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Gabelli & Company, Inc.

Pharmacy Benefits Managers

Second Quarter Update

Claims in millions	Express Scripts	Δ Y/ Y	Caremark	Δ Y/ Y	Medco	Δ Y/ Y
Claims--mail	9.8	21.0%	11.4	10.7%	22.0	15.2%
Claims--retail	95.7	-0.3%	133.9	0.1%	103.4	-7.9%
Claims--Total Adjusted	125.8	3.6%	167.8	2.1%	169.4	-0.1%
Generic Rate	50.0%	3.0%	45.8%	1.7%	45.5%	2.1%
Mail Order Rate	23.3%	3.2%	20.4%	1.6%	39.0%	5.2%
Gross Profit per Script	$1.78	-0.6%	$2.44	14.0%	$2.52	15.1%
EBITDA per Script	$1.14	11.8%	$1.68	20.0%	$1.89	28.6%
Generic Rate	50.0%	3.0%	45.8%	1.7%	45.5%	2.1%
Mail Order Rate	23.3%	3.2%	20.4%	1.6%	39.0%	5.2%

Source: Company Data

Medco Health Solutions (MHS - $30.30 – NYSE)

Caremark Rx (CMX - $28.60 – NYSE)

Express Scripts (ESRX - $62.54 – NASD)

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Q2 Update

In our initial May 25, 2004 report on Medco Health Solutions, we laid out the dynamics of the PBM industry, including the favorable demographics driving the industry, inflation and utilization increases, and the growth of mail order drugs. Since that time, strong second quarter results by all three PBM companies have been overshadowed by new lawsuits and state investigations of both Caremark and Express Scripts. This has created attractive valuations for all three of the major players, with both Medco and Express Scripts particularly attractive. The three major PBM companies continue to improve their key operating metrics as they win new customers and improve operating efficiency.

Second Quarter Performance Metrics

Mail Claims: One of the easiest ways for PBM companies to save clients money is through the mail. Sending a three month supply of a drug to the customer via mail saves at least 10% by eliminating the three dispensing fees that would have been paid to pharmacies. Conversion of clients such as the United Autoworkers Union to mandatory mail contracts has led to double digit increases in the number of mail prescriptions filled. By acting as the pharmacy, PBM companies save their clients significant amounts of money and realize higher gross margins by capturing a portion of the dispensing fee that would have been paid to retail pharmacies.

Retail Claims: The cost of contracting with a retail pharmacy to fill three separate one-month prescriptions makes retail claims the highest cost, lowest margin option available. As clients are converted to cost saving mail prescriptions, the number of claims filled at retail pharmacies has held flat or even declined, with sharper declines at Medco due to customer losses and a more aggressive push towards mandatory mail. When combined with the strong growth of mail claims, PBM's are realizing a favorable product mix shift, increasing the mail rate as a percentage of total adjusted claims (one mail claim, covering three months, equals three retail claims).

Generic Rate: Generic drugs are a huge opportunity for PBM companies, with over $38 billion in brand name drugs losing patent protection over the next four years. Pharmacy Benefits Managers are able to contact patients and doctors within days of a new generic drug being approved to begin switching them to these new, deeply discounted options. Although the switch to generic drugs hurts PBM's on the revenue line, they are able to share in the cost savings of customers through higher gross margins. Long term, generic drugs can continue to increase as a percentage of total prescriptions, to the benefit of both customers and PBM companies.

Gross Profit and EBITDA per script: As the mix of PBM prescriptions shifts to higher value, cost saving services for customers, PBM's continue to improve their key profitability metrics. Large, automated mail order facilities and call centers continue to significantly lower the cost of filling a prescription, while economies of scale and tight cost controls continue to reduce administrative costs. While startup costs for large new contracts may impact one quarter's results, as seen by Express Scripts in the second quarter, they signal accelerating growth in the future and do not show

Legal Scrutiny

While each company has its own individual contract disputes with customers, the spread of one multi-state investigation in particular has dragged down the entire industry. On April 26, 2004, Medco settled a 19-state investigation into its customer disclosure policies for a total cost of $29.3 million. In that settlement, the company agreed to better disclose the total amount of rebates received from drug manufacturers and to contact patients when a generic interchange is performed, disclosing the switch and giving them a chance to refuse it. As expected, the states have turned their investigations on Caremark and Express Scripts, looking for similar disclosures and settlements—settlements that should be smaller than Medco's due to the companies' smaller market shares. Between the known, relatively minor financial costs and the willingness of states to settle, this issue creates a buying opportunity for the industry.

Medco Health Solutions (MHS - $30.35 - NYSE) Accelerated Cost Cutting

FYE	EPS	P/E	PMV	
2006P	$2.30-2.35	13.0	$58	Dividend: nil Yield: nil
2005P	$1.90-1.95	15.6	49	Shares O/S: 270.3 million
2004E	$1.70-1.75	17.4	44	52-Week Range: $23.05 - $39.25
2003A	$1.57	19.3	35	

Industry leader Medco has continued to cut costs and improve operating performance since being spunoff from Merck on August 20, 2003. New management has settled many of the company's legal issues and taken significant steps towards transparency in the way Medco does business. A reorganized sales force is helping the company to win new business, while the company continues to drive down the costs of prescription drugs through increased use of mail order and generic alternatives. Medco remains the industry leader and is rapidly becoming an even more fierce competitor.

Q2 Results

Strong cost cuts that began last year continued to improve profitability in the second quarter. Sales were up 5.1% to $8.8 billion, slightly less than expected due to increases in mail and generic drugs as well as previously announced client losses. EPS was up 10% to $.43, excluding a $.03 per share tax gain. Cost cuts continue with the closing of an older, manual mail order facility in Parsippany, NJ and the layoff of up to 700 employees. The full benefit of these cuts and continued tight SG&A spending will be seen in 2005 when accelerated depreciation charges and startup costs for the Medicare drug discount card and brand-building activities go away. Medco's tax rate continues to decline as the company evaluates its operations and tax planning strategies as an independent company, down 1.5% to 40.1% with the potential for future decreases.

Medicare Drug Discount card

Enrollment in Medco's Medicare discount card business is ahead of expectations, having signed up over 500,000 senior citizens both directly and through its co-branding and HMO partners. The card has passed its breakeven point and should carry margins similar to Medco's overall business. Depending on the degree of utilization, this program could provide modest upside to our sales and earnings estimates. Regulations are still emerging for the Medicare prescription drug insurance benefit that begins in 2006. As of today, Medco will be administering the drug benefit for their insurance partners, who will assume the underwriting risk and perform many of the non-core administrative functions. Medco's close partnership with UnitedHealth Group, the nation's largest insurance company, should give them a significant advantage in this area

Table 1: **Medco Health Solutions**
Income Statement

($Million, except per share data)	2003A	2004E	2005P	2006P	2007P	2008P	03-'08 CAGR
Revenue	$34,264.5	$35,977.7	$37,715.7	$41,487.3	$45,636.0	$50,199.6	7.9%
Expenses	(33,523.1)	(35,116.3)	(36,800.2)	(40,420.8)	(44,399.2)	(48,771.0)	
Operating income	741.4	861.4	915.5	1,066.5	1,236.8	1,428.7	
Interest and Other Expense	(12.7)	(60.0)	(18.9)	11.1	29.2	45.8	
Pre-tax income	728.7	801.4	896.6	1,077.6	1,266.0	1,474.5	
Income taxes (a)	302.9	323.0	359.5	432.1	507.6	591.3	
Net income - cont. ops.	425.8	478.4	537.0	645.5	758.3	883.2	15.7%
Diluted shares outstanding	270.8	275.0	276.0	276.0	276.0	276.0	
Diluted EPS	$1.57	$1.70-1.75	$1.90-1.95	$2.30-2.35	$2.70-2.75	$3.20-3.25	15.3%

a) Assumes 40.1% tax rate
Source: Company data and Gabelli & Company, Inc. estimates

Client Update

In 2005, Medco is scheduled to lose the Federal Employee Mail contract, representing an estimated $1.5 billion in revenue for 10 million mail order prescriptions annually on top of their contract with Independence Blue Cross of Pennsylvania. To date, the company has won a total of $1.6 billion in new 2005 business to offset this loss, including at least 3 million mail order prescriptions. Medco is still bidding on $4 billion of business that is up for bids for early 2005 and continues to convert existing customers to less expensive mail order service. While it is unclear if the company will be net new business positive in 2005, revenues should continue to grow in the low to mid single digits due to drug trend increases at existing clients.

Earnings Outlook

Due to the faster than expected cost cuts that are driving improved profitability, we are raising our earnings estimates for Medco by $.05 per share for this year. Operating margins are improving due to growth of higher gross margin mail order service and strict administrative cost controls. While mail order prescriptions will likely decline in 2005 due to contract losses, restructuring and cost cut savings should hold operating margins steady. In 2006, when Medco has annualized these losses, the company should return to double digit sales and earnings growth due to a combination of new business wins and drug trend increases at existing clients.

Investment Conclusion

Medco stock is currently trading at 6.8x 2005 EBITDA and 15.6x earnings due to fear over customer losses and increased legal scrutiny. Management has taken strong steps to settle legal inquiries and restructure operations for cost savings and future growth. We feel an industry leading PBM like Medco is worth 10x EBITDA, yielding a price of $44 this year and $49 in 2005. Medco's balance sheet also continues to improve, as the company has paid down $111 million of debt this year. Cash flow should improve dramatically in the second half of the year now that working capital with Merck has built up to normal levels post-spinoff. Medco has taken the lead in settling PBM industry legal issues and should not be punished for increased scrutiny of competitors. We continue to recommend purchase of the stock as a strong long term BUY.

Table 2: **Medco Health Solutions**
Private Market Value

($Million, except per share data)	2003A	2004E	2005P	2006P	2007P	2008P	03-'08 CAGR
Revenue	$34,264.5	$35,977.7	$37,715.7	$41,487.3	$45,636.0	$50,199.6	7.9%
EBITDA	1,024.7	1,251.4	1,320.5	1,486.5	1,671.8	1,878.7	12.9%
Valuation Multiple	10.0	10.0	10.0	10.0	10.0	10.0	
Total Private Market Value	10,247.0	12,514.2	13,205.0	14,865.2	16,718.0	18,786.7	
Plus: Net Cash (Debt)	(698.1)	(285.8)	506.2	1,421.7	2,465.0	3,648.3	
Less: Net Options Payments (a)	(100.3)	(225.3)	(288.2)	(408.0)	(542.8)	(694.1)	
Equity PMV	9,448.6	12,003.0	13,423.0	15,878.9	18,640.2	21,740.8	18.1%
Shares (basic)	271.4	272.0	275.0	275.0	275.0	275.0	
PMV Per Share	$35	$44	$49	$58	$68	$79	17.7%

a) Payment to option holders at PMV, net of tax
Source: Company data and Gabelli & Company, Inc. estimates

Express Scripts (ESRX - $62.54 – NASD) — Buying Opportunity

FYE	EPS	P/E	PMV
2006P	$5.40-5.50	11.5	$105
2005P	4.60-4.70	13.4	88
2004E	3.80-3.85	16.3	74
2003A	3.18	19.7	59

Dividend: nil Yield: nil
Shares O/S: 78.6 million
52-Week Range: $52.03 - $81.20

Express Scripts is the nation's third largest pharmacy benefits manager in the country, based in Maryland Heights, Missouri. The company is responding well to the consolidation of competitors with a combination of new business wins, particularly from the Department of Defense, and a key strategic acquisition. By acquiring privately held CuraScripts, Express Scripts is continuing to broaden its product offerings and gain scale in the PBM industry.

CuraScripts Acqusition

Express Scripts announced the acquisition of privately held CuraScripts on December 22, 2003. Curascripts is a specialty drug PBM, focusing on drugs for cancer, multiple sclerosis, rheumatoid arthritis, and other rare, expensive medical conditions. Express Scripts paid $335 million in cash for a business that appears on track to post in excess of $600 million in revenue for 2004. The specialty drug market is expected to grow 20% annually due to new customer wins and expensive new biotech drugs coming to market. Curascripts represents the core of an expanded service offering, allowing Express Scripts to manage the most expensive, chronic illnesses that its customers face.

Contract Wins

On June 1, 2004, Express Scripts began serving as the retail pharmacy PBM for the Defense Department's TriCare program. The contract, covering 2.5 million lives, is in addition to a five-year contract for TriCare's mail order drugs that the company began on March 1, 2003. These contracts are recorded as fee-only contracts and thus the impact will not be seen in the revenue line as much as the bottom line. Now that startup costs for this contract are out of the way, Express Scripts is poised to post accelerating profit growth in the second half of this year and into 2005.

Q2 Results

Express Scripts reported strong growth in the second quarter, with revenue up 13.4% to $3.8 billion due to new contract wins. Gross margin pressure, due in large part to startup costs for new contracts, has been more than offset by leverage in the SG&A line, leading EPS to grow 16% to $.93, excluding $.10 per share of debt retirement charges. Higher than expected startup costs for new contracts and the disclosure of new legal issues disappointed investors, causing a significant drop in the stock.

Table 1: **Express Scripts Income Statement**

($Million, except per share data)	2003A	2004E	2005P	2006P	2007P	2008P	03-'08 CAGR
Revenue	$13,294.5	$15,974.1	$17,731.3	$19,681.7	$21,846.7	$24,249.9	12.8%
Expenses	(12,845.4)	(15,447.0)	(17,128.4)	(18,992.9)	(21,060.2)	(23,352.6)	
Operating income	449.1	527.1	602.9	688.9	786.5	897.2	
Interest and Other Expense	(43.8)	(38.0)	(9.9)	5.7	15.1	24.9	
Pre-tax income	405.3	489.1	592.9	694.5	801.6	922.1	
Income taxes (a)	154.7	187.3	227.1	266.0	307.0	353.2	
Net income - cont. ops.	250.6	301.8	365.8	428.5	494.6	568.9	17.8%
Diluted shares outstanding	78.9	78.5	78.5	78.5	78.5	78.5	
Diluted EPS	$3.18	$3.80-3.85	$4.60-4.70	$5.40-5.50	$6.25-6.35	$7.20-7.30	17.9%

a) Assumes 38.3% tax rate
Source: Company data and Gabelli & Company, Inc. estimates

Legal Risk

In addition to the 19-state task force investigation, Express Scripts is being sued by New York Attorney General Eliot Spitzer for up to $100 million in a dispute over the amount of rebates the state was passed. The State of New York is one of the company's top 10 accounts, and while the contract was renewed once after the investigation began, it expires at the end of 2005. The company will be taking a $15-20 million charge in the third quarter to cover the initial costs of both this matter and the 19-state investigation. While we expect future settlement charges, the financial costs should be affordable—the maximum $130M from both cases is $1.65 per share pre-tax. Despite these two new issues, Express Scripts remains the safest of the three major PBM's in terms of its legal risk and the actions being taken against it.

Investment thesis

Express Scripts has continued to win new business and improve its operating performance. The company is also significantly improved its balance sheet, paying down $205 million of high cost debt for annual after tax interest savings of $.11. Management is returning cash to shareholders through an expanded, 5.2 million share buyback program, representing over 6% of shares outstanding. Express Scripts is currently trading at 7.7x estimated 2005 EBITDA and 13.4x earnings, a significant discount to its private market value of $88 based on a 10x multiple. New contract startup costs and two legal matters are short term problems that can be resolved at an affordable cost. A strong balance sheet, new contract wins, improving performance, and the least legal risk of the top 3 PBM's make Express Scripts a strong long term BUY.

Table 2: **Express Scripts**
Private Market Value

($Million, except per share data)	2003A	2004E	2005P	2006P	2007P	2008P	03-'08 CAGR
Revenue	$13,294.5	$15,974.1	$17,731.3	$19,681.7	$21,846.7	$24,249.9	12.8%
EBITDA	503.2	593.8	678.1	772.6	878.8	998.1	14.7%
Valuation Multiple	10.0	10.0	10.0	10.0	10.0	10.0	
Total Private Market Value	5,031.6	5,937.6	6,780.5	7,726.2	8,788.1	9,981.5	
Plus Net Cash (Debt)	(394.0)	(143.5)	146.6	527.6	979.9	1,506.8	
Less: Net Options Payments (a)	(91.4)	(72.9)	(104.1)	(140.7)	(182.4)	(229.8)	
Equity PMV	4,546.2	5,721.2	6,822.9	8,113.1	9,585.6	11,258.4	19.9%
Shares (basic)	77.4	77.4	77.4	77.4	77.4	77.4	
PMV Per Share	$59	$74	$88	$105	$124	$145	19.7%

a) Payment to option holders at PMV, net of tax
Source: Company data and Gabelli & Company, Inc. estimates

Caremark Rx (CMX - $28.60 - NYSE) Integrating AdvancePCS

FYE	EPS	P/E	PMV	
2006P	$1.95-2.00	14.5	$40	Dividend: nil Yield: nil
2005P	1.65-1.70	16.9	33	Shares O/S: 470.9 million fully diluted
2004E	1.35-1.40	20.7	27	52-Week Range: $21.10 - $35.31
2003A	1.07	26.8	21	

Caremark has been focused on driving down drug costs through the most aggressive use of mail in the industry. By targeting corporate customers who are more aggressive about controlling costs, Caremark ended 2003 at a 46.3% mail rate, the highest in the industry. Through new business wins and the transforming acquisition of AdvancePCS, Caremark has the opportunity to apply that expertise to a company that so far has been focused on health plans and retail pharmacy claims.

AdvancePCS Acquisition

On March 24, 2004 Caremark completed the acquisition of rival PBM AdvancePCS. The deal, worth $5.7 billion or 14.5x trailing 12 month EBITDA when announced in September 2003, closed March 24, 2004 at $7.25 billion as both companies performed well and convinced investors of the significant synergies of the transaction. Caremark, with a history of successful acquisitions, is on track to gain $125 million in synergies in 2004, mainly from improved purchasing contracts from drug manufacturers. Ultimately, the companies expect $250 million in annual cost savings and the opportunity for new business wins and the cross selling of specialty drugs. The new company combines Caremark's corporate, mail order focus with AdvancePCS's retail, health plan customers to create a close rival to Medco.

Q2 Results

Caremark posted strong second quarter results, the first full quarter with AdvancePCS. Revenue was up 4% to $7.3 billion, but would have been up 10% if not for a large customer switching to a fee only contract. Significant gross margin improvement, led by increased mail and generic usage, led earnings per share to increase 25% to $.32, excluding $.02 of merger and stock option expenses. Even more impressively, Caremark generated an incredible $700 million in cash from operations in the first half of 2004 by reducing working capital by $300 million and utilizing $100 million of deferred tax assets. With $1.4 billion in NOL's, the company will not be a cash taxpayer anytime soon. The integration of AdvancePCS appears to be on track to generate the expected synergies with minimal contract losses.

Table 1: **Caremark Rx**
Income Statement

($Million, except per share data)	2003PF	2004E	2005P	2006P	2007P	2008P	03-'08 CAGR
Revenue	$24,038.6	$25,480.9	$32,738.7	$36,667.3	$41,067.4	$45,995.5	13.9%
Expenses	(23,165.6)	(24,464.7)	(31,397.2)	(35,120.5)	(39,285.2)	(43,943.5)	
Operating income	873.0	1,016.2	1,341.5	1,546.8	1,782.2	2,052.0	
Interest and Other Expense	(64.7)	(35.0)	7.1	23.0	39.6	58.8	
Pre-tax income	808.3	981.2	1,348.6	1,569.8	1,821.8	2,110.8	
Income taxes (a)	304.0	390.5	536.7	624.8	725.1	840.1	
Net income - cont. ops.	504.2	590.7	811.8	945.0	1,096.8	1,270.7	20.3%
Diluted shares outstanding	455.2	427.0	480.0	480.0	480.0	480.0	
Diluted EPS	$1.55	$1.35-1.40	$1.65-1.70	$1.95-2.00	$2.25-2.30	$2.60-2.65	19.0%

a) Assumes 39.8% tax rate
Source: Company data and Gabelli & Company, Inc. estimates

Florida Lawsuit

Caremark's most serious legal issue is a whistleblower lawsuit by former employees in the State of Florida. Two former employees have accused the company of changing prescriptions to meet bonus targets, falsifying records and reselling drugs returned through the mail. Caremark has since changed its policy concerning returned drugs and has otherwise pledged to fight this case in court. This lawsuit, the 19 state investigation mentioned earlier (in Caremark's case, joined by four more states and the District of Columbia), and a large number of rebate disputes with customers and retirees give Caremark the highest legal risk in the industry.

2005 Outlook

Going into 2005, Caremark has won significant net new business. Most notable is the Federal Employees Mail contract, estimated at 10 million mail prescriptions annually representing $2 billion in drug spending. This contract, beginning January 1, 2005, should continue to drive gross margin improvement and operating leverage throughout the company. A combined Caremark and AdvancePCS are also well positioned in the specialty drug space, and Caremark should be able to steadily increase AdvancePCS's mail order penetration, improving operating margins. When combined with other new business wins and additional savings from the AdvancePCS merger, we estimate earnings growth in excess of 30% for 2005.

Investment Thesis

Caremark has been returning this cash flow to shareholders through its aggressive, $750 million share buyback program. Management also continues to pay down the $600 million in debt to improve the balance sheet. Caremark's mail expertise also should increase the profitability of AdvancePCS, with its low margin, retail prescription focus. However, Caremark stock trades at 8.8x estimated 2005 EBITDA and 16.9x earnings, a premium to its peers and closer to its PMV of $33. While very strong operating performance should offset legal challenges that are the highest in the industry, the stock's premium valuation reflects most of the upside, and we recommend a HOLD.

Table 2: **Caremark Rx**
Private Market Value

($Million, except per share data)	2003A	2004E	2005P	2006P	2007P	2008P	03-'08 CAGR
Revenue	$24,038.6	$25,480.9	$32,738.7	$36,667.3	$41,067.4	$45,995.5	13.9%
EBITDA	556.6	1,166.2	1,502.9	1,719.9	1,967.4	2,249.4	32.2%
Valuation Multiple	10.0	10.0	10.0	10.0	10.0	10.0	
Total Private Market Value	5,566.4	11,662.4	15,028.9	17,199.0	19,673.6	22,494.4	
Plus Net Cash (Debt)	119.7	(285.8)	506.2	1,421.7	2,465.0	3,648.3	
Less: Net Options Payments [a]	(100.3)	(225.3)	(288.2)	(408.0)	(542.8)	(694.1)	
Equity PMV	5,585.8	11,151.2	15,246.9	18,212.7	21,595.8	25,448.5	35.4%
Shares (basic)	264.6	427.0	470.0	470.0	470.0	470.0	
PMV Per Share	$21	$26	$32	$39	$46	$54	20.8%

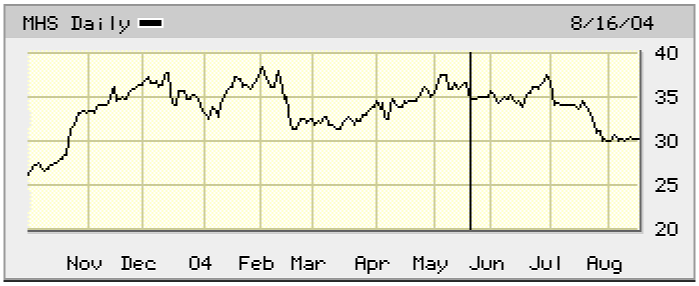
a) Assumes payment to option holders at PMV, net of tax
Source: Company data and Gabelli & Company estimates

Pharmacy Benefits Manager Grid

(in millions, except per share data)		Caremark (NYSE / CMX)		Express Scripts (NASD / ESRX)		Medco (NYSE / MHS)	
12-Month High/Low		$35.31	$ 21.10	$81.20	$ 52.03	$39.25	$ 23.05
Capitalization		FYE 12/31		FYE 12/31		FYE 12/31	
Balance Sheet as of:		6/30/2004		6/30/2004		6/26/2004	
Shares Outstanding		459.8		77.3		271.4	
Options/Converts		11.1		1.3		3.2	
Fully Diluted Shares Outstanding		470.9		78.6		274.6	
Price as of 08/18/04		$28.97		$63.47		$30.45	
Equity Market Capitalization		$ 13,642.8		$ 4,985.7		$ 8,361.6	
+ Total Debt and Preferred Stock		600.6		419.7		1,285.0	
+ Minority Interest		0.0		0.0		0.0	
- Cash and Equivalents		(873.2)		(117.7)		(651.9)	
- Hidden Assets		0.0		0.0		0.0	
Total Enterprise Value (TEV)		$ 13,370.1		$ 5,287.6		$ 8,994.7	
Consolidated:							
Net Revenues	2005P	$ 32,738.7	*28.5%*	$ 17,731.3	*11.0%*	$ 37,715.7	*4.8%*
Growth	2004E	25,480.9	*181.5%*	15,974.1	*20.2%*	35,977.7	*5.0%*
	2003A	9,051.1	*21.2%*	13,294.5	*42.8%*	34,264.5	*13.4%*
EBITDA	2005P	$ 1,502.9	*4.6%*	$ 678.1	*3.8%*	$ 1,320.5	*3.5%*
Margin	2004E	1,166.2	*4.6%*	593.8	*3.7%*	1,251.4	*3.5%*
	2003A	556.6	*6.2%*	503.2	*3.8%*	1,024.7	*3.0%*
EPS - Cont. Ops	2005P	$1.69	*22.3%*	$4.66	*21.2%*	$1.95	*11.8%*
Growth	2004E	1.38	*29.8%*	3.84	*21.1%*	1.74	*10.6%*
	2003A	1.07	*68.0%*	3.18	*63.3%*	1.57	*0.0%*
P/E	2005P	17.1 x		13.6 x		15.6 x	
	2004E	20.9		16.5		17.5	
	2003A	27.2		20.0		19.4	
TEV/EBITDA	2005P	8.9 x		7.8 x		6.8 x	
	2004E	11.5		8.9		7.2	
	2003A	24.0		10.5		8.8	
Private Market Value	2005P	$33	*13.4%*	$88	*28.0%*	$49	*37.6%*
	2004E	27	*-6.5%*	74	*14.1%*	$44	*31.0%*
	2003A	21	*-41.3%*	59	*-8.1%*	$35	*12.5%*
Q204							
EBITDA per claim		$ 1.68		$ 1.14		$ 1.89	
Gross Profit per claim		$ 2.44		$ 1.78		$ 2.52	
Generic %		45.8%		50.0%		45.5%	
Mail %		20.4%		23.3%		39.0%	

Source: Company data and Gabelli & Company estimates

Medco Health Solutions
Price Performance Since Last Report



Source: Public data. On May 28, 2004 we recommended MHS at a price of $35.20 per share.

Company Reports:

Medco Health Solutions, "Initial Report—BUY", May 25, 2004

IMPORTANT DISCLOSURES

I, Jeff Jonas, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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