

# Second Quarter 2018 Earnings Conference Call

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August 8, 2018

 **CVS**Health



# Important Information

## No Offer or Solicitation

This communication is for informational purposes only and not intended to and does not constitute an offer to subscribe for, buy or sell, the solicitation of an offer to subscribe for, buy or sell or an invitation to subscribe for, buy or sell any securities or the solicitation of any vote or approval in any jurisdiction pursuant to or in connection with the proposed transaction or otherwise, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in contravention of applicable law. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended, and otherwise in accordance with applicable law.

## Additional Information and Where to Find It

In connection with the proposed transaction between CVS Health Corporation (“CVS Health”) and Aetna Inc. (“Aetna”), CVS Health filed a registration statement on Form S-4 with the Securities and Exchange Commission (the “SEC”), which includes a joint proxy statement of CVS Health and Aetna that also constitutes a prospectus of CVS Health. The registration statement was declared effective by the SEC on February 9, 2018, and CVS Health and Aetna commenced mailing the definitive joint proxy statement/prospectus to stockholders of CVS Health and shareholders of Aetna on or about February 12, 2018, and the special meeting of the stockholders of CVS Health and the shareholders of Aetna was held on March 13, 2018. INVESTORS AND SECURITY HOLDERS OF CVS HEALTH AND AETNA ARE URGED TO READ THE DEFINITIVE JOINT PROXY STATEMENT/PROSPECTUS AND OTHER DOCUMENTS FILED WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY BECAUSE THEY CONTAIN OR WILL CONTAIN IMPORTANT INFORMATION. Investors and security holders may obtain free copies of the registration statement and the definitive joint proxy statement/prospectus and other documents filed with the SEC by CVS Health or Aetna through the website maintained by the SEC at <http://www.sec.gov>. Copies of the documents filed with the SEC by CVS Health are available free of charge within the Investors section of CVS Health’s Web site at <http://www.cvshealth.com/investors> or by contacting CVS Health’s Investor Relations Department at 800-201-0938. Copies of the documents filed with the SEC by Aetna are available free of charge on Aetna’s internet website at <http://www.Aetna.com> or by contacting Aetna’s Investor Relations Department at 860-273-0896.



# Important Information

## Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the “Reform Act”) provides a safe harbor for forward-looking statements made by or on behalf of CVS Health or Aetna. This communication may contain forward-looking statements within the meaning of the Reform Act. You can generally identify forward-looking statements by the use of forward-looking terminology such as “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “evaluate,” “expect,” “explore,” “forecast,” “guidance,” “intend,” “likely,” “may,” “might,” “outlook,” “plan,” “potential,” “predict,” “probable,” “project,” “seek,” “should,” “view,” or “will,” or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond CVS Health’s and Aetna’s control.

Statements in this communication that are forward-looking, including projections as to the closing date for the pending acquisition of Aetna (the “transaction”), the extent of, and the time necessary to obtain, the regulatory approvals required for the transaction, the anticipated benefits of the transaction, the impact of the transaction on CVS Health’s and Aetna’s businesses, the expected terms and scope of the expected financing for the transaction, the ownership percentages of CVS Health’s common stock of CVS Health stockholders and Aetna shareholders at closing, the aggregate amount of indebtedness of CVS Health following the closing of the transaction, CVS Health’s expectations regarding debt repayment and its debt to capital ratio following the closing of the transaction, CVS Health’s and Aetna’s respective share repurchase programs and ability and intent to declare future dividend payments, the number of prescriptions used by people served by the combined companies’ pharmacy benefit business, the synergies from the transaction, and CVS Health’s, Aetna’s and/or the combined company’s future operating results, are based on CVS Health’s and Aetna’s managements’ estimates, assumptions and projections, and are subject to significant uncertainties and other factors, many of which are beyond their control. In particular, projected financial information for the combined businesses of CVS Health and Aetna is based on estimates, assumptions and projections and has not been prepared in conformance with the applicable accounting requirements of Regulation S-X relating to pro forma financial information, and the required pro forma adjustments have not been applied and are not reflected therein. None of this information should be considered in isolation from, or as a substitute for, the historical financial statements of CVS Health and Aetna. Important risk factors related to the transaction could cause actual future results and other future events to differ materially from those currently estimated by management, including, but not limited to: the timing to consummate the proposed transaction; the risk that a regulatory approval that may be required for the proposed transaction is delayed, is not obtained or is obtained subject to conditions that are not anticipated; the risk that a condition to the closing of the proposed transaction may not be satisfied; the outcome of litigation related to the transaction; the ability to achieve the synergies and value creation contemplated; CVS Health’s ability to promptly and effectively integrate Aetna’s businesses; and the diversion of and attention of management of both CVS Health and Aetna on transaction-related issues.



# Important Information

In addition, this communication may contain forward-looking statements regarding CVS Health's or Aetna's respective businesses, financial condition and results of operations. These forward-looking statements also involve risks, uncertainties and assumptions, some of which may not be presently known to CVS Health or Aetna or that they currently believe to be immaterial also may cause CVS Health's or Aetna's actual results to differ materially from those expressed in the forward-looking statements, adversely impact their respective businesses, CVS Health's ability to complete the transaction and/or CVS Health's ability to realize the expected benefits from the transaction. Should any risks and uncertainties develop into actual events, these developments could have a material adverse effect on the transaction and/or CVS Health or Aetna, CVS Health's ability to successfully complete the transaction and/or realize the expected benefits from the transaction. Additional information concerning these risks, uncertainties and assumptions can be found in CVS Health's and Aetna's respective filings with the SEC, including the risk factors discussed in "Item 1.A. Risk Factors" in CVS Health's and Aetna's most recent Annual Reports on Form 10-K, as updated by their Quarterly Reports on Form 10-Q and future filings with the SEC.

You are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. Neither CVS Health nor Aetna assumes any duty to update or revise forward-looking statements, whether as a result of new information, future events or otherwise, as of any future date.



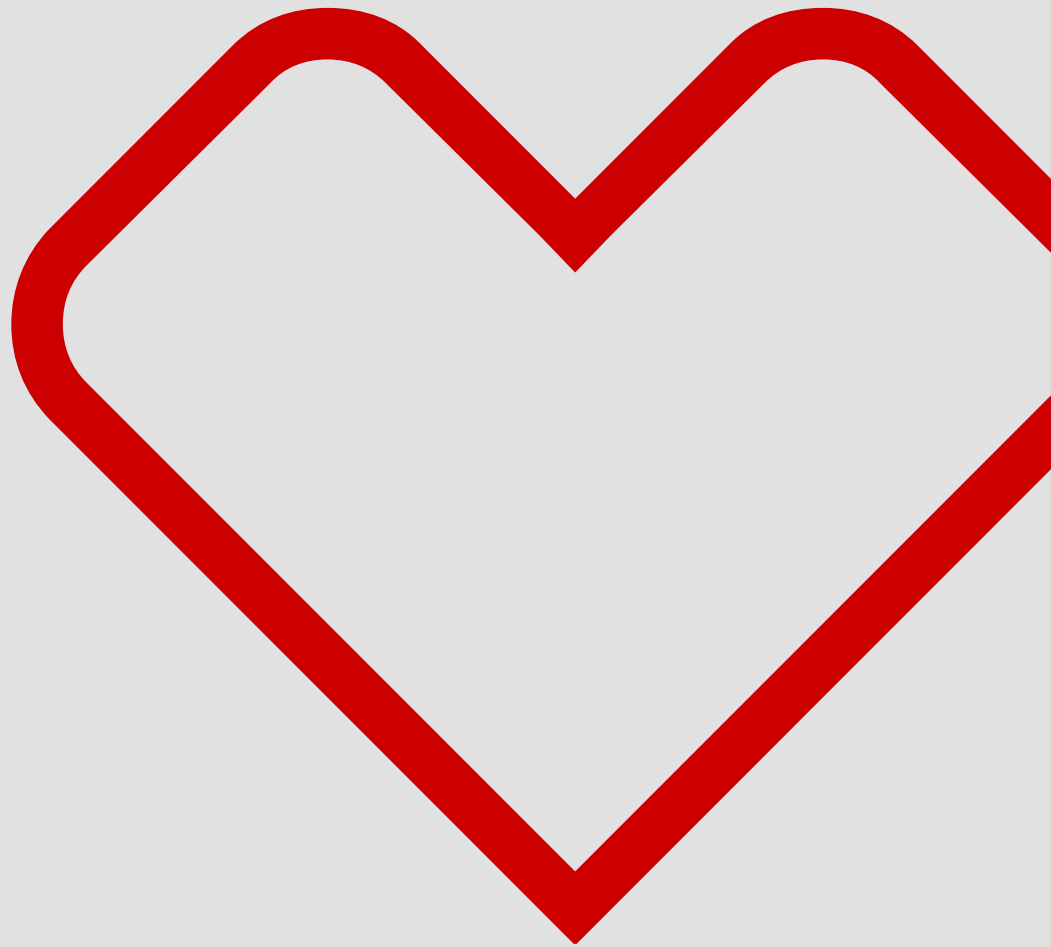
# Forward-looking Statements

This presentation contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements reflect our current views related to our future financial performance, future events and industry and market conditions. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from what may be indicated in the forward-looking statements. We strongly encourage you to review the information in the reports that we file with the SEC regarding these specific risks and uncertainties, in particular those that are described in the Risk Factors section of our most-recently filed Quarterly Report on Form 10-Q.

This presentation includes non-GAAP financial measures that we use to describe our company's performance. In accordance with SEC regulations, you can find the definitions of these non-GAAP measures, as well as reconciliations to most comparable GAAP measures, on the Investor Relations portion of our website.

Link to our non-GAAP reconciliations: <https://bit.ly/2HLoRIU>

# Aetna Update





# Aetna Update – Regulatory

- Continue to make excellent progress
  - Highly experienced legal and government affairs teams are working hard to ensure we provide all additional information requested by state regulators and the Department of Justice
- To date, a substantial number of states have approved and more are expected to approve this summer
  - Other states have already held or scheduled hearings
  - As a matter of practice, some states prefer to wait for DOJ decision before finalizing approval
  - We expect a number of approvals shortly after receipt of DOJ approval
- Continue to have productive discussions with regulators
  - We won't comment on specifics of recent report concerning potential divestitures
  - When we announced transaction, we contemplated a range of possibilities in limited Med D PDP area in which both CVS and Aetna offer plans, and we determined the impact of any divestitures would not be material to the deal model
- We currently expect the transaction to close late Q3 or the early part of Q4



# Aetna Update – Integration Planning

- Work streams are making important progress against objectives, which include ensuring a smooth transition and achieving **\$750 million** synergy goal for the second full year of operation
  - Pressure-testing our Day 1 readiness
  - Gaining a deeper understanding of each and every value opportunity across all customers
  - Ensuring organizational clarity while retaining high-potential talent in critical roles
  - Gathering information to map out future patient journey within combined company, assessing various interventions for efficacy and most effective approaches to reducing medical costs
  - Within Sales and Account Management, evaluating very broad range of possible offerings and developing plans to introduce those effectively in future selling seasons
  - Beginning to link strengths of both analytics organizations as we develop holistic view of patient
- On June 6<sup>th</sup>, announced executive management team that will lead combined company following close of acquisition [Link to press release](#)



# Second Quarter 2018 Business & Financial Review





# Second Quarter: Strong Results

	Q2 2018	Change vs. Q2 2017
<b>Consolidated net revenues</b>	\$46.7 billion	2.2%
<b>Adjusted operating profit</b>	\$2.4 billion	4.6%
<b>Adjusted EBITDA</b>	\$3.0 billion	4.6%
<b>Adjusted EPS</b>	\$1.69	26.8%
<b>Free Cash Flow</b>	\$2.5 billion	59.7%

1. Refer to reconciliation of cost allocation methodology changes on the IR portion of the website: <https://bit.ly/2HLoRIU>



## Long-Term Care Pharmacy

# Challenges and Goodwill Impairment

- Industry-wide financial challenges have created unexpected financial pressures on our facility clients, which resulted in lower growth than anticipated when we acquired Omnicare three years ago
  - Impairment was caused by several factors:
    - Higher levels of bad debt and longer collection times on receivables
    - Faster decline in facility reimbursement rates than we originally forecasted
    - Lower client retention rates
    - Bed census at skilled nursing facilities continues to track lower, resulting in fewer prescriptions across our platform
    - Programs to serve Assisted Living clients have grown slower than originally anticipated
- Q2 Goodwill impairment test determined a fair market value of LTC business below its carrying value
  - Recorded non-cash goodwill impairment of **\$3.9 billion** in the quarter, which reduced goodwill associated within LTC business to **\$2.7 billion**
    - This charge is excluded from any non-GAAP earnings measure
    - Approximately one-third of charge is attributable to rising interest rates and lower market multiples of peer group
    - Remaining two-thirds of charge resulted from lower-than-expected financial performance



## Long-Term Care Pharmacy

# Plan for Stronger Growth Trajectory

- Installed new leadership team to manage day-to-day operations of Omnicare
- Undertaking broad initiative to enhance service levels with objective to improve client retention levels
  - Identified near-term actions to substantially enhance client retention rates with target of **95% or better**
- Embarking on system-wide cost improvement effort, utilizing assets within Omnicare and CVS Pharmacy to dramatically lower cost-to-fill within the Skilled Nursing Facility channel
  - Targeting **\$100 to \$150 million** in cost takeout opportunities over next few years
- Innovating improved solutions to better serve Assisted and Independent Living markets and substantially grow penetration rate from ~ **50% to 70%**
  - Solutions expected to meet evolving needs of facility operators, local residents, and caregivers, enabling us to grow our penetration and win new business
  - Best-positioned to capture share with expansive network of local assets



## Long-Term Care Pharmacy

# Omnicare: Best-Positioned to Thrive Long-Term

- We continue to believe in and remain optimistic about Omnicare's long-term growth potential and its relevance to our value creation strategy
- As population ages, there will be increased need for long-term care services and support
- Continue to see growing opportunities in Assisted Living market, particularly as the most efficient operator
- Must execute on initiatives, deliver high levels of patient and client service, and drive additional efficiencies so when market turns around, we are well-positioned to take advantage and grow

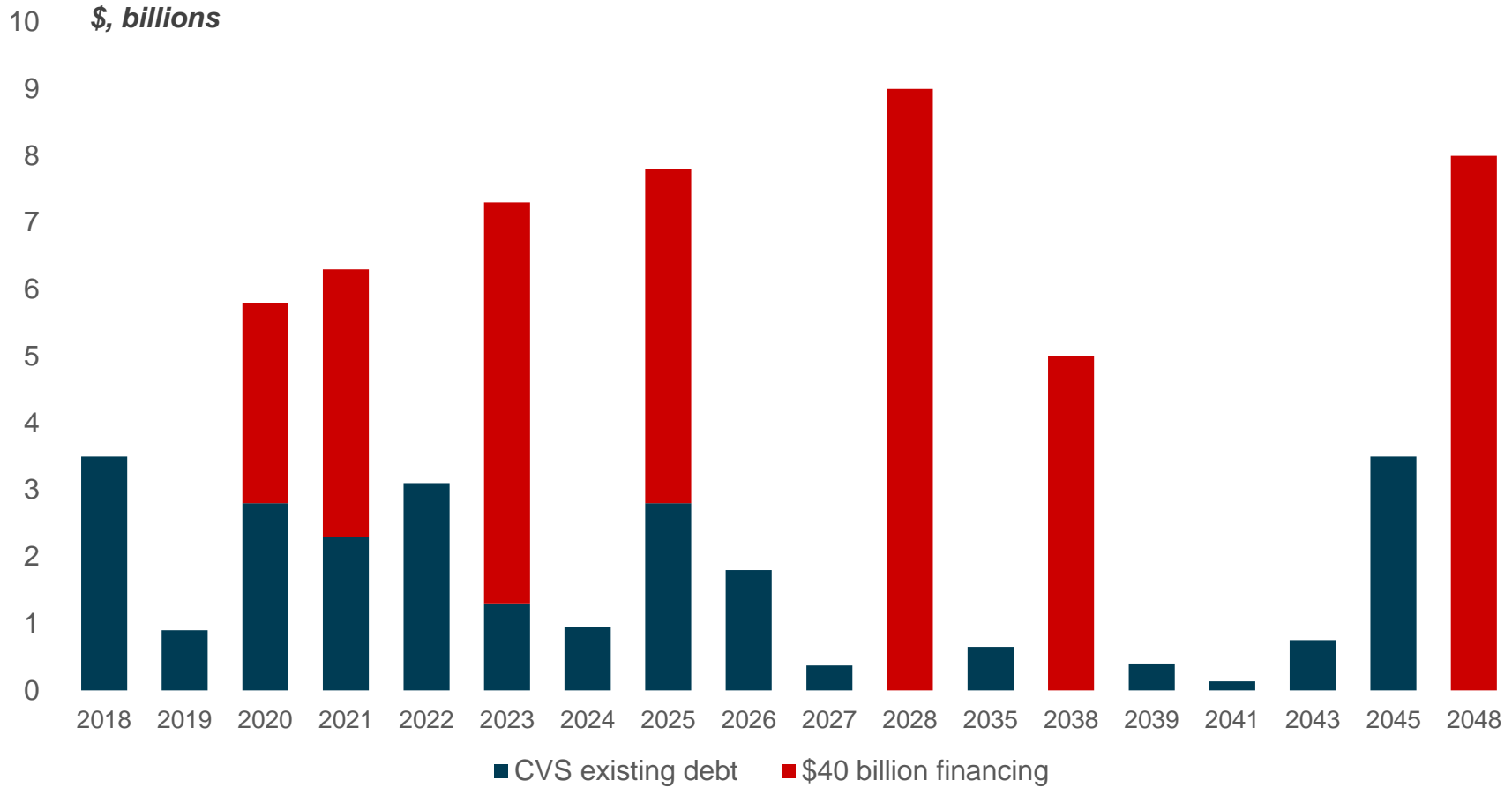


## Financial Update:

# Capital Allocation

- In Q2, generated **\$2.5 billion** in free cash
  - **\$4.4 billion** in free cash for first half, on track to achieve our strong free cash flow expectations [of approximately **\$7 billion**] for full year
- Paid ~ **\$510 million** in shareholder dividends in Q2
  - Expect to return more than **\$2 billion** to shareholders this year through dividends
- In Q2, no shares repurchased due to the Aetna transaction
- Combined company's pro forma, trailing 12-month adjusted debt-to-adjusted-EBITDA expected to be ~ **4.6x** post-close of transaction
  - Committed to improving to **3.5x** within two years after closing, utilizing strong cash generation capabilities and savings from tax reform
  - Ultimate goal is leverage ratio of approximately **3x**

# Financial Update: Debt Maturity Schedule





## Q2 2018 Income Statement: Earnings per Share

- Q2 Adjusted EPS of **\$1.69**, a 26.8% increase over last year
  - Primarily due to the lower effective income tax rate and pharmacy share gains in the Retail/LTC segment
  - Timing of PBM operating profit, interest, and taxes each performed better than expectations, driving **5¢ beat** on Adjusted EPS
- GAAP diluted EPS was loss of **\$2.52**
- Net interest associated with Aetna debt is **excluded** from non-GAAP metrics
  - As we are not yet benefiting from Aetna’s cash flows and earnings, this will provide a clearer picture of our underlying performance as we wait for the transaction to close





## Q2 2018 Income Statement: Consolidated

- Consolidated revenues of ~ **\$46.7 billion**, up **2.2%** vs. LY, 25 bps above the high end of our expectations
- Gross margin of **15.4%**, up ~ 25 bps vs. LY due to segment mix, consistent with expectations
- Gross profit dollars **increased 3.9%**
- Adjusted operating expenses were **10.3%** of sales ... ~ 15 bps deterioration vs. LY
  - Total operating expenses **increased 3.5%**, consistent with expectations
  - Significant progress on enterprise streamlining efforts through process improvements and technology enhancements
    - Example: Deployment of enhanced automated prescription process at CVS Pharmacy led to 40% savings in time spent on data entry of e-prescriptions
    - Still expect to generate ~**\$475 million** in gross benefits this year
- Adjusted operating profit increased **4.6%**, exceeding expectations by 140 bps
- Adjusted operating margin of **5.1%**, up ~10 bps vs. LY



## Q2 2018 Income Statement:

# Below-the-line

- Adjusted net interest expense of **\$236 million**, ~ \$11 million lower than LY
- Adjusted effective tax rate of **26.6%**
  - Better than expectations
- Weighted-average share count of ~ **1.0 billion** shares



## Q2 2018 Income Statement: PBM

- PBM revenues of **\$33.2 billion**, up **2.8%** vs. LY
  - Year-over-year growth driven by claims volume growth and brand inflation
  - Growth partially offset by continued pricing pressure and increase in GDR to **87.6%<sup>(1)</sup>**, up ~ **40 bps** vs. LY
  - Growth also dampened by administration of rebates for Aetna Medicare Part D business
- Adjusted claims grew **6.5%** <sup>(1)</sup> vs. LY
  - **470.1 million** adjusted claims
- Gross margin of **4.5%**, flat vs. LY
- Gross profit dollars **increased 2.6%** vs. LY
  - Primarily driven by increased claim volume and improved purchasing economics, partially offset by pricing compression and Anthem implementation costs
- Operating expenses were **1.2%** of sales
  - Operating expense dollars increased by ~ **\$61 million** in Q2, driven by growth in the business, including acquisitions, and the reinstatement of the Affordable Care Act's health insurer fee
  - Operating profit decreased **2.0%**, better than expectations
- Operating margin of **3.3%**, down ~15 bps vs. LY

1. The pharmacy claims processed and the generic dispensing rate for all periods presented are adjusted to reflect 90-day prescriptions as the equivalent of three 30-day prescriptions.



# PBM 2019 Selling Season

- Gross wins: **\$1.8 billion**
  - Fewer RFP opportunities than past few selling seasons
- Net wins: **\$200 million**
- To date, have completed more than **70%** of client renewals, roughly in line with previous years
  - Current retention rate<sup>(1)</sup> slightly higher than prior years
- Extended FEP retail and mail contracts through the end of 2020
  - One year beyond extensions announced earlier this year

1. Client retention rate is defined as: 1 less (estimated lost revenues from any known terminations plus annualization of any mid-year terminations, divided by estimated PBM revenues for that selling season year) expressed as a percentage. Both terminations and PBM revenues exclude Medicare Part D SilverScript individual products.



# 2019 Formulary Strategy

- Effective January 1<sup>st</sup>, we plan to remove **23** products from our Standard Control Formulary, while adding back **4** products that have been previously removed
- Vast majority of members, **98.76%**, will be able to stay on their current therapy
- Since 2012, our formulary strategy is expected to deliver approximately **\$19 billion** through 2019 in cumulative savings to PBM clients by providing preferred placement to lower-cost brands, and encouraging the transition to generics when appropriate
- Not providing list of drug changes at this time; list will be available around October 1<sup>st</sup>



# SilverScript, a Strong Competitor in Med D

- Including non-captive Med D lives CVS Caremark manages for our health plan clients, we have **13.4 million lives** under management

<b>Medicare Part D Lives Served by CVS Caremark <sup>(1)(2)</sup></b>			
<i>(thousands)</i>			
	<u>June '17</u>	<u>June '18</u>	<u>June YOY Growth</u>
Individual	4,492.3	4,833.5	7.6%
EGWP	990.8	1,265.2	27.7%
<b>Total captive lives</b>	<b>5,483.1</b>	<b>6,098.7</b>	11.2%
Non-captive lives	6,925.8	7,314.4	5.6%
<b>Total lives</b>	<b>12,408.9</b>	<b>13,413.1</b>	8.1%

- Received preliminary benchmark results from CMS for 2019
  - SilverScript qualified in **32** of **34** regions, remaining under the benchmark in 28 regions and de minimus in **4** regions
  - Strong benchmark results enable us to retain all of the auto-assignees we currently serve and, qualify us to receive new auto-assignees in **28** regions

1. Source: Centers for Medicare & Medicaid Services.

2. Totals may not foot due to rounding.



## Q2 2018 Income Statement: Retail/LTC

- Retail/LTC revenues of **\$20.7 billion**, up **5.7%** vs. LY
  - Strong growth primarily driven by very strong script volume growth of **9.3%** due to continued adoption of our Patient Care Programs, partnerships with PBMs and health plans, and preferred position in a number of additional Med D networks this year
  - Retail/LTC GDR of **88.1%**<sup>(1)</sup>, up ~ 45 bps vs. LY
- Adjusted gross margin of **28.6%**, down ~ 50 bps vs. LY
  - Decrease driven by continued pressure on reimbursement rates, partially offset by an increase in GDR as well as an improvement in front store margin rate
- Adjusted gross profit dollars **increased 4.0%** vs. LY, due to increased script volume and generic introductions, as well as improvements in purchasing through Red Oak Sourcing
- Adjusted operating expenses as percent of sales improved slightly to **20.4%** due to leverage gained from revenue growth
- Adjusted operating profit increased **7.3%**, in line with expectations
- Adjusted operating margin of **8.2%**, up ~ 10 bps vs. LY

1. The generic dispensing rate for all periods presented are adjusted to reflect 90-day prescriptions as the equivalent of three 30-day prescriptions.



## Q2 2018 Income Statement:

# Retail/LTC Revenue and Script Growth <sup>(1)</sup>

- Total same-store sales increased **5.9%**
- Pharmacy same-store sales increased **8.3%**
  - Negative impact of ~ 275 bps due to recent generic introductions
- Pharmacy same-store prescription volumes increased **9.5%** on a 30-day equivalent basis <sup>(2)</sup>, 25 bps above high end of guidance range
- Front store same store sales declined **1.0%**
  - Negative impact of ~ 90 bps from calendar shift of Easter holiday this year
- Retail pharmacy market share increased ~ 180 bps versus Q2 2017 to **25.2%**, due to healthy results from our initiatives, including those with other PBMs and health plans, and our inclusion in a number of Med D networks this year
- Store brands represented **21.9%** of front store sales in quarter

1. Same store sales and prescriptions exclude revenues from MinuteClinic, and revenue and prescriptions from stores in Brazil, long-term care operations and from commercialization services.
2. Includes the adjustment to convert 90-day, non-specialty prescriptions to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal 30-day prescription.





## Q2 2018 Income Statement: **CVS MinuteClinic**

- Operate 1,112 clinics across 33 states and Washington, D.C.
- Q2 revenues **up 4.2%** vs. same quarter a year ago
- MinuteClinic is now offering video visits to its patients through the CVS Pharmacy app
  - New telehealth service, leveraging Teledoc's technology platform, provides patients with access to care 24 hours a day
  - Referral to the patient's primary physician or a nearby MinuteClinic is available, if needed, as is the ability for the provider to submit a prescription to the patient's preferred pharmacy, if that is warranted
  - Service currently available in 9 states and the District of Columbia and rolling out to other states, where allowed, through the end of the year.



## Q2 2018 Income Statement: Real Estate Update

<b>Retail locations at end of Q1 2018</b>	<b>9,847</b>
<b>Opened</b>	<b>36</b>
<b>Closed</b>	<b>(3)</b>
<b>Retail locations at end of Q2 2018</b>	<b>9,880</b>
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<b>Net new locations</b>	<b>33</b>
<b>Relocations</b>	<b>12</b>
<b>Retail locations with pharmacies</b>	<b>9,832<sup>(1)</sup></b>

1. Including 8,130 CVS Pharmacy stores that operated a pharmacy and 1,702 pharmacies located within Target stores. Excludes onsite pharmacy stores.



## Q2 2018 Income Statement:

# Corporate

- Corporate: adjusted operating expenses of **\$224 million**, down 3.7% to LY and slightly better than expectations, primarily due to shift in costs related to streamlining initiative

# 2018 Guidance



 Guidance: 2018 Full-year  
**Enterprise Outlook**

	Full-year 2018
<b>Net Revenue Growth</b>	1.5% to 2.5%
<b>Enterprise Adjusted Operating Profit Growth</b>	(0.75%) to 0.75%
<b>Tax Rate</b>	~ 27%
<b>Adjusted Net Interest</b>	~ 1.0 billion
<b>Adjusted EPS</b> <i>Growth</i>	\$6.98 to \$7.08 18.25% to 20.0%
<b>GAAP EPS</b>	\$1.40 to \$1.50

Assumptions:

1. Assume for guidance purposes only, Aetna transaction closes at year-end 2018. By doing so, we are setting no expectations for results of Aetna's operations in 2018.
2. Net interest expense, transaction and integration costs related to the deal are excluded from adjusted figures.
3. Unfavorably affected by 2018 implementation costs for the Anthem contract and the absence of the RxCrossroads business due to its sale.
4. Adjusted operating profit growth negatively impacted by investment of \$275 million of tax savings back into the business, predominantly in the back half of the year in the Retail/LTC segment.



# Guidance: 2018 Full-year Segment Outlook

		Full-year 2018
Retail/LTC	Net Revenue Growth	4.75% to 5.5%
	Same-Store Sales <sup>(1)</sup>	5.0% to 5.75%
	Same-Store Adjusted Scripts <sup>(1) (2)</sup>	8.25% to 9.25%
	Adjusted Operating Profit Change <sup>(3)</sup>	Down low-single digits
Pharmacy Services	Net Revenue Growth	2.25% to 3.25%
	Total Adjusted Claims <sup>(4)</sup>	1.88 billion to 1.90 billion
	Operating Profit Growth <sup>(5)</sup>	Low- to mid-single digits

1. Same store sales and prescriptions exclude revenues from MinuteClinic, and revenue and prescriptions from stores in Brazil and long-term care operations.
2. Includes the adjustment to convert 90-day, non-specialty prescriptions to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal 30-day prescription.
3. The sale of the RxCrossroads business will negatively impact Retail/LTC operating profit growth by ~ 50 bps due to the absence of the business in 2018.
4. Includes the adjustment to reflect 90-day prescriptions as the equivalent of three 30-day prescriptions.
5. Anthem implementation costs of ~\$150 million will negatively impact PBM operating profit growth by ~ 190 bps.



Guidance: 2018 Q3

# Enterprise Outlook

	Q3 2018
<b>Net Revenue Growth</b>	1.0% to 2.75%
<b>Enterprise Adjusted Operating Profit Growth</b>	(5.0%) to (2.5%)
<b>Adjusted EPS</b> <i>Growth</i>	\$1.68 to \$1.73 12.5% to 15.5%
<b>GAAP EPS</b>	\$1.29 to \$1.34

Assumptions:

1. Assume for guidance purposes only, Aetna transaction closes at year-end 2018. By doing so, we are setting no expectations for results of Aetna's operations in 2018.
2. Net interest expense, transaction and integration costs related to the deal are excluded from adjusted figures.
3. Unfavorably affected by 2018 implementation costs for the Anthem contract and the absence of the RxCrossroads business due to its sale.

**Guidance: 2018 Q3**

# Segment Performance

		Q3 2018
Retail/LTC	Net Revenue Growth	4.5% to 6.0%
	Same-Store Sales <sup>(1)</sup>	4.75% to 6.25%
	Same-Store Adjusted Scripts <sup>(1) (2)</sup>	8.75% to 9.75%
	Adjusted Operating Profit Change	Down mid-single digits
Pharmacy Services	Net Revenue Growth	1.5% to 3.25%
	Operating Profit Growth	Flat to up low-single digits

1. Same store sales and prescriptions exclude revenues from MinuteClinic, and revenue and prescriptions from stores in Brazil, long-term care operations and from commercialization services.
2. Includes the adjustment to convert 90-day, non-specialty prescriptions to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal 30-day prescription.
3. Timing of PBM profit delivery affected by investments being made to support Anthem implementation and timing of certain client commitments.



# Drug Pricing





# Facts About Drug Pricing

- Current debate centers on rebates and impact of out-of-pocket costs on consumers
- Drug manufacturers want you to believe increasing drug prices are a result of them having to pay rebates and PBMs retaining these rebates. **This is simply not true.**
  - Rebate retention has no correlation with higher drug prices. Data shows list prices are increasing faster for drugs with small rebates than for drugs with substantial rebates
  - In 2018, we expect retained rebates<sup>(1)</sup> to be ~ **\$300 million**, or **3%** of our annual adjusted EPS
- Overwhelming majority of rebates – **approximately 98%** - are returned to clients and used to lower costs of providing insurance for employees and their members
  - Point-of-sale rebates also available to help reduce out-of-pocket costs for members
    - Provide this service for **~10 million** of our commercial members
- No matter what happens with rebates, PBMs will still be needed to drive discounts and costs savings for clients and members, and PBM model will continue to evolve
  - We underwrite contracts to overall level of profitability and many levers available to pull, depending on the preferences of the client

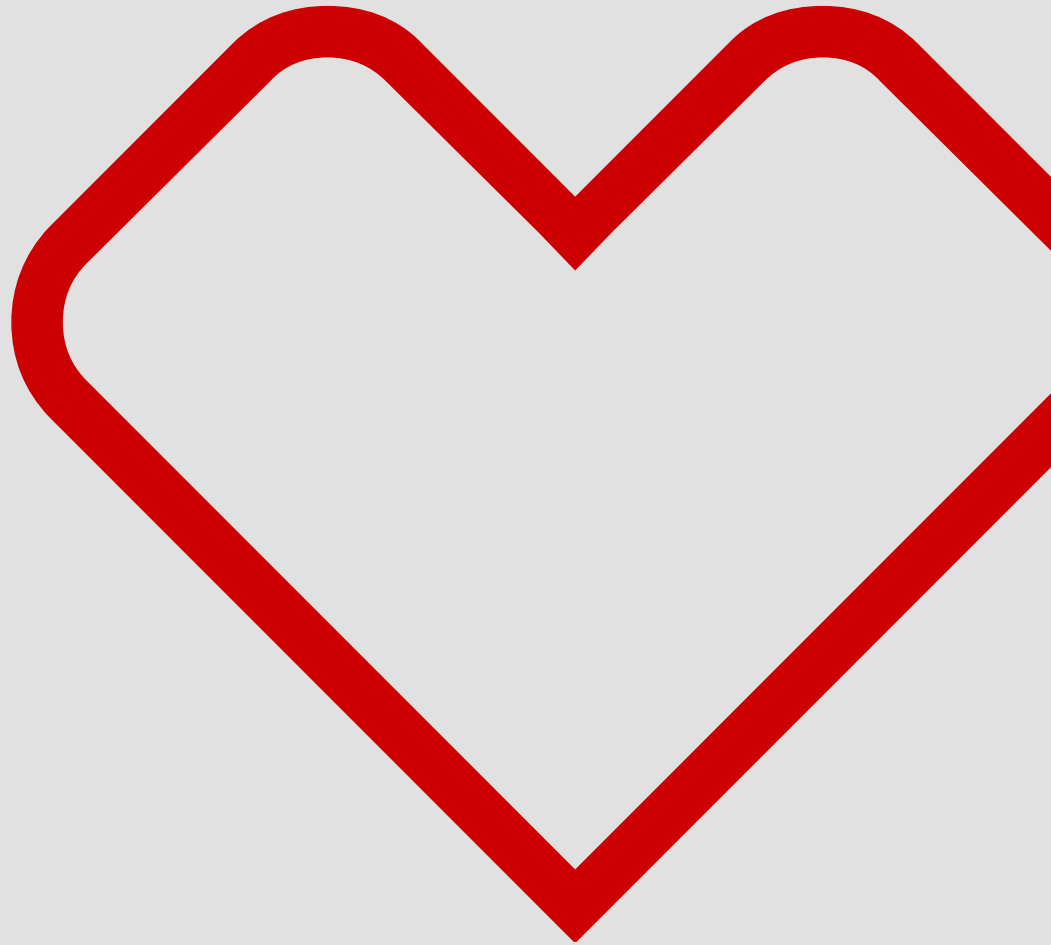
1. Rebate calculation includes all rebates, including price protection, and administrative fees paid by manufacturers for commercial and MAPD clients. Excludes SilverScript.



# Critical Role of PBMs in the Supply Chain

- Using PBM techniques, we've been able to improve adherence and keep drug cost inflation under control in spite of steady price increase by manufacturers
  - Last year, drug price growth for our clients was only **0.2%** on a per capita basis despite AWP inflation of nearly 10%
  - Improvements in adherence reduced overall health care costs by **\$600 million**
- We support Administration's goals to lower drug prices and reduce out-of-pocket costs for consumers
- Submitted [response](#) to Blueprint to Lower Drug Prices
  - Many elements of Blueprint are extremely complementary to current PBM capabilities and would enable us to do more, not less
  - Time-tested techniques used by PBMs to control drug costs are projected to save the health care system **more than \$600 billion** over the next decade
  - Positive and substantial role PBMs can play has been underscored by Administration in key areas such as Medicare and biosimilars
- Other innovative PBM solutions include point-of-sale rebates, real-time benefits at point-of-prescribing, and Prescription Savings Finder tool

# Competitive Landscape





# CVS Health Well-Positioned to Address Challenges Facing Health Care System

- Our distinctive position is the result of several long-standing core competencies that set us apart from others in fundamental and critical ways
  - We deliver quality health care to patients in more ways and in more settings than anyone else
    - Diverse prescription dispensing options based on patient need: 9,800 retail pharmacies, online/mail order pharmacies, and same-day/next-day delivery capabilities
    - We have the footprint, the specialized supply chain, and the right group of health care professionals to deliver care in range of settings that patients and health care system require
    - Infusion services at patient's homes
  - With a physical presence in almost every community across the country, we have the unique ability to meet patients where they are and provide the care and services they need (e.g., face-to-face, virtual, physical delivery service)
    - It's not simply about selling products; it's about delivering quality care and driving superior outcomes, both of which require expertise that our clients and members have come to trust
    - We promote medication adherence and close gaps in care through our Pharmacy Advisor
    - We've integrated our rare disease management within our specialty pharmacy
    - MinuteClinics not only help diagnose and treat minor health conditions, but also provide chronic care management to keep patients healthier and help reduce wasteful spending



# CVS Health Well-Positioned to Address Challenges Facing Health Care System

- Our PBM business has deep, longstanding relationships in the industry, and it helps thousands of payors and plan sponsors design more effective plans that help to keep drug trend low
- Only a company with these capabilities can take the next step in care delivery – which is integrating our capabilities and services to further lower costs and improve outcomes
- To effectively compete in the future health care system, and to complement existing physician services, new capabilities will be required
  - New ways of identifying and engaging patients to drive beneficial behavioral changes will be critical to lowering medical costs for patients and payors
    - Aetna also helps us accomplish this
  - Lower cost models will be crucial given margin compression and shift to value-based care
- We are confident that we are key disrupters and pivotal players in helping define new health care landscape
- Together, CVS Health and Aetna will help address the challenges our health care system is facing, and we'll be able to offer better care and convenience at a lower cost



# Delivering Quality Health Care in More Ways and in More Settings Than Anyone Else

		Online-Only Pharmacies
Track record of patient safety	✓	
Experience operating in heavily regulated sector	✓	
Highly sophisticated supply chain for drug delivery	✓	
Retail and online options for consumers	✓	
Long-standing relationships with drug purchasers	✓	
Highly trained teams of pharmacists and caregivers	✓	
Ability to drive lower costs and better care across system	✓	

\* Aetna acquisition will augment enterprise strengths and capabilities