flow and each curve: these points represent the minimum EBITDA growth for 2007 necessary in order for the merged company to achieve a 3.6x leverage ratio. Even after assuming \$500 million in cost savings during 2007, and further assuming no added costs for integrating operations, we estimate the merged company's 2007 EBITDA growth rate would need to exceed 17% – in other words, to accelerate by over a fifth – in order to meet its de-leveraging goal.

Finally, we note that our analysis does not include any possible adverse affects of a recession, changes to Medicare Part D, or Wal-Mart and Costco's announcement of price cuts for generics on the PBM industry.

While the market responded to Express Scripts' bid with a rally in Caremark's share price, we note that Caremark has subsequently traded well below the projected value of the Express Scripts deal. We believe that market participants understand the risks this proposal entails, and are discounting the likelihood that it will be consummated. Nevertheless, Express Scripts has made a serious proposal that provides an attractive premium to Caremark shareholders, along with a plausible strategic rationale. With this rival bid on the table, we think Caremark shareholders may find it difficult to support CVS's current offer.

Conclusion

We are convinced that the challenges both CVS and Express Scripts will face in convincing Caremark shareholders to support your respective positions will be best met through direct dialogue and an open exchange of views. We intend our shareholder forum to facilitate such exchanges and to provide each of you with an opportunity to persuade an engaged group of shareholders and other fiduciaries that your proposed merger best serves their long-term interests. We look forward to your acceptance of this invitation.

Please contact my colleague Rich Clayton at (202) 255-6433 at your earliest convenience to confirm your participation and discuss appropriate arrangements.

Sincerely,



William Patterson
Executive Director

CC: Directors of CVS
Directors of Express Scripts