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MANAGEMENT DISCUSSION SECTION

Susan Vissers Lisa

Good morning, everyone, and welcome to the CVS Health 2021 Investor Day. My name is Susie Lisa, and on behalf of the entire CVS Health Investor Relations team, we'd like to extend you a very warm welcome. We're so glad you're here in New York or joining us virtually.

Before we jump in, please note that the usual customary statements apply as well as Safe Harbors, and we encourage you to consult the Risk Factors section as on file with the SEC and our most recent 10-K or 10-Q. So, let's go.

Here's our agenda this morning. Karen will kick us off with a strategic overview, followed by Shawn who'll give us the financial strategy and outlook. Then, Alan will go into more detail on key elements of our expansion into care delivery and health services. We'll then take your questions for 45 minutes with Karen, Shawn and Alan, followed by a short break. After the break, we'll do deep dives into each of our three foundational businesses, as well as our digital strategies. Following that, we'll do a concluding 45-minute Q&A session, and then Karen will wrap things up for us. We're then happy to stay here in New York in the room with you for your additional questions or look forward to following up online with the IR team.

So with that, it's my distinct pleasure to introduce to you, our President and Chief Executive Officer, Karen Lynch.

Karen S. Lynch

Thank you, Susie. Good morning, everyone. I have to tell you, it is so nice to see the 3D versions of all of you and not have you in those little boxes. So hello and welcome to those of you who are in New York and welcome to all of those who are joining us virtually and have to look at us in little boxes. So we really appreciate your time today.

This is an important time for CVS Health. As many of you know, the world has changed dramatically over the course of the last year and a half or so, and healthcare has been evolving equally as large. We have been helping people navigate the healthcare system and we've been helping them with their personal care through our vaccines, through our testing, through improved access, through lowering costs and being truly a trusted partner.

We have been delivering personalized solutions that are seamless and connected and we've also been interacting with consumers in an increasingly digital way. We've also taken that opportunity to reimagine healthcare that's centered around people so that we can serve consumers efficiently, effectively and, quite frankly, allowing us to meet our overall growth goals.

Today, we're going to focus on our strategy and our long-term financial outlook. And so we have so much to share with you. So let's just get started. Our purpose, bringing our heart to every moment of your health. We're a customer-focused, purpose-driven company and always will be. It is absolutely who we are. I firmly believe that our purpose and our people are our competitive edge.

As a matter of fact, our colleagues renewed this purpose this year based on the leadership role that we played during the pandemic. And I am personally grateful for the more than 300,000 colleagues that stepped up and delivered when it was needed

most, and our colleagues continue to serve with heart every single day.

This is our management team. We have a seasoned team of leaders with deep healthcare experience and a proven track record track record of building, scaling and growing businesses. All the members of the management team are here in the room, but today you'll hear from Shawn Guertin, Alan Lotvin, Dan Finke and Prem Shah, our newest member of our management team who was recently named our Chief Pharmacy Officer and will oversee all of our strategy for pharmacy fulfillment. And you'll hear more about what we're doing there today. And finally, Michelle Peluso, our Chief Customer Officer, she's our Chief Digital Officer and she recently took over our front store strategy.

CVS Health is poised to expand the value that we bring to the healthcare system and the people that we serve. Today, I'm going to share with you why this is the right time for CVS Health to expand our reach into the health services sector. I'm also going to cover some bold moves that we're making to evolve our strategy. I'll lay out our long-term financial outlook, where Shawn will give you much greater detail, and then I'll discuss why we're uniquely positioned to succeed and why you should invest in CVS Health.

Everything starts with our vision for healthcare for consumers. I think we all in this room and virtually recognize healthcare is a deeply personal business that requires the trust of the individuals that we serve. Our future will be defined by delivering personalized, superior healthcare experiences for all consumers, essentially supporting them through every meaningful moment of their health.

Our strong foundation of all of our businesses fuel this vision. I think you would all recognize and agree with me that we are an established leader in critical segments of the healthcare sector. This year, our businesses have been growing faster than the market. As a matter of fact, we expect to have revenue at $290 billion, representing growth of 8% year-over-year. And by maintaining this strong execution, these businesses will continue to drive sustainable, profitable results for shareholders.

Our foundational businesses have consistently demonstrated strong results and positive growth rates and returns, as well as significant operating cash flow. Our foundational businesses position us well for future growth. But more than that, it provides us with a unique blend of consumer, healthcare, risk management expertise that helps us meet the needs of consumers as one company.

When it comes to executing our strategy, our track record is clear and our reach is unrivalled. We are closer to the consumer than anyone else, both in terms of proximity and in terms of reach and relationships. I'm not going to read all these stats for you but I will simply say one thing. We are one of the most trusted brands in the United States, and that's a fact. Our deep relationships with over 100 million members are one of our greatest advantages. We can truly center our work around those consumers at an unequal scale. This enables us to drive deeper penetration of health products and services in everyday life. You're going to hear much more about how we're leveraging those trusted relationships throughout the entire day today.

Across all of our businesses, we continue to prioritize our high-growth markets. Specifically, in healthcare, we're focused on growing our government businesses, dual eligibles, Medicare Advantage, exchange plans. You'll hear much more about those growth initiatives from Dan Finke today. In our Pharmacy business, we'll continue to focus on our expertise in managing trends and offering integrated products and services, and growing our specialty pharmacy.

We continue to make tremendous progress in expanding our reach and our engagement with target customer segments such as the aging population and those with chronic health conditions. Our goal, positively impact health outcomes, manage drug spend, and lower overall costs. But quite frankly, we can achieve more to drive long-term growth. We have a strong foundation and are well positioned to realize the vast opportunities that exist to meet consumers' needs. And I can assure you we aren't sitting still.

When we think about our strategy, we're focusing on both what we are delivering with our current capabilities and assets and how we can fill gaps in care and create connected healthcare experiences. I don't need to tell anyone in this room or virtually that the current healthcare system was designed in the last century around providers.

Any one of you in this room that has experienced the healthcare system and I'm sure every single one of you here has, you know that it's expensive and it's fragmented. And despite the highest spending, America's health outcomes are falling behind other developed nations. And as you can see here, there are significant strains in accessing primary care. And the rising costs of healthcare in America are untenable for majority of Americans, and yet, costs continue to increase.

As a matter of fact, CMS forecasts that health spending will grow an average rate of 5.5% through 2027. And I think we all know that almost 20% of adults went without recommended care, or didn't see a doctor in the last year. And at the same time that the healthcare system is under stressed – consumer expectations are changing the landscape of healthcare and increasing dramatically.

And then, there's this disrupter that we've all heard of called technology. People want the same experiences, the same convenience, the same digital options that they have with all other aspects of their life, and healthcare is behind. 60% of a person's life expectancy is driven by their everyday health choices. Consumers need to make better informed decisions based on their individual health. I think we all recognize that my individual health and the choices that I make are different from the ones that Lisa Gill makes every single day.

Partnering with the consumer on their lifelong healthcare journey requires continuous presence that seamlessly blends digital and analog interactions. As a company, we have to be able to offer personalized services that meets the consumer changing needs throughout their entire lifetime. Clearly, these unmet needs create opportunities for CVS Health to connect consumer experiences in ways that lower costs, increase access and improve the quality of care and improve health outcomes.

I don't need to share these numbers with any of you. All of you know that the US healthcare spending is nearly $4 trillion and growing. We are seeing an unprecedented number of disrupters in the healthcare industry today. And as we look at the opportunities in healthcare, we're focused on care delivery, expanded health services and products and digital health and wellness.

And across the entire system, many companies are out there offering point solutions that address individual pain points. But no one is bringing them together in a leveraged way. We can. The market is ripe for change that only we can deliver. And to capitalize on this broader market of opportunities, we're making several bold pivots in our strategy, but these pivots leverage our existing assets and businesses that already gave us a personal relationship with the consumer.

We are confident that we can execute and that we have the capability to deliver sustainable, profitable growth. It all starts with primary care, delivering new and different models needed to support consumers, but more importantly, these models need to be convenient, multichannel, multidisciplinary and affordable. And they need to drive engagement, leading to better health outcomes. And as we advance our strategy, we're optimizing our footprint and we're reimagining the CVS locations as health destinations.

We're also going to diversify our growth portfolio with new health services that will be integrated to work together for the consumer. We'll continue to invest in digital capabilities and technology to accelerate consumer experiences and improve our infrastructure. And finally, we're enhancing our omnichannel health delivery to give consumers choice in how and when we engage in their health.

I want to spend a few minutes talking about each of these strategic moves. We are advancing our care delivery by expanding the primary care of services that we offer. I think we all recognize that primary care drives the most clinical outcomes. Although, it is a very small proportion of total health spend, just about 10% nationally, it wields significant influence over healthcare utilization. Individual with primary care report fewer serious medical diagnoses, lower mortality rates and 33% lower annual healthcare expenses.

Make no mistake, CVS Health has been involved in the delivery of healthcare services for many years. We've been offering acute episodic care and have been evolving our MinuteClinics and our HealthHUBs. We've also focused on chronic conditions such as diabetes, weight loss and smoking cessation. We will further build out our primary care offering to guide consumers on a care continuum to the sites and the providers that meet their needs.

A hallmark of primary care is only the longitudinal relationship with the patient. Consumers are seeking this type of relationship. We can be at the center of their care and as we architect our next-gen primary care, in addition to preventive care, acute care and chronic conditions, there are two other critical components; care coordination and mental health services. Our approach will be different. The traditional relationship is between the patient and the doctor. We're going to shift the model to be centered around the patient with a multidisciplinary care team that all work together. The team will be led by a physician and includes nurses, social workers, pharmacists and other healthcare practitioners, many, that are already employed by CVS Health.

Imagine an individual who has multiple people thinking about his or her health along their lifetime journey of healthcare. Our omnichannel approach further ensures convenient access to the care team in the home, in the community and virtually. This also represents a shift to risk-based primary care versus traditional fee-for-service. We will be accountable for the cost and quality of care for the patient.

Think about this, 100 million-plus members, one at a time, each uniquely helped by CVS Health to lead healthier lives, when needed to access the care they need, at the cost that they can afford. And as we focus on the health of the whole person, we'll embed mental health services into our primary care offering. We'll build on the mental health services that we have today in our HealthHUBs and our behavioral health company. Mental health is an unmet need and it is clearly one of the biggest collateral damages of the pandemic. So as you think about this multidisciplinary team and risk-based approach, our model will also embed high-risk care management into the primary care model. We will scale this market-leading model designed around the consumer.

The next generation of primary care will enable us to support the longitudinal relationships and build on the experience, the expertise and the assets that we already have. We, however, we realized that reaching scale with this model will require partnerships and M&A activity. Advancing primary care drives the health system beyond transactional encounters. We will maximize the lifetime value of a consumer by shifting from transactional based primary care to addressing their holistic health. We'll treat the whole person, physical, emotional, social and economic which will lead to higher quality of care and lower medical costs. You'll hear much more detail about this strategy from Alan when he joins the stage shortly.

I want to take a moment and talk about our Retail presence. Our Retail presence is a fundamental part of our strategy and who we are as a company. Our presence in communities across America and our dedicated colleagues are the foundation, the face and the strength of our brand. And as we expand capabilities into care delivery, health services, omnichannel health, we'll transition what we call stores into health destinations. That requires us to pivot slightly into three different formats. We will have a primary care clinic that provides the highest level of clinical service. We'll have an enhanced version of our HealthHUBs with products and services that support everyday health and wellness. And finally, we'll have our traditional CVS Pharmacy locations.

I have to tell you, we conducted an extensive review of our footprint. And as we announced last month, we will close about 900 locations over the next three years. This aligns our footprint with important changes in consumer health and buying needs in omnichannel preferences and with major shifts in the US population. These community destinations will remain a vital part of our business as an enabler of care delivery of omnichannel health and our health services strategies. It will continue to be a growth driver for all these businesses and will be complementary to each of them.

Let me talk now about how we'll diversify our portfolio. We will launch new payer and provider enablement services that are integrated across multiple channels and address targeted healthcare needs. This includes adding risk-based management service functions necessary to move into risk-based primary care. We'll expand our home services that we offer, utilizing a model that integrates health programs for complex populations. Delivering care in the home for complex patients has shown to reduce the unplanned hospitalizations, reduce readmissions, reduce the total cost of care, and improve engagement. The economics are compelling.

We will also extend deeper relationships with consumers with a health-related subscription program that will address high out-of-pocket costs. We will capitalize on a very successful subscription program that we have today, our CarePass program, which has 5.3 million members today, and it grew more than 50% last year. You'll hear more about this from Michelle later today. We'll also commercialize our insights and our analytics capabilities that we have today.

As you saw earlier, the future of health is digitally led. We are using our digital assets to expand our reach and engagement with our more than 35 million unique digital customers. It was interesting when we were looking at all the things that we were doing digitally, as we went through our digital strategy, one of the things that we realized CVS Health is already – already one of the top three health sites in the United States.

While we'll be launching new services and offerings such as our dedicated health dashboard with a 360-degree view of an individual's health records, we'll also be using our next best actions to drive opportunities to improve an individual's health. Our approach will drive higher levels of engagement and lead to improved outcomes.

Again, you'll hear much more about this from Michelle later today. We will continue to expand our leadership position and digitally-connected health engagement with our virtual care platform, our omnichannel pharmacy capabilities, and our health and wellness solutions. Why don't you take a look?

[Video Presentation] (00:25:58-00:27:49)

I hope that gives you a good sense for the incredible job that we've done over the last year in improving our digital capabilities. Every element of our strategy is consumer first, as you saw from that video.

Since the pandemic, consumers are a major force driving change in healthcare. Especially around the preferences and how they access care. Our omnichannel approach is about connecting consumers in more places and on their terms. Our established channels today offer a diverse portfolio of programs and services in the home, in the community, and virtually. And as I noted, we'll continue to expand the services that we offer in the home such as home monitoring for specific health conditions with our national virtual care program. Dan will share more insights into that program later today.

Our approach combines face-to-face and digital points of care to meet consumers, how and where they want. We are uniquely positioned to play an integral role in connecting these channels and these experiences across the entire healthcare system to deliver better health outcomes. We do see a significant opportunity in omnichannel pharmacy. We are already making the pharmacy experience for consumers as easy as possible while ensuring better outcomes, lowering costs and increasing convenience.

I think you all know that the pharmacist is the most frequent interaction in healthcare. Our focus is on making these interactions as personalized and as seamless as possible, end-to-end starting with the doctor's office. With a unified and integrated approach, we're expanding our omnichannel options in pharmacy across all of our CVS Health businesses from traditional retail pharmacy, specialty pharmacy, infusion services and mail order pharmacy.

The expansion of this pharmacy strategy comes from a position of clear strength. We already are the market leader with 80 million pharmacy patients. We have strong community presence. We have high customer satisfaction rate as measured by our NPS scores, and we have a customer-centric culture as evidenced via our retention and our new business wins. Prem Shah will talk more about this omnichannel pharmacy later this morning.

We will power our strategy with a consumer-centric technology foundation by digitalizing how we work and modernizing our systems and capabilities to deliver superior consumer experiences. Clearly, the future of work will be different, too, and these technology advancements will help our colleagues as well.

We will orient around the consumer and deliver what matters most. We'll optimize the processes to drive value. We'll create an agile platform to sustain efficiency and savings. And we are advancing our cloud strategy to accelerate the speed, the flexibility and launch of new health solutions. This includes leveraging AI, machine learning and natural language processing to simplify the consumer and provider experiences. You might have read last week that we entered into a partnership with Microsoft and we're so excited about that partnership and the impact we'll have on consumers.

No healthcare company has ever had the collection of assets that we have. And with that comes the ability to dramatically reshape how consumers experience healthcare. We're not starting from scratch. We already have an unmatched range of consumer touch points and different channels to meet the health needs across the entire care continuum. The leadership role we played during the pandemic underscored our competitive advantages and solidified our place as a healthcare leader with consumers.

When faced with the most significant health challenge in our lifetime, people came to us. They trusted us. So this strategy is a natural evolution. These (00:33:05) that we're making in our strategy will make our foundational businesses stronger and will drive growth. All the elements of the strategy that I discussed will deliver double-digit adjusted EPS growth over time.

Shawn will talk in more detail about our path to achieve low-double digit EPS growth. But I'll share with you the three building blocks. First, the underlying strength and growth momentum of our foundational businesses and opportunities for cost improvements will generate 7% to 8% annual EPS growth on a sustainable basis. Throughout the day, you'll hear more about our confidence in generating long-term growth in each of these businesses.

Our strategy is adding new areas of financial growth that will drive the expansion of primary care and other complementary health services. As you saw, these are large addressable markets with attractive growth characteristics. We expect to add at least 2% of incremental earnings growth beginning in 2024. We are confident that we can execute on this strategy and achieve these goals.

And the third and final building block is returning cash to shareholders. We'll return cash to shareholders in two ways. First, through a meaningful increasing dividend beginning in 2022 that we announced this morning; and second, through increasing share repurchase program. From a total return perspective, our current dividend yield adds over 200 basis points, and we anticipate share repurchase to contribute 1% to 2% of adjusted EPS growth annually beginning in 2024. All of this together builds towards strong growth in 2022 and 2023, and then the achievement of low-double digit sustainable EPS growth beginning in 2024.

We will continue to invest in our foundational businesses, and as we focus our M&A strategy in a few areas such as care delivery, innovative health products and services and digital health capabilities.

Here's what you can expect from me and my management team, strong, sustainable growth in our foundational businesses. Strong additional profitable growth driven by the strategic rules we're making, meaningful cost improvements, powerful cash flow generation, strategic capital deployment, and a commitment to sustainable business practices and employee development, all leading to a clear pathway to achieve low-double digit adjusted EPS growth over time. We are well positioned for the future with a truly dynamic growth strategy. And I hope now and by the end of the day, you'll see how excited me and the team are about CVS Health and our strategy.

I am going to now turn it over to Shawn, but I'd like you to take a look at our vision from a consumer perspective. Thank you.

[Video Presentation] (00:36:49-00:40:16)

Shawn M. Guertin

Well, thank you, Karen, and good morning, everyone. Yesterday, we were doing a dry run in a different room. And I looked out the window and I saw the big sign for the Essex House on Central Park South. And I could help but think about the first time I took a stage to do something like this almost 20 years ago now, but how excited I was actually at the time and nervous, actually. But how excited I was to tell the story of a scrappy little managed care company called Coventry Health Care. And it struck me, I'm just as excited today as I was then because I honestly believe that there is a very unique window in time here where we have a real chance to make a lasting, meaningful impact on the healthcare system in this country.

So, I'm very excited, like I said, to tell the story today and I'm going to focus on talking about how we're going to generate sustainable earnings growth going forward – the word sustainable, I think it's important and I'll use it a number of times – and how that's going to deliver value to investors and, most importantly, the people we serve.

Karen opened up with CVS Health's bold vision of healthcare, and that's a future designed around the consumer, for the benefit of the consumer, for the convenience of the consumer.

And so today, I'm going to give you some deeper perspectives on how here and now we're building that momentum to become the nation's leading healthcare solutions company and how that will drive the financial performance of our business over the coming years. So I'm going to start with the key themes I'll be talking about today. There's five of them. First, 2021 was a strong performance year for the company, and it's creating significant positive momentum as we go into 2022. Two, CVS Health has a differentiated collection of assets that can drive robust earnings growth and uniquely positions us to succeed in care delivery and health services.

Three, we have a very powerful cash flow generation engine that will allow us to repurchase shares, increase the shareholder dividend, execute our strategy, all while managing to our investment grade capital structure.

Four, our successful expansion into care delivery and healthcare services opens up large addressable markets with multiple avenues for growth and entirely new revenue sources for us. And, it has the potential to accelerate growth in our foundational business. A strategy that works both of those levers can be incredibly powerful. And five, the long-term results of this pivot will put us in a vastly improved strategic position, poised for sustainable low-double digit EPS growth in 2024 with upside beyond that.

But the journey starts with a foundation of very strong performance in 2021. The strength that we've seen all year has continued in the fourth quarter and as you saw today we're announcing an increase to our EPS guidance to be now at least $8 per share for 2021, up versus our prior range of $7.90 to $8.

All the other enterprise level metrics here that you see on the slide, we expect to be at least at the high end of the prior guidance range. This strength that we're seeing in the fourth quarter is primarily driven by the Retail business, which continues to see vaccine, testing and front store sales volumes higher than our forecast. We're still intra-quarter, and so there's a lot of moving pieces, but when I look at the other two businesses, we expect those businesses to be either be at or better than forecast as well for the fourth quarter.

So that will make 2021 a very strong performance year and a year driven by sound fundamentals with revenue growth of at least 8%. We have beaten and raised each quarter of this year, three times, and now our adjusted EPS is looking to be at least 7% better than our initial guidance midpoint. And these strong results in 2021 are a continuation of a pattern of delivering on our commitments since the last Investor Day.

You can see here above the line are what was presented that day for EPS targets and then you can see below the line, we have handily exceeded those targets, each of the last three years. And equally important to our story is the cash flow we have generated and capital that we've generated over these three years as well, exceeding $40 billion. That has enabled us to also hit our deleveraging commitments. In fact, we've repaid $18.7 billion of net long-term debt since the Aetna transaction, and we plan to retire an additional $2.3 billion in long-term debt due in 2023 later this month. That would be $21 billion since the close of the merger, well ahead of any estimate that would have been provided back in 2019.

The strong performance, as I mentioned in 2021, we expect to continue into 2022. Consistent with the commentary that I made on the third quarter call, we're providing our initial guidance for 2022 in a range of $8.10 to $8.30. Now, as reported, that's growth of only 1% to 4%. But as I mentioned on the call as well, it's essential to compare that to the proper 2021 baseline, which is now at least $7.60. And as a reminder, that was adjusting by removing the effect of prior year developments and realized capital gains, which we don't forecast taking that out of 2021, and also annualizing for the effect of the minimum wage change that we announced effective in September of this year.

Versus this baseline, we're expected to grow 7% to 9%, which is a number or range that how do you (00:47:02) keep in your head as we talk about the longer term trajectory of the business. But the solid fundamentals will continue as well. We continue to expect excellent revenue growth, with revenue up 5% to 6% year-over-year now exceeding $300 billion.

On the margin side, we expect the adjusted operating margin to be down modestly maybe 20 basis points or so driven by the reduced vaccine and testing volume in Retail. This is being partially offset in the Health Care Benefits business as we see improved margins from our pricing activity, we can now price for COVID in 2022 as well as expected reduction in COVID costs in 2022.

But, most importantly, 2022 is a year where we're going to return to a more balanced capital deployment strategy. This morning we announced a $10 billion share repurchase program that we will begin to use in 2022 to at least offset share count dilution which has been running around 1% a year.

As Karen mentioned, we're also going to increase our dividend 10% effective with the next dividend distribution in February. This is the first repurchase and the first dividend increase since 2017.

We not only look at how this guidance breaks out by segment and I'll start with our Health Care Benefits business. One thing that I had to reorient myself on when I returned is that the HCB business and the story of performance there both top and bottom line is really now all about the government business. In fact, government makes up 70% to 75% of the premium now in HCB. And that government business will continue to drive strong top line growth, we expect revenue next year to grow 8% to 9% approaching $90 billion. That will continue to be fueled by outstanding Medicare membership growth.

We also expect growth in our Commercial business. We've talked before about our excellent national accounts selling season. And it'll also be – mark our reentry into the ACA individual exchange business in eight states. Now, the ladder for 2022 is really a story about membership and topline, because we're not assuming any large earnings impact at all, as it's the first year of a multi-year program. So it's really about topline this year. But this is obviously the segment where we expect to see significant adjusted operating income growth driven by our ability to price for COVID medical costs and a reduced level of medical cost. We expect this to show up in an improved MBR. You can see our guidance here is 84.2% plus or minus 50 basis points.

There's two important things though I want you to understand about this MBR. Even with our pricing posture, we are still presuming that COVID-19 will have a net negative impact in 2022 in HCB specifically, but one that significantly reduced from 2021. And second, when you're comparing this to the prior year, keep in mind there is no prior year reserve development in this forecast and that was a positive contributor to the MBR in 2021.

And we move on to Pharmacy Services. This is our largest business from both a revenue and an earnings perspective. Over the last few years, the performance of this business has been outstanding, top line and bottom line. In fact, over the last few years, they've grown operating income at a compound annual growth rate in the low double-digits. That's extraordinary for a business of this size. And we expect that to continue when we look forward to 2022. We expect the revenue growth to be up 6% to 8%, driven by a very successful selling season where we've put on net new business of about $9 billion, and we've had 98% client retention.

We expect that to show up in adjusted operating income growth of 5% to 7%. And this just isn't all about pricing. This is about our unrelenting focus on driving industry-leading drug trends, industry-leading capabilities in specialty pharmacy, which makes up more than 50% of the pharmacy expense now, and continued strong purchasing economics of an industry leader. Combined, these tailwinds have helped us navigate client pricing pressure and maintain attractive operating margin levels.

I mean, I'll move on to retail. Our retail assets are the front door to our trusted brand and the consumer. They make up a backbone of a healthcare platform that's national in scope, but local in feel. Here we expect flat to modest topline growth driven by script growth of about 1% to 3%, despite a material reduction in COVID-19 vaccines. This will – the revenue here will also be partially offset by the revenue impact of the previously announced closure of 300 stores in 2022.

Here we expect operating income to be down year-over-year due to the lower contribution from vaccine testing and front store sales, as well as the impact of our investment in the colleague minimum wages, which really shows up in this business the most. It'll also be impacted by ongoing retail pharmacy reimbursement pressure which is stable, but still a negative impact.

Store closures here really aren't material to the operating income story, it's a fairly neutral effect in 2022, but they do become modestly accretive in 2023 and 2024. In addition to optimizing our retail footprint, we're also looking to optimize the elements of our overall cost structure. Cost improvement will be a meaningful earnings driver the next few years. But this is far more than just traditional cost-cutting. This is about reducing our operating cost structure in a way that improves the consumer experience and is sustainable.

Our guiding principle here is simple, we're orienting everything we do to deliver superior customer outcomes and eliminating any work that doesn't. We're doing this by focusing in two key areas. First, investing in digital technology and analytics capability, some of which Karen described, that we expect will not only reduce costs, but improve levels of service and quality which should generate better net promoter scores and higher levels of sales and retention. A good example of this is work we're doing now in our enterprise call center project and enterprise call center optimization.

Second, we want to make sure these efforts are sustainable and have to give us the agility and flexibility to scale across our current and anticipated future business growth. With this, we're implementing workforce and workplace strategies that will give us better access to talent, elevate that talent and increase employee satisfaction. We're also going to be deploying vendor and procurement strategies that will enhance our capabilities, reduce our cost and actually reduce our third-party risk.

By executing these actions, we're targeting to reduce operating cost $200 million to $400 million per year. To put that in context, our annual cost base is in the neighborhood of $40 billion, so it's a – it's between 0.5% and 1%. In our guidance today, we've included a cumulative impact over the three years of $900 million for this. And that will contribute about 100 basis points to 200 basis points to EPS growth each year.

So, let me bring these pieces back together for you and begin to think more about where this is taking us longer term. Our businesses are performing extremely well and they do provide a strong foundation for growth. When enhanced with cost improvement, they can drive sustainable adjusted high single-digit operating income growth.

That level of growth, when combined with some capital deployment, could arguably get you to low double-digit adjusted EPS growth. Combine that with an attractive dividend and it's a pretty appealing return profile in its own right. But we think there's a better path. A path that can make us even stronger and create more sustainable performance and give us much, much more significant long-term upside.

And that path starts, I think, with three important characteristics of our business. Karen discussed the first two of these. First, the unique collection of our assets across the consumer, healthcare delivery and fulfillment, financing, risk management, all synergistically fit to accelerate us along our strategic path.

And second, our position of being as close to the consumer as anyone in healthcare can lead to much greater levels of engagement, which has always been the key in terms of improving outcomes and reducing cost in healthcare. And I'd add a third, the strength of our very powerful cash flow generation engine is can create deployable capital on par with any of our major competitors.

But before I delve deeper into capital generation and deployment philosophy, I want to touch on an example that I think exemplifies the first two items. Our ability to reach customers, with a trusted brand and rapidly scale what was generally a seasonal vaccination business, helped us lead the nation's response to the pandemic. We've administered over 50 million vaccines and over 29 million tests through the end of November. And in so doing, we've created a business that's going to drive well in excess of $3 billion of revenue.

I'd be remiss if I didn't recognize the incredible effort and dedication of our colleagues, who made this happen and who are still making it happen every day. And I freely admit that this is being fueled by unprecedented circumstances. But it exemplifies the

power of CVS Health, the power of an untapped latent capability in a deployed healthcare solution that's national in scale, but local in feel and digitally accelerated.

Let me now go back to the third foundational characteristic to accelerate our strategic journey. The vigor and the strength of our cash flow generation is one of our most valuable assets for sure. Over the past three years, we've generated cash flow ranging from $13 billion to $16 billion a year in excess of $40 billion over this three-year period.

Capital is an accelerant to our forward vision and the realization of our strategy. So how do we foresee deploying this critical asset? We project that we will generate $40 billion to $50 billion in cumulative deployable cash between 2022 and 2024. And thinking about deployment, we have three guiding principles. One, we will manage to a safely investment grade ratings target. Two, our preferred use of capital is always to grow the business organically and inorganically. And three, that a balanced approach to capital deployment over time produces the best long-term sustainable results.

The easiest way I think to think about our capital strategy over the next three years is in three major categories. The first you see here, it will be reinvesting in our foundational businesses, if you will, which we expect we will use 25% to 35% of this capital for. This will take the form of our organic capital expenditures in the maintenance of our statutory capital requirements in our rapidly growing insurance business.

Second, we'll be returning capital to shareholders through the form of our shareholder dividend which would be in the neighborhood of 20% over this period. This will be something that we will think about as aligned to a payout ratio and thus should then grow with EPS growth over time.

And third, we will deploy about half of this to enable growth and return capital to investors in other ways. This is the capital that we will use to manage to target leverage metrics, it will increasingly go to share repurchase over time, but it will also go to fund both traditional and capability-based M&A. On this front, we will do this, as always, within a disciplined financial framework and at a manageable size and scale.

So, with this framework, what capabilities do we see to be important accelerants to our strategy? First, you have to understand what we're trying to build. We will build the nation's preeminent, risk-enabled, vertically aligned, all-payer primary care delivery platform. Within that platform, fee-for-service will always exist in one form or another. But the main focus of this will be on risk-bearing and value-based models. And the importance of this model goes farther than just "making the economics" work for us.

These models are at the heart of what lets doctors be doctors. And that vastly will improve both the consumer experience and the provider experience. And this will all be powered by a very tech forward digitally-enabled infrastructure. But to do that, there are some key capabilities that we need to deliver to achieve this vision. One is a network, a physician-led advanced primary care centers. These will not be in medical office complexes, they will not be run the way you see physician offices run your whole life. These will deliver an unmatched consumer experience, something that consumers will use because they find it indispensable, not because their health plan makes them use it.

These centers will embrace a multidisciplinary team approach to care, utilizing the full array of provider types and really focus on treating the whole person. We will also enhance our healthcare services and MSO capabilities that will help power our own owned clinics, it will help facilitate partnerships with PCPs and allow us to scale more quickly and importantly deploy the best model for each geographic market. And we'll also continue to focus on home healthcare assets. Here, we will initially be looking at the cost levers that impact chronic condition management, and obviously this would be very applicable to the Medicare population. And so they would be working on things like post-discharge plan adherence, avoiding hospital readmissions, ER avoidance and things of that nature.

But these new capabilities are complemented in bolstered by our existing care delivery and fulfillment assets. Our omnichannel pharmacy capabilities, which Prem will talk about later today. Our nationwide deployment of HealthHUBs and MinuteClinic's, which are now a key part in being linked to our primary care centers, being linked to our virtual product. And also our existing home healthcare assets like Coram, our specialty infusion business.

Over time, the power will only build here, because then we will have an integrated basis and a powerful platform that we can leverage in a logical and rational way to extend into other areas of care delivery and fulfillment, creating even more value for consumers and investors. But ultimately, the enhancement of our capabilities has to unlock new sources of growth. Again, I think the most powerful aspect of this strategic choice is not only does it access large to – allow us to access to new large addressable markets that have multiple avenues that we could go now to generate revenue with appealing growth dynamics. It also has the potential to accelerate growth in our foundational businesses.

So a few examples of how this may take shape. New care delivery models tailored for specific geographies or populations. At its heart, what these models do is lower cost and improve outcome which leads to better margin and/or better growth, which leads to increased lifetime value for every consumer we have. Medicare is an obvious candidate that you all know about for models like this. But our footprint and assets also give us the ability to reach into the underserved for providing potential for Medicaid and ACA exchange populations. These models could also lead to improvement in our already strong stars ratings in Medicare.

I expect our commercial growth can be accelerated, particularly large groups self-insured with the deployment of work sites or near site clinics. And our optimized retail portfolio and dynamic omnichannel pharmacy strategy can strengthen consumer engagement and lead to incremental profitable retail growth. But as I mentioned, there's some entirely new sources of revenue.

Examples of this would be care delivery revenue on both a value-based and fee-for-service basis delivered through comprehensive primary care on an all payer basis. It could be a Medicare risk-bearing entity for our own membership and also done on an all payer basis, subscription models that integrate our other enterprise assets, creating unique value propositions and access to broader populations, and new health services revenue through the services that we can provide to our enabled provider and payer partners.

Now, the development and maturation of these business opportunities is not going to happen overnight, I don't need to tell you that. So, as a result, we've taken a prudent stance on timing of their contribution to our financials, both in terms of timing and magnitude. Our long-term guidance does not assume any meaningful accretion to earnings growth until 2024. And very important, the contribution we have in 2024 in my mind is still relatively modest. These will continue to scale and have far greater potential in the future.

Now, before I talk about the specifics of the numbers, I do want to say that the timing of any acquisition, the allocation between our foundational businesses and new sources, the contribution of the subcomponents may emerge differently, but we've done a lot of modeling and we've looked at a lot of scenarios, and we're very confident that we can deliver the combined effect here, which is about 2% on the growth rate or $400 million in 2024.

So, if I start with our new foundational businesses, we've allocated about half of that to them. The prior slide provided examples of how this might show up. I'd expect based on the work we've done to date that the largest contributors in 2024 will be the new care delivery and risk-bearing models, also combined with our omnichannel pharmacy opportunities.

If I looked at the new revenue streams where we have the other half of this right now, we've modeled a range of scenarios and I expect that the value will be driven by care delivery revenue that I mentioned and subscription program revenue generated by both owned and enabled primary care centers. With my earlier caveat in mind that we're still very early in this process, I would tell you that in looking at these scenarios, a course, scenario typically had 250 to 350 owned and enabled primary care centers by the end of 2024. But we'd also expect to see increased health services revenue whether that be an MSO or other enablement services from our enabled provider and payer partners.

On this one, I would say that any implementation of a strategic plan that's a combination of build and buy poses some challenges in nailing down specific timing and details. But what I will nail down is our firm commitment to be open and candid in sharing the milestones and the expectations when we do do something. Adding this together, we can now paint the full picture of our longer term earnings potential.

We have a clearly defined pathway to driving high single-digit adjusted EPS growth in the next two years and then, sustainable low double-digit adjusted EPS growth in 2004 with upside beyond that. We've discussed the components. Our foundational businesses, when enhanced with diligent cost improvements and with sound fundamental execution, we think can contribute 7% to 8% of that. We think our care delivery and health services strategy can incrementally add 2% to that growth rate in 2024. Today, we see that as being equally split between our foundational businesses and new sources of growth.

We will return cash to shareholders throughout this period in two ways. First, through increasing share repurchase program, and second, a meaningful increasing dividend with that increase starting in 2022. And we will do all this while staying committed to an investment grade capital structure, which to be very clear, we view as no lower than a BBB credit rating. And we'll do this by targeting sort of a resting leverage ratio, if you will, in the low 3s, but recognizing the need for some temporal flexibility as we execute on our strategy.

So, in closing, healthier is happening and it's happening here and now. We're embarking on a journey from a position with strong foundational businesses that will serve us well into the future. We have a differentiated portfolio of assets in the capital generation power that will allow us to deliver the nation's premier primary care and wellness platform for consumers across every stage of their life.

We will return capital to shareholders during this period and maintain our investment grade ratings profile. We will have access to large new addressable markets with multiple avenues for incremental revenue growth that also will accelerate our foundational business. And in the future, this will provide us even greater clarity and optionality to expand and leverage on this care delivery strategy.

When you put this all together, this vastly improves our strategic positioning as a company. It sets us on a path for sustainable, low double-digit adjusted EPS growth in 2024 and beyond and creates meaningful future upside, all while helping address some of the most critical healthcare needs our country faces.

So, I thank you for your time today. I am now going to turn it to Dr. Alan Lotvin, who will provide more detail around our expansion strategy into care delivery and health services. Thank you. Alan.

Alan M. Lotvin

And it's really nice to see all of you live and in person. I left practice 25 years ago, actually in New York City. And when I did, I knew I was trading a huge impact as an interventional cardiologist on, I don't know, a couple of thousand people a year for much less impact, but on tens of millions. So, as I talk to you about the strategy that Karen and Shawn have laid out, I can't tell you how exciting it is to see how much we can increase that impact now on 100 million people through the strategies that we laid out and increase that impact in a bunch of important ways. So as I talk to you, when I think about the opportunity we have as the only nationally scaled, but community focused, really tech forward consumer health company, we're going to do a few things.

One, we're going to substantially improve the experience for both providers and patients, I'll talk about how. Second, when we do that, we're going to have the opportunity to substantially increase and improve the quality and reproducibility of healthcare. We have a unique place because consumers have given us the permission to become a deeper part of their lives, and that was accelerated through the pandemic. And the third exciting part about impact is impact on doctors and patients, but also on our shareholders. And this is a financially meaningful approach part of our strategy, both the primary care services, but also as Karen and Shawn talked about, these advanced analytic tools and other (01:16:03) products that I know are really important to the Caremark health plans as an example.

So our vision was clear, right? We're going to become the nation's leading health services organization. We're going to do that by delivering a consumer experience that is frictionless. What we expect, we want to be the employer of choice for both doctors and advanced practice nurses and physicians and physician assistants. And we're going to do that, we're going to build on existing assets. Now, as we think about that building on assets, one of the core criteria we want to look as a technology infrastructure. And I think, the lack of scaled workflow systems really creates variability in care. And if you think about medicine (01:16:50) large, we don't spend as much time in medicine thinking about Six Sigma quality or thinking about lean operations. It's not part of the language and that's to the determinant, we have huge variability in care. The people at Dartmouth, Weinberger and others in the 1980s prove that variability in care doesn't create better outcomes, in fact, quite the opposite.

So we really want to understand as a scaled provider of clinical services now, we'll talk more about that, how we can extend that into primary care. And then Karen – both, Karen and Shawn talked about the multidisciplinary teams, I think it's really important that we want to elevate the social and behavioral determinants of health on par with physical, and that's part of that operational discipline of understanding the true root cause of any health out – of any adverse health outcome.

One of my favorite kind of thoughts in life is timing is everything, and the time for this is really good, right? Why is it a great time? Well, the primary care system is evolving and it's evolving rapidly, right? Now, part of that rapid evolution is because of the nature of innovation, right? People build on each other's – stand on the shoulders of giants as the expression goes and you have this accelerating pace. But I think it's also been driven by the recent pandemic, which has forced changes in consumer behavior, people – force people to try new things faster.

Now, we've talked a little bit about everyone having experienced the healthcare system being set up in the last century for people like me, we expect a totally different experience as consumers now, and I would say healthcare is probably the only one that hasn't really changed at all or minimally. And then, as I mentioned, that impact of stagnation isn't just on experience, it's on quality. And if you think about the incredible attention to detail in manufacturing in other areas of operation – of operational excellence, it's fundamentally changed the profile of reliability and reproducibility. I have a pilot's license, and when I look at what happens in the FAA with aviation and a learning system, it's very, very different than what I experienced as a physician in hospital. So I think we can change that just based on who we are and the way we approach the problems.

The last part that's really timely is that the workforce shortages and primary care are not getting any better. Fewer and fewer physicians are going into primary care, and there's more and more need, as I think someone pointed out – well, so Dan will tell you that all the baby boomers are going to be 65 by 2030, which is an enormously depressing statistics for someone who's in that generation. But the flip of that is that primary – sorry, advanced practice nurses and physicians assistants are graduating in record numbers. So, when you think about the unique assets, we have to create a new primary care ecosystem, this is the right time for us.

Now, both Karen and Shawn said the linchpin of this model is primary care, but I want to talk to you in particular about how we adapt to the primary care model to take advantage of the uniqueness of CVS Health. Now, sometimes you can take advantage of your own unique assets and differentiate just for the sake of differentiation. That rarely turns out well. But we can differentiate to meet a real market need. And so the first thing I would say is again, remind everyone our focus, really, is on seniors and seniors in risk-bearing arrangements. So, as you think about the rest of this, think about that. And the model starts in the center here by meeting people where, when and how they want. In the home, which I include virtual as a home visit. Most people are not doing virtual visits from their office or anywhere else where they have Wi-Fi.

But also in clinics, both clinics that we own and clinics that we help manage. And then, of course, other home care services. Now, I'll touch on some of these other areas briefly. So, what do we mean when we say primary care services and comprehensive primary care services, because we've been doing some primary care, but this is really going from that episodic approach to truly a longitudinal care.

And when you support that longitudinal care with a real workflow system, you fill in cracks. Remember, electronic medical records are largely static documents that essentially recreate a paper chart. They don't actively push work along to the next responsible party or really engage the caregiver or the patient in that. Well, I like the concept of an engaged patient, not an empowered patient.

So, it's really everything you'd see in a doctor's office; office visit, lab testing, imaging, as we continue on, we'll add some specialty services. It's really the core medical interventions, but driven with the idea of how to improve care and how to improve care for seniors. We're going to deliver this with multidisciplinary care teams, you've heard that already, let doctors focus on clinical aspects and, for example, a behavioral health specialist address and comment mental illness.

Now, let me give you an example that shows you how important that engagement is. Most people are hesitant to talk about mental illness. It's still unfortunately stigmatized in this country and probably around the world. But if you ask anyone how well they're sleeping, you're going to get an earful. Now, it turns out that every person with depression, anxiety, stress disorders has sleeping problems. So we did something sort of interesting a couple of weeks ago or a couple of months ago now.

We asked anyone who is browsing our website at 3:00 in the morning if they had trouble sleeping. Now I know that's an incredibly obvious question. But in one week, we generated hundreds of referrals for follow-up assessments of both sleep, which includes a mental health assessment. So that's the power of engaging people, of being part of people's lives, very different. If I sent you a survey that said, hey, let me do a (01:23:28) and tell me whether you're depressed, you're trashing that survey. Middle of the night, you're – you might just be bored, but you're going to do it. So that's where we can see the engagement, the integration with that consumer brand that's incredibly important.

And then last, as people talk about social workers being connected into the dynamic, everyone's heard the line your ZIP code matters more than your genetic code. Well, the good news is it's a lot easier to change the factors of your ZIP code than it is to change your genetic code. So by incorporating social workers and really making them a full-fledged integrated part of the team to address those problems, I think will make a real big difference. And again we've been underserved communities for years. This is expanding on a strong base of understanding.

Second part of our model, and this is like for me as a physician, it is so energizing and it's the reason I am so excited to be part of this is we can advance clinical quality. We have to advance clinical quality to have a long-term sustainable risk-bearing growth model. We have that fundamentally changed clinical outcomes and not rely solely on risk adjustment. So, we can take the best experiences from other industries and bring them into healthcare. And I talked about the (01:24:56) here then the technology that we're looking for.

And in general, it's a kind of a simple point but high volume, high quality systems rely on much more advanced technologies and are currently being used in any clinical practice. We do have some experience here. We published a few years back in a peer reviewed journal, so it wasn't just, Alan, saying it's a great thing or Troyen saying, it was a great thing. It's a really (01:25:21) study that for three common conditions, the quality of care at MinuteClinic objectively met or exceeded that of some of the most prestigious institutions in the country.

Now, how did we do that? That was – some with simple tools, right? We use technology that allowed us to measure adherence to quality. We ensured that there were good checklists for people to use. But really importantly, we had a system that rewarded quality of care for their provider rather than throughput. And we want to do the same thing as we run these primary care clinics and enable these primary care clinics.

We – the second part about quality is being able to actually talk to the person. You can have the best quality system in the world if

the patient doesn't engage, (01:26:10) I talk to you about engagement at 3:00 in the morning. How else can we drive engagement? Well, as Karen mentioned, pharmacy is the most frequent interaction in healthcare. And if you talk to the next gen clinics right now, they'll tell you it's important to see patients 12 to 18 times a year, either in-person or virtually.

We see many patients 3 times a month in the pharmacy. So, even if it's not additive, we got double the shots on goal, so to speak, in order to change behavior. And you might say well that's a pharmacy interaction, how much well can you do. We did some early tests pre-COVID where we delivered using advanced analytics, we figure out the population. We used some more analytics to understand really behavioral change and what needed to happen, and we delivered it at that unique time when the pharmacist was dispensing a drug. And we're able to reduce ER visits, totally non-pharmacy related interaction by 11%.

So that interaction, that opportunity to talk to people made a difference. Why? It's kind of simple when you think about it. I didn't call you in the middle of dinner to say, hey, do you want to do something. You were thinking about your health. You were primed to take action. And this sort of confirms what we've seen in the past, but when we embedded our coordinate care management nurses in the specialty pharmacy workflow, we saw the same thing. We tripled the engagement rate. Triple the number of people who were willing to engage with us, and engagement really, really, really matters.

The next part of quality and convenience is removing barriers to care. And I think there are two sorts of barriers to care, right? So you can think about physical barriers and then kind of the digital barriers that exist, you expect to be able to do things and it's just harder.

So, I'll talk about the physical barriers first. And Karen talked about delivering care where, when and how patients want. And I want to emphasize when we think about these primary care clinics that we own and manage and the enhanced health hubs, think of them as a seamless whole, think of them as a distributed ecosystem. So if a patient comes to see me if – in theory, I was practicing in these clinics which I probably won't be since I haven't done in a long time and I decide they have high cholesterol and I want to give them a statin. Great. I want to – I want them to follow-up in a month. Now, all of that information is going to be in this workflow engine. It's going to push the work for the nurse practitioner. He or she is not going to have to dig through an EMR notes to understand what I wanted to do. It's also going to push it to the patient to say, when do you want to be seen?

Now, assuming that the person doesn't feel like they need to come back to see me and drive 20 miles, great. They can go see a nurse practitioners 3 miles from their house. You don't need to have, four years of medical school, four years of internal medicine, three years of cardiology to titrate cholesterol nor do you have to drive 20 miles to do it. We can really reduce those barriers to care. And I think the other part about that that's maybe not so obvious is by allowing doctors to really practice at the top of their licenses. We take care of some of the shortages. We extend the geographic reach of our clinics and we make it a better job. Again, most people didn't go to medical school to go, oh, cholesterol 220, 20 milligrams of Pravastatin, let's go to 40 milligrams, right? That's not a particularly satisfying experience.

Second part of seamless connectivity is home. Now, we're building off a very strong base in home care, right? We take care right now of some of the most complex and we'll call them unstable people. Within Coram, we've done a million home infusion visits. Those are often people who've just gotten discharged from the hospital. Just this year, we've launched a kidney care program where we have 11 dialysis clinics, we're providing home dialysis in people's houses or in their homes or home dialysis would only be performed in their homes, so.

So, we're building on a strong base of home care. And what we're going to add in 2022 is physician-led care models picking up off of our primary care clinics and MSOs, physician-led care models for specific patients in the home. And so, we'll roll out a couple of different populations, we're starting with transitions of care and then extending on in 2022. And then we're going to look carefully at new tech-enabled healthcare services as more and more people want and can be managed at home, we think this is a really an opportune moment.

Now, as I said earlier, I consider virtual (01:30:58) could be just an integral part of home care. But we've made a lot of strides in virtual care. We've made strides with our insurance company in extending virtual care. And this again, seamlessly connected through some simple technologies are what's going to make a difference.

If we then go and talk about kind of the digital experience. And what I – I want to walk you through a very sort of simple example, it's simple in the sense that it's things you should expect in a healthcare experience, but don't exist today. This is building on some things that we have, but we're going to make them better, simpler, faster and pretty quickly.

So, just think about when you're trying to schedule. So, first thing we'll do is we'll send you a text message that says, hey, you're due for X, Y and Z. Click here. Single click takes you to this screen, which lets you schedule an appointment when you want to. And just think about – I think open table is a great example here. I want a reservation for 7:00 for two people, it will give me a bunch of different options versus me saying, hey, pick one where available for you. I don't know your schedule.

I would say, (01:32:17) part about scheduling is when we think about these primary care centers, Shawn said, they're going to operate differently. Like simple ways of operating differently, how about we open up at 6:00 in the morning some days and some days we stay open until 10 at night, and some days we actually work on weekends. When is it convenient for patients, take out those complications.

Now, when you're getting ready for the visit in the safety, privacy of your own home, and when you're not stressed, what do you want – what's changed? What if anything has changed? What symptoms have changed? What questions do you have? Has your insurance changed? We'll make it super simple for you to say, everything's the same, this is a routine visit. So when you get to the doctor's office, guess what, you don't get the clipboard and get asked 150,000 questions that you know nobody is actually going to look at, my pet peeve in life.

When you show up in the office, in addition to no check boxes and paper forms, there's also no check-ins, no, I guess, stand behind seven people just geofence, hello, oh, welcome. It's nice to see you're here. We're running on time. We'll see you in two minutes, have a seat or have some coffee. And then really, really, really importantly when you leave, you're going to leave knowing exactly what happened, exactly what the plan is, your blood pressure's a little high. We want to lower it, here's the things that we're going to do, here's what you want to do. We're going to write it not just in English, but with all due respect to the lawyers, we're going to write it without thinking about all of the disclaimers. I've always – I think it's – we just need to talk to people the way they need to understand it.

And this is the same workflow engine that pushes work to our nurse practitioners and pushes work to the next doctor who's going to see you. It also pushes stuff out for you, so you become not empowered, which is a term that's great, but you become engaged. You are taking the actions the way you want to improve health.

So, I think I've described a really differentiated approach to healthcare, one that our unique set of assets allows us to deliver on in the near term. We have the permission from consumers to do this. Post the pandemic, 71% of people said they would consider CVS Health for more health services. That's an enormous amount of opportunity for us to capitalize on and our deep presence in communities that nationally scale, local feel, tech-enabled is going to allow us to really change the root causes of issues for patients. And we're building off a very, very, very strong base.

We have 3 million Medicare Advantage (01:35:25) right now. Think about those numbers in the context of some of the other next-gen clinics. That's an ability to accelerate and scale any practice that we acquire or work with. We've proven the ability to scale clinical interventions. I talked about MinuteClinic a little bit earlier. We have 9,000 retail locations – retail pharmacy locations that provide market-leading adherence. We're the largest specialty pharmacy, helping to take care of a million – more than a million of the most complex patients in the country.

We've talked about the consumer brand a bit. We also have 70 health plan relationships within Caremark, 74 million lives. And I can tell you and I'll talk more about this when I come back to talk about Pharmacy Services, every issue that faces our insurance business faces them as well. And then, as Shawn just laid out, we have substantial financial resources to accelerate this.

So our growth strategy, we talked about what we want to do, how we're going to do it. This is why it matters from a financial perspective. We're looking for multiple ways ensuring that we have multiple ways of acquiring patients and acquiring risk. Our owned employed physicians owning an MSO that enables physicians. We have a Medicare Direct Contracting into the already approved through CMS. And then, as we talked about additional service products for other health plans, and this will show up in a few different ways in the income statement.

If we take on more medical risk, its revenue, if we improve the economics within healthcare benefits business, it'll create the opportunity to reinvest in pricing or in benefits which can grow topline or can be taken to the income line. And then, that tight connection between the owned and managed primary care clinics, and the what we call, our nurse practitioner-led primary care clinics and HealthHUBs, it's going to create a consistent, reliable, reproducible patient flow and allow us to scale – enjoy some scale economies in the enhanced HealthHUBs.

We will report on our progress. And it's always – it's an action that what you measure is what you manage. So this is telling you what's important to us. Consumer experience and net promoter scores, provider experience both retention and how they're feeling about it. Quality of care, externally, we'll talk more about (01:37:56), obviously, our internal measures that I talked to you about with respect to really building an operational quality system will be much, much deeper. And then financial performance.

So I really appreciate you taking the time to learn more about primary care strategy. I can't again emphasize, from someone who's thought about the quality of healthcare for a long time, how exciting this is as a formerly practicing physician. We can make the experience better for everyone in, doctors and patients. We have truly unique assets to do this in a way that meet those pain points. Karen said a very powerful thing earlier. We spend the most money in the developed world. We do not get even average results, we have to change that. I think we, as a company, can do that.

And with that, I'm going to turn it back over to Karen.

Karen S. Lynch

Okay. Thanks, Alan. All right. So, so far this morning, we've shared with you how we're reshaping the healthcare landscape. But as important as what we're doing, it's actually how we're doing it. And given our unique assets and our broad reach and our national presence relative to sustainability and our commitment to sustainability will continue to be a clear focus for us.

And we as a company truly believe that it's our responsibility to ensure that there's a healthier planet for our communities and for generations to come. And so in addition to that, we are very committed to improving health equity. And so I want to spend a couple of minutes before we go to Q&A and talk about what we've done and what we're doing relative to sustainability.

As you know, we have a very long history of our commitment to sustainability, and our Transform Health 2030 program has set ambitious goals for healthy people, healthy planet, healthy business and healthy community. Here's a video to give you a sense for all the things that we've done around this.

[Video Presentation] (01:40:09-01:42:56)

We are incredibly proud of what we've been able to accomplish over the last year, and this will be a continued focus for us, because we understand that driving sustainability drives value across all of our businesses. And we know that we absolutely need to be bolder, go deeper and innovate to create much more meaningful social impact. We know that the health of our planet is intrinsically linked to human health, and we understand the role that we have to play in improving the health of people and the communities that we serve. And quite frankly, our colleagues are incredibly proud and inspired by all that we're doing.

This gives you a sense for what we've done, the programs and the goals. As you can see, we have pledged to reduce our environmental impact by at least 50%. We're working to achieve zero waste and we are committing to ensure that our store brand packaging is 100% reusable, compostable and can be returned to us for disposal at the end of life. And I am committing to address what I believe is one of our biggest environmental opportunities, our prescription pill bottles. We are exploring alternatives to create less waste for those pill bottles.

But I have to tell you, our work doesn't end there. As Alan said, we've long said that your ZIP code matters more than your genetic code. 80% to 90% of a person's health is directly related to their social economic and environmental factors. And you can see what we're doing, we are doing a lot on health equity. And this morning, we produced a report on our second annual COVID-19 report that we released earlier this morning, gives you a really good sense of all the things that the company is doing to advance health equity. As a company, we really believe that everyone should have a fair and just opportunity to be as healthy as possible.

So, we are, as I started, a purpose driven company, our mission to improve healthcare and help people is driving us every day.

And I do look forward in the coming months to share more about how we're achieving our goals on ESG.

And with that, I'm going to ask Alan and Shawn to join me on the stage for Q&A.

QUESTION AND ANSWER SECTION

Analyst: Michael Cherny

Question – Michael Cherny: Of course. Good morning. Michael Cherny from Bank of America. Thanks for all the details. And obviously, it's a major expansion pivot of what you're doing. I want to combine a couple of the various different elements of the presentation. When you think about that expansion of the primary care and care delivery assets, I know, Shawn, you mentioned there will be some likely M&A involved. How do you balance the priorities around the capital deployment between the organic versus inorganic investment and especially against the backdrop as well of your long-term targets, how you think about return of hurdles and making sure that you're sticking with the committed targets you have or also funneling what should be the best opportunities for growth going forward?

Answer – Shawn M. Guertin: Yes. Thank you, Michael. So on the first part of this, the organic, inorganic and obviously, there's good potential for flex. But in that capital plan that I shared with you, we had about $3 billion a year in organic CapEx built into that which is higher than we've historically run. We've tended to be in the mid-2s, plus or minus. So we've tried to make some extra provision for maybe some incremental internal investment. Now that investment, to your point, I think, is also assessed against the same framework, right, of whether we sort of see it as both the timing and the hurdle side of it.

But there's an important part of your question because, obviously, when you do capability based M&A, you always have the risk that it will either be less accretive than other things or maybe even modestly dilutive. So I would tell you that the numbers that I put up there for 2023 and 2024, I followed the same philosophy that we've always followed that I think those are numbers that we have confidence that we can achieve. And within those numbers, there's very limited use of the cash that would fund say, M&A or organic, beyond the share repurchase to offset dilution, so there's no big loss on that cash into that guidance.

So with that in mind, I feel good that we could do a modestly dilutive deal if we chose to and still be on that trajectory in terms of the thinking. And I will tell you that if I was presented with the choice of something that took me off that trajectory, I would think very long and very hard about that. I'd also say, there are certainly things we can do to manage situations like that, whether that be partial ownership as an example. For a period of time, you've seen these models used in other places, but it's important to all of us that we deliver that sort of foundational growth. When we look at these in terms of returns, I would tell you that in many ways, the alternative use for excess cash is either through the dividend or share repurchase. And so, historically, I have thought that this – that any sort of investment otherwise needs to have sufficiently a better return than buying your own shares back, which I think in theory would return your cost of equity over time. So we want to be well in excess of that.

So, those are typically when you do that math in the mid-teens, so everything will be subjected to that same sort of financial discipline. And I think we've positioned the story in the guidance today, so that we could tolerate something of a modest nature and still deliver the results. As Karen mentioned, that's what she's committed to is delivering these results while we're making the strategic pivot.

Analyst: Eric Percher

Question – Eric Percher: Thank you. Eric Percher from Nephron Research. On the same theme, I'd be interested to hear do you have a perspective on how many physicians or pharmacies you'd like to build to over time? I heard a couple hundred in the near term, can you build those yourselves as well as through M&A? Do you have perspective on what you might be able to do organically?

And then maybe for Alan and Karen, early on post-acquisition there was a real focus on enabling physicians versus competing against physicians or providers broadly. Has that perspective changed over time given the opportunity?

Answer – Karen S. Lynch: Yeah. Let me start with that, because it's a much more strategic question, Alan can comment and then Shawn can delve, but what we have found with our – we don't think this is a competition with providers, what we have found you know, particular through the last year and half is that providers want to engage with us in a very different way. They want to be part of this solution. And they recognized that some of their patterns require kind of extension. And so, we're in a natural extension of that. So, we look at this as, kind of part, not necessarily competing but being part of the solution. I'll let Alan comment more.

Answer – Alan M. Lotvin: I would just say, I think there is a secular shift now to most physicians being in more organized settings. And so, creating alternatives, options including – with specifically ones that are focused on being the provider of choice, is I think, creates a more opportunity for physicians.

As you know, in the Medicare space, 90-plus percent of people have a primary care doctor already. So it's less competing for those doctors and bringing them kind of into the fold in a working environment that allows them to focus on what they want to focus on versus having to manage practices and do all the other things like that.

Answer – Shawn M. Guertin: Yeah. I would say, as we've thought about the scaling, because it's the right thing to do. You sort of think about if I had to do all this de novo, so we've thought a lot about that. But I do think it's that's unlikely that we would go down that path to any material degree. And so, I think it takes the form of potentially partnership and enablement, which is why MSO capabilities could be interesting. And then, it takes the form of potentially owned providers, which maybe you would acquire, but also maybe you'd partner with the people who are doing that today, in a certain way to also kind of stand those up.

Ultimately, I think about this as population coverage will determine the ultimate number of those. It's certainly in my mind more than the 250 to 350 (01:52:02). Where that ends I think will be byproduct of our success and sort of the coverage that we're trying to achieve in the countries, much like we say, we're 85% within 10 miles. I think there's a – the same idea there, although, a little bit more refined when you think about some of the specifics of a Medicare population, say from a commercial population.

Answer – Alan M. Lotvin: Just one quick add one, Eric, which would be, every market is going to be a little bit different, right? There's a different managed care perspective, there's a different physician availability. Every market is going to require a slightly different approach with respect to kind of partnering, owning, de novo, so.

Unidentified speaker

Question – Unidentified speaker: I'll partly follow up on that one and then maybe another part. When you step back and think of next three or four years, how many physicians do you think you would have in – affiliated with these primary care clinics? Do you get an order of magnitude? Because there's really a lot of people out there trying to go after primary care clinic – doctors and there's a fairly tight supply of them already, and as you said with Medicare you got a lot of them already there. So, I guess we're just trying to figure out what is your pitch that's going to get the doctors to affiliate with you versus VillageMD or somebody else?

And then the other aspect is the home health side of this, there's a lot of people talking about getting more into home health. Some, it's more the pharmacy side, which you're already active with infusion and so forth, and some of it's taking fee-for-service, traditional home health and trying to convert that to risk-based arrangements and other things. What does home health under CVS ultimately look like and would you look at trying to – take a fee-for-service entity and convert that to risk-based somehow?

Answer – Alan M. Lotvin: So I'll take the first one first, which is when you – one of the reasons that we're thinking about kind of an organic – an inorganic purchase is exactly what we just talked about with managed care – with primary care. There's a limited population right now. So when we think about the model here, it's about two care teams per clinic. Care team is a doc and two advanced practice nurses. So one of the things that we're looking here differently is like why else versus anyone else is really that deep integration with advanced practice nurses to really get everyone to the top of their license to make it a better, more interesting more rewarding job, like you don't need to see 35 people in a day, right, see 10 people a day who are really complex and work with a nurse practitioners in a care team model with a behavioral specialist to really elevate care where you want to be. So that's kind of one part.

Any how it is going to be a competitive market for who goes where but again if you have the right infrastructure and the right approach to how you manage professionals which we've been doing for a long time, we think we'll be able to be a very, very – more than viable choice, an attractive choice.

On the home health side, I think the home health market is going to continue to evolve. I think the first part about home health, it is a channel, it is a place. It's not a – it's not anything more than that. Some people need home care all the time, some people only need it sometimes, some people want it sometimes. So by integrating home care into each of the different components of our care model, that's how we're going to think about it.

The point Shawn made about capability-based M&A do exactly you talked about, bring in a fee-for-service sort of entity, convert the business model to risk because we have so many risk lives, we have a path for that. That is a strategy that we have executed very successfully in the past in terms of buying capabilities, flipping the business model.

Analyst: Elizabeth Anderson

Question – Elizabeth Anderson: Hi. Elizabeth Anderson from Evercore. As we think sort of more about your value-based care strategy, how should we think about the current percentage of sort of capitated lives in the Medicare Advantage book versus sort of potential expansions in commercial and other government programs?

Answer – Karen S. Lynch: Hi. Nice to see you. And I'll start and then Alan can add. Well, first of all, I think you know that we're – we've been a leader in value-based care for a long period of time through the relationships with our healthcare business. We have over – 70% of our businesses – almost – pay through these value-based models. These value-based models are critical to own those relationships. So we'll continue to press on these value-based models. We believe that to have that you have to have that partnership with the provider on that value-based model because everyone needs to have what I call skin in the game for it. So we'll continue to push on that. And I – I'm trying to think – there's one other thing I forgot – I don't know, something – no, I think I got it. So, yeah, it's important for us and we'll continue to look at capitation. Obviously, that's been evolving over time and that'll be part of our value-based model going forward.

Answer – Alan M. Lotvin: Yeah. I would add one thing is if you think about Medicare Advantage from the insurance company perspective, right, we have a 4.5 Star plan, we're running at an MLR 85.4% and we're growing faster than the market in general. As an insurance company, we're doing as well as you can do. When you bring in the provider risk models, that's where you're able to really create incremental economics that can be reinvested in benefits, reinvested in pricing or taken into earnings. So that's where the evolution of this strategy into primary care creates opportunities both within and with outside of the Aetna book of business.

Analyst: Lisa C. Gill

Question – Lisa C. Gill: Thanks very much. Lisa Gill of JPMorgan. Karen, we're not that different. I know we like different Peloton instructors, but. Anyway, I just want to pivot a little bit away from this and really think about COVID for a minute, Shawn, and where you talked about the guidance. So, you talked about $3 billion of testing and vaccines. I want to just understand what's in guidance for 2022 from two perspectives. One, on the Retail side, I mean, the Biden administration is talking about continued testing, we're now talking about boosters for everybody 18 and above and potential talks about for those 12 and above. So, how are we thinking about what's in your guidance for both testing and boosters for 2022? And then, how do we think about it on the health benefits side of the business? I know you and I talked last quarter that that there was a cost to you on the testing side and how do we think about coverage there? Thanks.

Answer – Shawn M. Guertin: Yeah. No, thank you. So, the one – probably the most fundamental dynamic to always understand as it pertains to the level of disease, we've seen a fairly clear pattern that that will negatively impact HCB. But we also then see the other side with increased vaccine and testing in the Retail segment. Q3 was a living example of that. And despite the surge from Delta, that ended up probably being a net positive because of the offset.

So, there's two things here, what's causing the change, i.e., a level of disease and then sort of always remember we have two pieces that potentially move. The $3 billion number that I cited, that actually was the number that we talked about on the third quarter call that was sort of in our guidance for 2021. That number is likely higher today, in fairness, with the 50 million vaccines that we've already done and the level of testing. But our original – when we sort of set the plan and the guidance for next year, we were thinking about a 30% to 40% decline in vaccine and testing from that other level that I – the previous level of the $3 billion.

Part of my thinking, as I thought about 2022 is we just need to understand and see more of where this strength is coming from, in terms of is it indicative of something that is going to actually lead to an even better result for 2022. I think at the beginning we were thinking a lot of this, we were pulling forward, maybe booster activity that might have been in our 2022 plan. And I've now said it's every quarter, so it's – you can make a bull case on vaccine and testing for next year based on sort of what's happening and especially if we go into the mode of like an annual booster kind of – that's not what we thought about when we thought about next year. So, we've tried to sort of kind of keep this in sync with when we sort of have known facts. But we – like I said, the number to think about right now that's in that guidance is probably like a 60% or 70% falloff from the $3 billion number. From the number that we'll probably end up printing in absolute sense, that will be an even bigger decrement. But as we understand sort of where this is coming from, the other part that we certainly thought about is the oral medications and what that might mean to testing, right? And does that mean increased testing beyond sort of what we had assumed.

So those are things as we get more data and insight in the quarter. Frankly, as we get more clarity on what the policy is going to be and frankly where the science on this is going, we'll certainly refine our estimates. But I would acknowledge that it's an area where I think we keep thinking it's going to fall off and it doesn't. Again, I'd reiterate, though, to the extent there's kind of another variant, kind of push, that will push that, but it will also probably push HCB. We certainly didn't – we didn't forecast that either, so.

Answer – Susan Vissers Lisa: So, take one more in the room, in the back, and then one from the Web, and then we'll break. Can you give George (02:01:49)?

Analyst: Ricky R. Goldwasser

Question – Ricky R. Goldwasser: Thank you. Ricky Goldwasser, Morgan Stanley. So, thank you for all the details today, super helpful. I have a question on the Retail segment. So, first, Shawn, you guided to double digit decline in 2022 given all the – the comps. How should we think about sort of more long-term EBIT margin for the segment? And then, as we think about primary care is really kind of like key to the strategy, is primary – where is primary care – where does it belong – because this is an integrated strategy, does it sit within Retail or are we going to hear one day about kind of like a CVS Care segment? I'd kind of like to understand how you think about the business.

Answer – Karen S. Lynch: Yeah. So, Ricky, I'll start with that one. Obviously, we'll organize around what's best for the consumer. So, as we continue to evolve our strategies and more come to light, I'll assess what that operating model would look like, and you likely put all those clinical assets together in one place. So, we'll evolve that over time, but more to come, as you know, but know that we'll organize for our best chance of success.

Answer – Shawn M. Guertin: Yeah. And I think for Retail, in particular, when you take the 7% to 8% for the foundational businesses and you just pull out the cost improvement side to make it a little cleaner, right, you're maybe at 6%-ish, right? In that calculus, we thought about the businesses where HCB we think can be a high-single digit growth business. I think for the next three years, we think PSS can be as well, whether that – we've talked before about whether that's mid or high. But certainly, the level of performance there now has been consistent. In that calculus though, I think we think about Retail as being maybe flat to low-single digit. And also in a place where they can stabilize margins. And there's a lot of things we're doing to try to change that dynamic. But I think we've been realistic about sort of our long-term growth about where that is. If that changes because of omnichannel pharmacy and whatnot then we'll change that outlook. But I think we're – we need to see flat to low there and we need to see generally stable margins, probably to make that happen.

Answer – Susan Vissers Lisa: George?

Analyst: George Hill

Question – George Hill: Good morning. Good morning. George Hill from Deutsche Bank. I'm going to go with another segment level question, which is the PBM. Alan, the outlook for the PBM in 2022 is good but not as strong as the very strong performance the PBM delivered in 2021. I guess, could you talk about the big puts and takes driving the differentiation in the earnings growth rate in the PBM segment? Maybe any more color on what contributed to the strength in 2021 and kind of what drives the tougher comp in 2022?

Answer – Alan M. Lotvin: Yeah. So, George, thank you for the questions. So, as you think about – we've talked a little bit about 2021, right. 2021, we had a couple of things that that were very dramatic, right? One was the acceleration of some of the generics within specialty. So that really created tremendous kind of value.

The second is the launch of our GPO, right? So that will continue to be a growth driver. But, in the first year was almost a step up in the basis of the second biggest part. So, those are the – I think, the key contributors. As you look forward in the PBM – and I'll talk about this more a little bit later – big evolution of the model is going to be specialty generics and biosimilars. And by their very nature, they're much more concentrated in fewer drugs. So the ability to predict will be a little bit more lumpy and bumpy. When you go back to 2006, there were 10 drugs a year going generic. So, if one didn't. It wasn't a big deal. So, as I think about the sustainability, it's sustained by good top line or client growth, I should say. Continued focus on optimizing the value of the business – I'm giving you my whole presentation from later, and then on specialties. No, I'll just bore you later on.

Answer – Susan Vissers Lisa: One final question from the Web and then we'll break and we'll recommence at 10:20. Question for Shawn from Charles Rhyee at Cowen. I understand over the current three-year window, you'd only expect the expanded healthcare services business to contribute about 100 basis points to EPS growth. Beyond that, how much more do you think the contribution to EPS growth could be?

Answer – Shawn M. Guertin: Yeah. It is hard to put a number on that. But when I thought about the strategy, if – if you think about – when I say sustainable low-double digit part, what I'm saying there is you don't want to have a business that's composed – when

you think about it the way Ricky and I were talking about it, where you just fight and claw into low-double digit very year.

You'd like a business, right, that can actually overshoot that when things go well. So I think it could sort of take us up into – if I was dreaming a little bit, I think it can take us up into the mid and whether we get there every single year, I don't know. But I certainly think that you could venture into that kind of territory. And, in any given year, obviously, you'll have the oscillation. But in thinking about the potential for this strategy, I think that's one way I've sort of tested it myself about could it get us there.

Answer – Susan Vissers Lisa: Great. All right. Thanks, everyone. We'll start again at 10:20, with our business unit leaders.

[Break] (02:07:03-02:22:45)

All right, everyone, if we could ask you to take your seats, please. I'm very excited to launch the second half of our Investor Day this morning. And with that, I'd like to introduce Dan Finke, Executive Vice President and President of Health Care Benefits. Thank you.

All right. Thank you, Susie, and good morning, everyone. I am really glad to be with you this morning and share the strategy of the Health Care Benefits segment. I'm going to focus this morning on the growth position of the segment. I'll talk about how the strong foundation of our portfolio, along with our focus on our high-value consumer products, as well as the unmatched capabilities of CVS Health do lead to a strong and sustainable performance.

So, what you'll hear from me today is that the Health Care Benefits franchise is strong. We have a strong history of growth. We've delivered on growth by using the CVS Health assets and integrating on benefit designs. And then, our future growth will continue at an even greater pace because of the strategies that you've heard about today from my colleagues.

So, our Health Care Benefits franchise is strong. We are a recognized leader among consumers, we're a recognized leader among our plan sponsors, and you can see that not only in our core medical business, but you can see that in our broader portfolio as well, offering solutions like pharmacy integration, behavioral health support and more. That has led the Health Care Benefits segment to be the choice for over 23 million medical members and that grows to over 35 million members when you add in our ancillary products.

That's been achieved through some really strong consumer retention. It's been achieved through strong consumer acquisition. We've expanded our relationships with our important state-sponsored government partners. And importantly, we've achieved above-industry growth in our senior book of business. And I'm proud to say that recognition continues when you look at our quality and outcome scores. Today, 87% of our senior population, of our senior membership is in a 4-plus Star Rating, and that's the same population where we've activated millions and millions of those clinical touch points that you've heard about.

So, like I said, our foundation is strong. It's been built on a strong legacy of execution. It's been built by disciplined management team. It's been built by our ability to innovate using CVS Health assets to really meet customer needs. We're meeting those needs digitally, we're meeting those needs in the home, and we're meeting those needs right in our consumers' neighborhoods. That growth will continue to accelerate with an emphasis on our high-value, high-margin segments.

We've been accelerating our expansion in our government programs. We've been focusing on our foundational commercial business, and that's all powered and fueled by the use of CVS Health assets. This has allowed us to really deepen our market opportunities, it's allowed us to make health care more affordable, and it's allowed us to simplify the consumer experience. And we're doing this today and I'm really confident in our path for sustainable growth for the future.

There are three key elements to our business. The first is that robust senior business. Look, we have a proven performance here that is fueled by year-over-year Stars improvement. It's fueled by deepening our markets at geographic expansion and we'll continue that leadership in our senior business. That leadership continues when you look at our Medicaid business. We are a leader in the Medicaid specialty populations and that's providing momentum for us in 2022 and beyond.

And then, finally, our commercial core group business, including our new entry into the Public Exchange, all fueled by CVS assets, is really resonating with our plan sponsors and our consumers. So, we've a great opportunity to really build on that strong base, continued opportunities as one CVS Health company, and we see a path to sustainable growth to over 26 million members and $100 billion in revenue in the HCB business in 2024.

All right. I want to pivot just a minute and talk a little bit about the market dynamics in the US today. These are really important, because they provide us significant opportunities, particularly using the unique set of company assets to really meet our customer needs. There are over 10,000 seniors that are aging into the Medicare population in Medicare each day. There's strong national support for our government-sponsored programs, that includes the Public Exchange, and those demands for connections digitally and locally in the community is really profound and it's growing.

Look, we've talked about this a bit. The last 18 months has been really challenging for the country. It's been challenging for us all. And it's during that same period where we saw a level of engagement during the pandemic where we became a trusted partner and where we created millions and millions of touchpoints to engage our members and keep them on their path to health.

Alan talked a bit about this example of engagement, which is really our ability to close gaps in care, it's our ability to deliver on those personalized behavior actions. We deliver on those through a variety of channels. So, you can imagine getting a personalized health action through your digital app, through your trusted care manager at Aetna, even through your local pharmacist at a CVS store, and that makes the most of all of our enterprise assets.

It's through actions like this that we've been able to improve prescription adherence by greater than 5%. We've been able to improve flu shot vaccine uptake by 8%. And we've also been able to offer more convenient sites of care at a lower cost like preferred labs, where we've improved the use of preferred labs by 16%, and that's all through those personalized prompts. And it's really this type of engagement that gives us the confidence and creates that opportunity that Karen, Shawn and Alan outlined to really deliver on a new level of customer experience that includes that more direct delivery of care.

All right. I want to talk about our three building blocks for growth. The first is our growth will be powered by the consumer businesses and there's really two main areas here. So, this is our Medicare business that includes our dual population and our Public Exchange. These businesses represent some of the fastest-growing segments and they're influenced by a really demanding

buyer, someone that demands more convenience, they demand more access points, and they demand that connected experience.

Second building block is growth in our employer-sponsored business. This is commercial group and Medicare group. These businesses are supported by integrated benefit designs and are supported by new CVS Health services. And then, last building block is really expanding and strengthening our Medicaid business. And all three of these building blocks are supported by the use of company assets.

So, think about integrated benefit designs, new and enhanced products and services, and then further community engagement with the use of the stores, the HealthHUBs, and the health services organization that Alan talked about. Growth in our business is also really fueled by that cost transformation that Shawn talked about, where we are using automation and improved technology to give our workforce new tools to make their lives easier and improving our cost position. And so, I'll expand on these three building blocks over the next couple of slides.

So, the consumer choice business is really important for us and it's where we will win. The senior population makes choices each year about the time of – type of health care company that they really want to engage in and this is where we will have concentrated growth. Alan used this stat earlier, by 2030, those look like Alan will be over 65 and more. There's a track record of growth here, there's an intense focus on quality here, and we have an intense focus on delivering differentiated and competitive offerings here. And I can tell you the passion that our team brings to the senior population is really, really unrivaled.

So, growth here will show up for us by continued investments in items like Stars improvement, like deepening our market footprint, expanding especially in our dual population, and deepening our relationships with our seniors through digital and community engagement. And then, we offer – we also offer the senior population really strong conversion opportunities. So, using our broad PDP portfolio to analytically understand when and when those members might needed an MAPD or a dual product, so another conversion in growth opportunity in Medicare.

Before I leave Medicare, I do want to touch based just on the dual population. We know today that there are 11.3 dual eligible members and only 4 million of those members have enrolled. So, that gives us a really great opportunity to identify these consumers, ensure that they have the products and services that they need.

If you consider that 92% of dual eligible members live within a 10-mile radius of our CVS locations and you consider that's the same population that requires a personalized care plan that's really critical for their health, we have the touch points to meet their needs in their home and in their community. And so, our plan is to grow to over 325,000 dual eligible members in 2024.

And that's those same principles to support those members, support our individual Public Exchange members. You've heard us talk about our strategic decision to enter into the Public Exchange in 2022. It's a co-branded product, a long-term strategy for us as we entered very disciplined with eight states this year, and we'll continue to expand in 2023 and 2024 and beyond. There's also a great strategic connection to the individual Public Exchange with our Medicaid expansion as more and more of the state procurement processes are really tying those two items together.

And really the underpinnings of this product are the use of CVS Health assets, integrated benefit designs and support. So, you can imagine one of our brand new individual exchange members going into the store and being able to pay for their premium. They can go into the store and they can connect with the pharmacist who is also connected back to our Aetna Care Manager. And then, on their way out, they can grab their vitamins, because they get 20% off of all of their wellness products. So, a really great example of a go-to-market strategy that leads to growth within the Health Care Benefits portfolio.

Our employer segment is very important to us. We remain committed to really retaining and strengthening our competitive position here. That's been demonstrated by some of our success in the recent national account selling season. We achieved a 95% retention rate and we had one of the strongest selling seasons in the last several years, and it's because we're offering new solutions and new products into this market.

Earlier this year, Alan and I introduced our enterprise accounts team. You can think about that as one team for our planned sponsors to take care of all of the support that they need across all of the products that they purchase from us, whether it be medical, pharmacy, behavioral health, dental, all of our ancillary programs, so first of its kind offering for our planned sponsors. And it's through items like this that Alan and I have been able to add $1.5 million integrated medical and pharmacy lives, and that continues to be an intense focus for both of us.

We've also brought some new connected solutions. You've heard us talk about our Virtual Primary Care product, first to market in 2021. We now have 750,000 eligible members that are part of that program in 2022. And so, we're going to continue to focus to bring solutions like that to market for additional growth in 2022, and then it never stops. We're already starting with the 2023 national account selling season.

And then, finally, another conversion opportunity, because we know that a satisfied consumer and commercial clients are often – those types of clients that are looking for Medicare group solutions. And so, this segment in the Medicare group continues to be a very important growth segment for us, especially as we see the pipeline starting to improve as the pandemic continues.

All right. And then, our final area of focus is our Medicaid book of business. It is an important part of our diversified portfolio. I am exceptionally excited about the passion and experience that are well-connected and seasoned Medicaid leadership team brings and really bullish on our growth opportunity here. Simply said, we have the opportunity to bring those unique solutions around engagement to part of our rebid process in our contract periods with our state partners and also during the de novo procurement process. That's where we demonstrate that value of the state regulators that leads to growth.

And so, we'll focus here on continuing with operational excellence, improving our qualities, we have an opportunity to expand our value-based payments here, along with that continued leadership in our specialized programs leads to continued growth. And this is another really great example where we have the opportunity to connect with this population with our care delivery assets and with our virtual assets. We know that 86% of our Medicaid enrollees use smartphones and 77% of those members have told us that they would engage with virtual assistance with their health. And so, you can imagine how powerful it is for us to able to join those members in the community, join them with virtual solutions, and close more gaps in care and improve their health.

All right. So, here is our unlock the growth. It's because of the company's strategies that you've heard about today that improve quality, they improve access, they reduce medical costs, and they reduce our own operating costs to improve our competitive

position. I'm going to touch base on just a few of these. You're going to hear from Prem in just a minute around our omnichannel pharmacy approach. It's a great example. We know that Aetna members count on that relationship and that trust that they have with the CVS pharmacist. I can attest to that firsthand. I was a practicing pharmacist early on in my career. We also know that one of the first interactions with a health plan after a member elects benefits is that visit to the pharmacy shortly after the first of the year. You can see that's going to happen very much with our new exchange members. And so, this omnichannel approach where we're meeting these customers where they are is really important to our growth.

Another unlock is primary care. You heard some pretty compelling statistics from Karen. You heard compelling statistics from Shawn and Alan around this. And our data shows that we have the opportunity to provide comprehensive primary care to many of our members who lack a consistent PCP. They can take care of everything from their well-being to chronic care and condition management right there in a local pharmacy, local clinic with their local PCP. And so, another opportunity to unlock and that's going to be exceptionally important with our Medicare population like we've talked about. Those are our members with the most needs, the most common chronic conditions and often many of them. So, that well-being all the way to chronic care is going to be really important.

We also know that there's continued demand for digital and virtual care. I talked about our virtual primary care product again, first in market in 2021. Our pilot showed that we could gain some very highly satisfied customers with that pilot. We're often being able to get them to a PCP in five days or less. That has a great connection to the network. It has a great connection to our local CVS MinuteClinic, our HealthHUBs, and we're even connecting with our members in the home by offering some biometric support, where they can begin to have conversations about the results in the home with their local PCP. And so, there's a lot of buzz around that product, a lot of opportunity for us here to improve outcomes, improve access and improve that customer experience.

And then, Karen mentioned mental health, really, really important. We've been a leader in this space. Behavioral health is even more and more important right now and we're seeing a great demand for virtual care. When I saw this statistic, I was actually astonished. This year, we're going to be delivering over 8 million virtual mental health visits to the Aetna clients, showing a really, really intense need for personal, timely, and convenient access to quality mental health care. If you look at that statistic just two years ago, so in 2019, that comparable 8 million number was less than 20,000, so another opportunity for us to really gain consumer trust and meet important needs. So, it's these core strategic capabilities that really do unlock our future growth.

All right. So, here's where I get to share some powerful results that we just released that I'm really proud of on a recent observational study that demonstrates the integration of Aetna with CVS Health. It's a multiyear study. It's observational on our self-funded business and we considered items like health care spend, like engagement, utilization, adherence, and we compared the membership that had the integrated medical and pharmacy benefit with medical-only coverage. And these numbers are really, really compelling. They've created measurable value for our customers and for our shareholders.

And so, in 2020, that cohort of that population had at least a 40% higher level of engagement in our care management programs. That means they're making the most of the support and resources that we've given them through engagement channels, through the pharmacy, and really more and more engagement is where it really matters. We're closing more gaps in care, a 4% increase over our general engagement channels. And when filling a prescription at CVS Health, we've been able to increase medication adherence across some important chronic conditions like diabetes, hypertension, as well as congestive heart failure, greater than 6% and 7%.

And so, all of this personalized outreach has led to some important stats, 18% fewer hospitalizations and 10% fewer ER visits, and that leads to sustainable lower medical costs of between 3% and 6%. And so, it's updated results like this that give us the confidence to offer these products to not only our self-insured clients, but also make sure that we're building them into our insured products like our fully-insured commercial, considering them in the Medicaid procurement process as well as the important Medicare bids.

So, hopefully with that, you can see why we are passionate about what we do, why we come to work every day. As Karen stated, we are unifying our businesses around the consumer. Unlocking the value of our strategy with our unique collection of assets is happening right in health care business segments and we'll continue to do so, and frankly, no other company can offer our customers what we can offer.

And so, I look forward to taking your questions during the Q&A. I'll now turn it over to my good friend, Alan Lotvin, who's helping me take really good care of our pharmacy and medical clients.

Thank you, Dan. Very self-conscious that I'm looking like I'm ready to be a Medicare Advantage member, but I will definitely sign up with Dan's business. So, I really appreciate the opportunity to come back and talk to you again about our Pharmacy Services segment. And over the past decade, Caremark has demonstrated that we are the most reliable manager of what's most important to our members, drug spend. We've demonstrated outstanding levels of client and member service, and that reputation has allowed us to grow organically to become the largest PBM by a reasonable margin.

The second part that I think is important is that growth is really sustainable. And for those of you who followed the industry for a while, you know that one of the most fascinating parts of the PBM industry is that the business model tends to evolve over time. And I think we're in the middle of our – I don't know – in my career, fifth or fourth or sixth evolution, and that's going to be the evolution to this generic and biosimilar way of – that we're seeing in specialty pharmacy. And I think we're very, very well positioned to take advantage of that both for our customers as well as for our enterprise. And then, the last piece is that the Pharmacy Services segment is kind of integral to the enterprise growth strategy for a bunch of different reasons that I'll talk through.

So, we've been really successful in meeting our clients' needs and what their consultants are helping them with. In 2020, we delivered low-single-digit trend with almost a third – with over a third of our clients actually having negative drug trend. Now, I think of negative drug trend, usually that means they've implemented a number of new programs and it really speaks to the innovation in our product group.

We were able to retain 98% of our existing business which I think, again, is a marker of service and the time we spend building trusting relationships. And finally, that experience that our clients have is being reflected in the consultants and prospects. Consultants ranked us number one. We won 80% of the revenue of RFPs that we know moved in 2022 and that's following like 70-something-percent in 2021. So, we've had a number of sustainably strong sales seasons by focusing on a few things.

Before I go and talk about kind of our future strategy, let me just reemphasize where we are in 2021. We'll deliver over $150 billion in top line revenue. We will deliver almost $7 billion in adjusted operating income which represents over 20% year-over-year growth. And as Shawn mentioned, over the past four or five years, we've delivered double-digit compound annual growth rate in this business. We added $8.9 billion in net new business, $10.4 billion in gross new business for 2022. And Dan talked about the 1.5 million Aetna lives we added, we did that while helping all of our other health plans add over 9.5 million lives.

So, we've been able to successfully grow all of our health plan customers businesses, including Aetna. And I would be remiss if I didn't take a second and just express my deep, deep gratitude to the 30,000 Caremark colleagues who delivered these results in the middle of a pandemic, trying to figure out how to work in a totally new environment, as many people did, but we have to – there are people that had to be in the office to actually – or in the facilities to actually deliver drugs, and sometimes they are working with people who are at home. They built all new processes and just really never missed a beat.

So, there's a consistent strategy that we've been pursuing and it's the mark of a good strategy if you want (02:46:45) to change it every year. Number one, we're going to lead with capabilities, we're going to lead with what's most important to our customers, and that's the – delivering the industry-leading drug trend, specifically in particularly in specialty pharmacy, and even more specifically, helping them manage specialty under the medical benefit. Specialty pharmacy is the number one issue by a long shot with our clients.

We'll focus on the highest growth markets. We've been doing this for a while. In 2010, Per Lofberg sat here and told you, we were going to focus on specialty and Medicare, and we did. And so, we're going to continue to drive the focus on those high-growth markets, but in specialty, we're going to even go further and really focus on how do we drive increased competition to capture the value of generics and biosimilars for our customers and for ourselves. And then, we're going to continue to optimize our base business in a lot of different ways, we'll talk about this more, but all of it with an external limbs on our customers.

This is how we talk to our customers, right, very simply, like we said there's three things that we're going to promise to you. Number one, we're going to be the best at managing trend. I showed you the 2020 numbers a minute ago. 2021 year-to-date, we're still delivering single-digit trend overall, 3.9%, and most remarkably, I've been in specialty since pretty early on in the industry and I don't think I've ever seen single-digit trend in specialty, and that's really a marker of a series of programs that Prem and his team in his last job put in place.

We talk a lot with our clients about service and how we deliver service and how we improve service, how we continually raise the bar on transitioning new clients, so that it doesn't become a disruptive scary event, how do we continue to work with our customers to ensure that our incentives are not only aligned with theirs, but that that is completely transparent to them. And so, we recently did a survey, 91% of our existing clients agreed with the statement that Caremark is operating in an open and honest manner, and I can't tell you how important that is to me and our leadership team to build those trusting relationships with our clients, and that's how we're going to continue to win across really all lines of business. I think we lead in Medicare, we lead in Medicaid, we lead in commercial in almost every size of the employer segment, because we focus on the needs of our customers.

And the last thing we tell them about, drug spend, service, innovation, and here I'm highlighting some specialty innovations. But if you think about our specialty patients, 88% of them are connected to us with secure messaging, and this allows us to do some very simple, but very powerful things. For example, we can confirm response to therapy. Now, that's incredibly important to our customers, right. You're spending $5,000 or $6,000 a month on a drug, you really want to know it's working. But we can do something else that's really interesting, which is we can – because we're communicating with them asynchronously, we don't have to make – we don't have to ensure that we're – we always want to make sure there's never a gap in care.

When you communicate extrinsically, you can ask a simple question which is, do you need drug today or in two days. Because for even if people – we have outstanding adherence and compliance rates, but most people aren't 100% adherent. So, even if you're like 92% adherent, that means you only need 11 prescriptions a year versus 12. It's like an automatic 8% savings. That's great for the expenses. And you can imagine when building trust, when I talk to a customer and say, we're going to sell less drugs, even though they know we make money selling drugs, that's what allows us to win the next client and win a 1 million scripts.

So, those are the sorts of innovations. We have similar things with providers where we can go directly into the provider's electronic medical record to take care of prior authorizations, tremendously satisfying experience for physicians, because they don't have to get in the middle of all that paperwork. It's great for us, because we can get more data, create more complex, efficient UM rules; great for our clients, because it's the legal record of the patient, not an attestation, but most importantly, it's open doors for us with physicians who aren't previously referring to us. So, again, thinking about the physician experience really matter.

So, when I think a little bit more about specialty, specialty is 50% of the total drug spend, how do we grow in specialty, how are we growing in specialty so rapidly. Well, we grow three ways. First, when we win PBM business, almost always link that to the specialty benefit, and we've talked to our customers about why that makes sense, right, because most patients on specialty medications are on a series of other drugs as well. For those clients who were not the PBM and this is usually health plans who are particularly concerned about the medical pharmacy integration where we bring some unique capabilities like Coram and some of the technology to bear, we win their business en masse. And then, in the open market, where doctors and physicians have choice, we win there because we have a differentiated experience. We have differentiated products to offer.

So, seven years ago, we launched a product called Specialty Connect, right, really simple, you can drop off or pick up your prescription, your specialty prescription in a CVS store. Seven years later, it is a unique offering in the market. No one has replicated it. And you may think that that doesn't sound that interesting. When we introduced this product, 50% of the people who had been getting drugs delivered to their home, right, (02:52:47) of e-commerce these days decided that it was more convenient for them to pick it up in the store. Why, because they didn't have to take a day off work or worry about the temperature or physical security of an expensive product. It was giving them service the way they wanted. It wasn't making an assumption about what people wanted.

Prem will talk a little bit more in his section about how we can expand this for other cold chain medications. And so, the result of those sorts of innovations is on the left-hand side, right. We continue to grow faster than the market. We'll reach $50 billion in 2021 of dispensed volume. And that doesn't include, right, the previously announced win of the federal employee program, which doesn't start till 1/1/2022. So, really excited about this, it's an important part of our business, but it's even more important, like this scale is what's going to allow us to really drive competition to take advantage of the coming or the – not coming, because it started already – wave of generic and biosimilars in specialty.

Over the next, call it, 10 years, almost $100 billion of product is going to lose exclusively. Now, as I mentioned earlier, it's going to be lumpier and bumpier, because it's far more concentrated in that 2006 to 2016, pills, tablets and capsules generics, but it is coming and will happen. And the scale that we have allows us to dramatically increase competition, to put pressure on the manufacturers, to lower costs for our customers and create incremental value for us.

When we think about continuing to enhance the business, this also is an external lens. Yes, we will improve our operating results, but when we improve the digital self-service experience, when we improve the ability of members to take actions on their own, we have a happier member, and yes, we lower our operating costs. When we are able to create more competition and accelerate adoption of generic and biosimilars, we lower costs for patients and for our clients, and we get rewarded for it.

When we think about driving advanced analytics to create better, more predictable revenue and expenses for our clients and our pharmacy partners, we reduce our own exposure. And then last, as Shawn talked about, as we continue to modernize our infrastructure with a focus on streamlining decision making, it's always with that external lens, what is our client or their members and patients need. When you have a $150 billion top line business, relatively small changes have substantial impact on the operating income line.

How does the Pharmacy Services segment fit into the overall enterprise growth strategy? A few things here. So, I talked earlier, Caremark has 70 health plans, 74 million lives that represent a sales pipeline where our sales teams already have strong relationships, lots of credibility. I can tell you that one of our recent health plan wins, we won: yes, we were right on pricing; yes, we have a reputation for service, the thing that tripped them over from moving from a 20-year-plus relationship was the assets in the enterprise, and this was pre the discussion of primary care. This was about just being able to integrate our retail pharmacies into their care management and care management infrastructure. That was the driving factor. When they heard about our primary care discussions, they got even more excited about their decision.

Prem will talk more about how when we think about dispensing assets as an enterprise, we create tremendous opportunity for the enterprise, but we create great product opportunity for our Caremark clients. And as Dan talked about, we are creating the only really integrated customer and consumer experience right now in the industry. I'm also, as I mentioned, so excited about this opportunity for new health care services, because our health plan clients are asking for it. And when I think about the – one of the questions that's come up in the past has been, well, how does that work when you own an insurance company? Well, we have a great example of this.

So, in mid-2015, 2016, 2017, when we were growing SilverScript, when it was a Caremark product into the largest PDP, while simultaneously all of Caremark's other PDP clients grew faster than the market and had higher Star scores than the market. So, we were able to grow both our own internal PDP and our customers' PDP. We know how to do this. And so, we talked earlier, yes, we added 1.5 million lives. Dan and I are incredibly proud of that. We had 9.5 million lives in our other health plans as well. So, we can continue to balance and manage those needs. Many of those other health plans, they're looking more and more to us as a source of capabilities that they can't invest in, right. Most regional plans aren't going to invest the $100 million that we've invested in digital for specialty (02:58:20) not going to happen. And lastly, of course, the PBM is an incredible cash generation engine and will continue to fund a lot of the growth initiatives that Shawn talked about earlier.

So, with that, again, thank you so much for the opportunity to talk about this. I hope I've shown you how this team, the Caremark team, which really one of the most seasoned, stable executive teams in the industry, will continue to deliver that mid, high-single-digit growth that Shawn talked about. We will do it simply. We'll meet – we'll manage drug trend better than anyone else. We will provide – I'm going to get that 91% trusted to 98%, and we'll continue to innovate as we have. And by doing that, we're going to catalyze the overall growth of the organization as I discussed.

And so, thank you again. It's my second thank you. It is my absolute distinct pleasure to introduce Prem Shah to you. Prem and I have worked together for 12 years across several companies. Most recently, Prem has been responsible for our Specialty Pharmacy and Product Group. And his creativity and absolute focus on customers and colleagues were crucial to the results that I've demonstrated. Prem has been with us since 2013 and I wouldn't be here if Prem wasn't with me. So, I cannot think of a better person, and I'm sure embarrassing the bejesus out of him, to take on the opportunities of omnichannel pharmacy and lead pharmacy into the 21st Century.

So with that, thank you, and Prem.

Thanks, Alan. And I've learned from one of the best. But I will tell you that, Dan, Alan is your best Medicare Advantage customer. It's not going to be me because I'm not old enough yet. First of all, everyone in the room, it's great to see you all here in person, for those tuning in virtually, great to be here with you.

Before I began and when Karen offered me the opportunity here, I can tell you it's an extreme privilege to lead pharmacy and serve as a Chief Pharmacy Officer for CVS Health and the impact we can make. As Karen mentioned, our pivot to omnichannel pharmacy is about making pharmacy easier for the consumer as easy as possible. And today, I want to share how we're going to bring that to reality and what the opportunity lies ahead for us.

First, I want to talk to you about our three industry-leading pharmacy businesses, our retail business, as Alan mentioned, our specialty and mail businesses, and how we continue to be the leaders in those spaces. And then I want to spend a few minutes really talking about the industry dynamics in pharmacy. It's complicated. It's a space where we have tremendous expertise and we'll spend a little bit more time talking about that.

And then I want to talk through a lot of what Karen mentioned earlier. There's an incredible unmet consumer need around pharmacy and what we're able to do. And then I'll walk you through our omnichannel pharmacy approach and how we're moving to an omnichannel approach, it's digital-first and fully focused around the consumer. And then finally, I'll illustrate how that omnichannel pharmacy approach will drive better outcomes, lower overall healthcare costs and drive shareholder value.

So first, we have three very large businesses – retail, specialty and mail. We generate over $130 billion in revenue. And as Karen mentioned earlier, we serve over 80 million pharmacy customers. On their own, each of these businesses are an industry leader. Historically, though, in full transparency, they've operated somewhat independently. We've had businesses in the PBM and PSS. We've had our retail business. We've done a very good job over that time also incorporating new programs that combine things in the PBM like Specialty Connect or like Maintenance Choice, but they were only partially integrated. We see an opportunity where

we can do better and more.

Let's take a second on Specialty Connect, for example, or specialty pick-up at retail. We did this about seven or eight years ago. It gave members the flexibility to get their prescriptions dropped off at retail, but then have the power of a specialty pharmacy to drive that. It led to more convenience. When they needed that prescription delivered, as Alan mentioned, you could go to their home or they had the option of picking that up at retail. Again, it resulted in convenience.

Maintenance Choice is another great example. We took our mail order business and offered a plan benefit design that allowed members to have the convenience of either picking up prescriptions at retail for a 90-day benefit or having them delivered through the mail. We knew these programs delivered better outcomes, better adherence. But in this case, there was more that we could do, and we knew that there was more that we can do. And by bringing these businesses together, by thinking about pharmacy as one, we know that our strategy will unlock additional synergies for our consumers most importantly and then for our clients and for CVS and our shareholders.

Let's take a second to go through some pharmacy dynamics, and I think there's a lot of them, but I want to spend a little bit of time on four. The first is let's start and talk about the elephant in the room, which is retail reimbursement pressure. We know that it's top of mind for a lot of you in this room, and we've spent a lot of time really looking at it and analyzing it, ensuring that we have the right approaches to mitigate that in our business.

A lot of our approach comes down to a few things. One is, we have unmatched scale in the industry. We're the largest retail pharmacy. We have incredible expertise in purchasing economics. And our strategy will continue to maximize generic dispensing and give us a competitive advantage when it comes to offsetting retail reimbursement pressure and margin compression. We also have the opportunity, and we continue to focus on leveraging new technologies and practices to ensure that our operating model is fully optimized. And lastly, we have the ability to reduce and we did, as Karen and Shawn mentioned earlier, our footprint to make sure we have the right footprint to serve consumers, which will also further benefit us in the future.

The second key market dynamic to consider is the massive continued unmet consumer need in the industry. The broader healthcare system continues to create waste through lack of care coordination, overtreatment, and administrative complexity, which we know all leads to higher cost and lower quality. Over $100 billion of waste is incurred every year in this country by the failure of care delivery and less than 55% of recommended care is actually received. In addition, all of us have experienced healthcare and we know the consumer's experiences in a way that's just not right, and we believe there's a real opportunity to drive meaningful change in how we deliver pharmacy, and that will improve the lives of many consumers.

The third dynamic is centered around our pharmacist. We saw firsthand how powerful the asset of a pharmacist can be in providing care delivery for patients. And this was made abundantly clear during COVID. We led through one of the greatest public health crises of our time, and we very rapidly held our pharmacists help administer over 50 million vaccinations across this country.

To give you the power of our enterprise, we were able to meet the demand and capacity needed by our country by hiring over 20,000 colleagues in pharmacy and clinical workers in just one day. Our pharmacists, our pharmacy technicians, our clinicians, they're the core of everything we do at CVS and we firmly believe, and I personally firmly believe as a pharmacist, that the expansion of the pharmacist role is going to continue given the frequency of the interaction, our local community presence, and the personal trust with consumers.

Finally, the digital pharmacy market space is growing rapidly and quickly, and it rapidly evolves. There's a number of net new entrants in digital pharmacy who've tried to disrupt this industry. They're taking a variety of different approaches. From what we see, we see over $1 billion of investment in digital pharmacies in 2021 alone with large raises from a bunch of different types of competitors.

I will tell you from our perspective, we were investing in digital pharmacy for an incredibly long time. We've invested substantially in our core systems making sure they connected to our digital solutions. And we continue to have the most digitally engaged patients in the industry due to our size. However, we're not going to stop. We're going to be continuing to invest. As a point of note, that when we invest, we're going to be able to do it at scale and across the board.

And the last thing I'll just say is the reason why these digital pharmacies having gained that much share is because pharmacy is local. It requires that personal touch to the consumer. And if you think about pharmacy, one-third of prescriptions, you need right away. And so as you start to think about what we have, we have that local presence, but we have that national scale.

So let's take a step and – let's take a second and talk about what omnichannel pharmacy is. Omnichannel pharmacy, very simply, is about connecting all of our pharmacy capabilities and assets to provide choice for consumers allowing them to interact how they want to while integrating services across all their pharmacy needs.

So what does that look like? It's tech-enabled. It's a digital-first approach to pharmacy interactions that will really change the consumer experience. We want to give the consumer maximum convenience when it comes to delivery or pickup options across all their medications whether it's traditional medications or specialty medications.

Let's bring this to life a little bit in an example with Sophia, who is reminded that her cholesterol and blood pressure medications, atorvastatin and metoprolol, are ready for refill via her app. She has the ability to coordinate and pick up her medications, her family's medications at the same time. She also has the flexibility to add in other front store things like a COVID test or other healthcare needs that she may have. And lastly, if Sophia wants to talk to a clinician, she has the opportunity to do that via text or to go into a local store and talk to her local pharmacist.

Being consumer centric for Sophia and others is also around ensuring affordability. We know the price variations and surprise costs have the opposite effect for pharmacy consumers. We're going to help these consumers better navigate their pharmacy spend for the member. We're going to support them to understand their benefits, where they are potentially in the deductible and we're going to make sure that when they get to the counter or into any of our assets, they're not surprised by what the medications cost. And what I've described here is a real example in how we're taking the experience and making it – and focusing it on the consumer.

So, why CVS Health? Our new pharmacy vision builds up a strong foundation. As I've shared, we're a clear market leader. We serve one in four US consumers in this country. And you can see some of the other stats, over 11 million pharmacy interactions per week where members are coming into our stores and interacting with our assets. We have more than 35 million digital customers

and we dispense over 1.5 billion prescriptions every year. The reality is really simple. No one and I mean no one else is as well positioned as we are given the strength of our foundational businesses to change and redefine the future of pharmacy.

Let's talk a little bit more about the value delivered through omnichannel and how that translates into value as a whole. So first, enhancing the consumer experience will improve value for all constituents. We know by making it easier and more friendly to use for consumers, it's going to drive better and more optimal adherence. Second, we know that if you do that, more people want to use our assets, use our services and will come into our stores and it will drive incremental script growth. Third, by doing this, it's incredibly important, as Dan and Alan mentioned, for Aetna and Caremark customers, to drive more retention of sales and increase sales into those channels. And lastly, and most importantly, when we make this easier for consumers, we're taking out a lot of those administrative complexities and we will reduce operating cost.

Bring this together, as I said, first and foremost, we're going to have those happier, more engaged consumers when they interact with our omnichannel pharmacy, and we know that this is going to deliver lower medical cost and improve quality. And also, as Karen and Shawn mentioned earlier, this will also drive sustained operating income growth for our company.

So let's take a second to dive deeper on one example. There's many of these, but let's take a second to dive deeper on one example that we have in omnichannel pharmacy. At our mail order facilities, we deliver many cold chain medications, for example, insulin. Those medications need to be stored and shipped with extra measures to maintain the right temperature. Those medications don't leverage full automation. So if you think our mail facilities, when you put the pills in the bottle, all of that is pretty much all automated. In this case, these are manual transactions happening in our mail order facility. And then the fulfillment is less than ideal, right? We've put them in coolers, packages and all of the stuff just results in incremental cost. And then lastly, when we go to ship it, we're shipping them from Chicago and from Pennsylvania all over the country, so it costs more.

With our omnichannel pharmacy approach, we're going to integrate that consumer experience. They'll never have to experience and decide if they're going to mail or retail. They'll simply say they want their insulin. We'll find a way to either provide optionality for that member, whether they're in California to be delivered at their home or at their local store where they can go, pick it up. And then we can deliver that from the local store to their home, if we want to. Everything now is integrated. It's focused on consumer choice and what it'll result in is a few things. One is a faster turnaround time because, remember, we'll be able to get it to their home quicker. The second is less operating cost. In this example alone, we would reduce cost by up to 75% of freight and packaging cost, right? So it's a benefit for us as well. And we're giving the consumer, most importantly, what they want. We're enabling and creating efficiency in how we deliver the medication to the member. In this example, the consumer wins and so do we.

So in closing, there's a few important areas I want to make sure that we're clear about our pharmacy businesses and how we are reimagining pharmacy. First and foremost, our foundational pharmacy businesses have scale and continue to grow. Why us? Our assets and position across all channels is just unmatched. No one else can do what we can do as fast as we can deploy it or as effectively. Omnichannel pharmacy for us is an approach that's going to drive value for consumers, plan sponsors, shareholders, and our enterprise as a whole. And finally, and most importantly, it's going to deliver better outcomes, lower cost and create a more efficient and seamless patient experience.

Personally, I'm a pharmacist. I've been in retail, specialty and mail for over 20 years. I have significant experience in drug pricing and reimbursement, and I've led, as Alan mentioned, our specialty business over the last nine years. I would say, simply put, I know the business of pharmacy. But this business is also deeply personal to me. And with this opportunity, I look forward of really changing the way pharmacy care is delivered in this country. And I think our omnichannel pharmacy strategy approach is going to absolutely do that in my new role.

I look forward to talk to all of you more in Q&A. And with that, let me turn it over to my friend, colleague, and Chief Customer Officer, Michelle Peluso.

All right. Thanks, everyone. I'm so excited to be Chief Customer Officer and alongside Prem to become the Co-President of retail. I have spent my career at the center of how digital has transformed consumer experiences and hence industries and the time is now for healthcare. As consumers increasingly need seamless, connected, more accessible, more affordable options, they increasingly turn to CVS Health. And it is precisely that that gives us permission and momentum to transform into the consumer centered, integrated health solutions company that is digitally first and tech forward.

So from my colleagues today, you've heard about the incredible positions we're in and so many of the markets we serve and the ways we are innovating to continue to transform healthcare. So I'm going to cover two topics. First, our retail business and how our front store business will drive sustained revenue growth and make sure that to serve as the ambassador for health for the company; and secondly, more broadly, how our digital capabilities will drive seamless and leading experiences for consumers across America to enable our overall strategy.

So let me start with retail. As Karen and Shawn mentioned, we have an unprecedented reach and engagement with consumers. We are truly closest to the consumer. Every week, 21 million trips are made to our front store, 11 million interactions with our pharmacists. And we also have unparalleled consumer loyalty programs. You've heard us talk about ExtraCare, 74 million members with huge digital interaction, up 20% year-over-year, but also CarePass, our health and wellness subscription program, that offers members great opportunities to save money and get consultations for needed healthcare. And that, as Karen mentioned, is up over 50% year-over-year.

Now, all of this does two things. It helps us drive engagement and of course earnings, but just as much and Shawn said this so clearly, the path to better health outcomes, the path to more affordable care is consumer engagement and that's precisely what our front store provides. But we also are increasingly America's trusted partner in healthcare. We recently saw a Harris Poll study which confirmed three things for us. First, that we sustained our leading overall position and brand reputation around health and wellness. Secondly, we were ranked number one for going above and beyond during COVID. And third, and Alan alluded to this as well, we are now increasingly viewed as a partner for chronic conditions, complex conditions and not just by consumers but by providers as well, making our brand incredibly trusted in the communities we serve.

Our recent front store results are strong and they're really driven by three key strategies. First, we've been tightly managing our supply chain, which has served us well over this period of COVID and introducing automation. Secondly, we've pivoted further our product mix towards health and wellness, where we see expanded margins, especially as we've increased the penetration of our

store brands. And lastly, we use our leading loyalty platforms like ExtraCare and CarePass to make sure that we can, even when we're changing price, deliver that incredible excitement and everyday value to our consumers. And these strategies have resulted in gains in market share, increased basket size, and strong profitability.

Our front store is fast becoming the leading multichannel destination for health and wellness. This gives us permission and momentum to continue to drive relentless innovation, and we will not stand still. We are continuing to build out our health and wellness offerings. Today 40% of our revenue and 50% of our margin come from health and wellness. We're doubling down on our store brands where today our store brands lead in 14 of 18 health categories. And as you would expect, we're accelerating e-commerce offering new capabilities, growing rapidly, and adding things like convenience – so buy online, pick up in store, same day delivery, and the like.

Retail is and the front store is where care comes to life for Aetna and Caremark members, and we take that incredibly seriously. Our community presence is an integral part of our robust care delivery strategy. So Shawn mentioned this. But let's step back and look at the vaccine and testing experience that we provided because this is truly that integration of digital and physical that makes all the difference. How did we lead? Well, we provided, to start with, super easy scheduling that is intuitive and easy to navigate, resulting in unprecedented digital engagement; care delivery that was accessible in the communities we served; and of course seamless care management that's intelligent and personalized. And I'll talk about health dashboard a little bit later, but we're seeing great uptick in our health dashboard as a result.

We are all incredibly proud of the role CVS Health and the colleagues across our company play in the community, but we also help to make healthcare more accessible. And to give you a great example through our community presence, our digital tools, our grassroots efforts, our analytics, we got vaccines to underserved populations across the country. In fact, 40% of the vaccines we provided were to communities that were underrepresented. A fact we're really proud of. And we'll continue to build out on this experience as we broaden access and broaden our clinical services.

So, as we think about the front store going forward, there are four key areas we're focused on. First, as Karen mentioned, we will optimize our store footprint. Retail stores, make no mistake, are a fundamental part of our strategy and who we are as a company. The revision we've announced is really based on understanding consumer trends, their increasing online shopping behaviors and making sure that we are deidentifying and in the (02:22:00) places that matter. In fact, when we're done with the 900 stores, 85% of consumers will still live within 10 miles of a CVS Health.

As Karen mentioned, we see three core formats. First, site's dedicated to offering primary care. Secondly, enhanced HealthHUBs that were designed for a range of health and wellness needs. And third, traditional CVS pharmacies that provide prescription services, health and wellness products, and everyday retail convenient offerings.

Secondly, we are investing in our colleagues, and this is really important. We're increasing our minimum wage to $15 an hour, as you've heard, by mid-2022. And this will help us along with all sorts of things we're doing to speed hiring, improve retention. This will help us to make sure that we attract the talent we need and that they serve our customers with the care our consumers expect.

Third, we're deepening our commitment to health and wellness, offering new differentiated store brands in categories where we feel, our natural products, our quality ingredients can make a difference. But we're also doing more as we think about our online presence, adding community and expertise, particularly around health and wellness.

We'll also accelerate our loyalty programs, ExtraCare and CarePass. We have already launched some new capabilities in CarePass and coming soon on-demand pharmacy delivery, pharmacy savings consultations, care coordination scheduling, and rewards for everyday activity. Executing on this strategy helps CVS in three fundamental ways: we'll sustainably grow revenue; we'll lead in differentiated omnichannel experiences; and we will be the brand ambassadors to health and wellness for the entire company.

So let me take a minute to show you a video of how omnichannel health and wellness comes to life and this is not a vision of the future. These are capabilities and experiences that our consumers have at CVS Health every day. So, with that.

[Video Presentation] (03:24:06-03:26:21)

All right. Well, it's precisely that mix of digital and person that sets us apart and gives us such a differentiated position. Care journey increasingly will become digital and we're in a great position to lead.

So now let me step back and take a closer look at the integral role digital plays across our enterprise to enable our strategy and provide growth. Over the pandemic, consumers relied on digital tools for their healthcare in ways they've never done before. And as Karen says, CVS Health rose to that challenge, unifying around the consumer and leaning into digital solutions to meet their needs. Using our digital-first approach, we delivered personalized, accessible care options for consumers all around the country, and as we did that, we delivered value to our business.

So here's the good news. We start from a really strong position. We saw so far year-to-date over 1.5 billion digital visits and that's up 60% year-over-year, 35 million engaged digital customers, and we also know that they are highly, highly satisfied with strong and climbing NPS. This expansive reach, our scale, our assets, our high levels of digital engagement fundamentally set us apart from our traditional competitors. Our digital footprint allows us to reach consumers where they are, proactively navigate them to the right care and deliver better health outcomes.

So let's turn to why being digitally first matters to us. In a recent study we concluded, we know that our digital consumers have a strong impact on both health outcomes and our business results. To start, our consumers who are engaged digitally have deeper relationships. They spend about 2.5 times more in our stores, and they retain on average longer. We see a 500 basis points lift in tenure in our pharmacy patients when they use omnichannel pharmacy. Digital consumers are also more satisfied. To give you an example, in Dan's business, Medicare consumers report being 12% more satisfied when they engage with our digital tools. And our commercial numbers are even higher at 15%.

Digital consumers also report better health outcomes. Dan shared with you our next best action program and the many ways we can nudge consumers to better health outcomes. And that's particularly true using these advanced MVA (03:28:51) capabilities in our digital channels. Specialty patients, for instance, have less medication adherence gaps when they use our digital tools.

And finally, these customers have lower costs to serve. We can deflect call centers at a greater rate when we engage with our consumers digitally. And a great example, frankly, was over COVID where we used things like Intelligent Agent to deflect calls from our call center. Commercial members on average have about a $5 savings when they use our tools. That's $21 million annually. And there is no doubt in my mind that number will accelerate as we bring more of our members to digital solutions, especially for Aetna and Caremark.

Now, our digital strategy is clear. Our vision is to be the most convenient omnichannel leader in delivering personalized health solutions. We are the only ones who can truly integrate that experience for the consumer, and we must and we are sharpening focus where it matters most. So there are four experiences and four capabilities where we will lead. First, as Prem said, we will lead in omnichannel pharmacy. It is core to who we are and what consumers expect from us. And Prem and I are so excited about what we've recently launched and all that is quickly to come.

Second, to support Alan and the strategy he laid out, we will provide leading digital-first health services with seamless integration to care navigation, care delivery, and your care plans.

Third, we'll continue to transform our membership-based businesses, as Dan mentioned, Alan mentioned, to be increasingly digitally first and to lead with self-service. This gives us not only the opportunity to improve the consumer experience, but also, as Shawn mentioned, to transform our cost structure.

And finally, we will be leaders in the specialty health and wellness omni-commerce. Bringing all of this together, CVS.com is our point solution to really start healthcare journeys, and as Karen said, it is a leading destination already. Throughout all this, it's imperative. We continue to modernize our applications, migrate more of our workloads to the cloud and use advanced data, AI (03:31:08) analytics capabilities to serve consumers better and to create cost efficiencies.

So let me go one click further on health dashboard. Alan mentioned all we're doing to enable care navigation and care delivery, but I'll talk a little bit more about our newly launched health dashboard. With health dashboard, we're arming consumers with health information at their fingertips and navigating them to the right level of care. This capability is rapidly scaling. We already see more than 1 million visitors a month. And it's a compelling enterprise asset for all of our businesses.

It gives our consumers a 360-degree view of their health records and their prioritized next best actions and it gives them a super simple way to navigate to the care they need. All of this is delivered in one place, and we see a tremendous opportunity to do even more with our health dashboard building on existing capabilities. So you should expect from us rapid launches and things like enabling caregivers to access plans, full care plans and even omnichannel pharmacy solutions. This is a critical priority for us and we believe a real differentiator.

Our strategy truly comes to life with CVS.com, a top health and wellness destination, which represents over 90% of those 1.5 billion digital visits I talked about. CVS.com, of course, process pharmacy and non-pharmacy, and we're doing much to continue to improve the experience, expanding our AI product recommendations, driving greater personalization with pricing and rewards, providing engaging health content and community, and offering greater choice around delivery options. But that's not all because we're redesigning CVS.com to deliver the full suite of CVS Health solutions to our consumers.

Alan talked about the sleep assessment, a very simple prompt that drove hundreds of visits to our HealthHUBs. But we've also started doing things like launching webinars to the right audience at the right time to serve as an on-ramp for enrollment into Medicare. We see really strong engagement when we do these and we're excited about expanding our ability to drive into health services.

I'm also happy to say today that we've been launching CVS Health Digital Access, and this is to bring greater access to care and consumers nationwide, leveraging our open APIs. Millions of consumers start their journeys on health every day by searching the web for symptoms or side effects or things that they find concerning. Leveraging our open API platform, we can connect those consumers directly into the care when it matters most. We've already launched with several partners and have a robust pipeline.

But let me give you an example. With The Weather Channel, they're helping us predict flu to the zip code. And then in those moments, we embed our APIs to allow for flu vaccine scheduling, MinuteClinic scheduling like bringing care to consumers wherever they are. With digital leading the way, there is so much more we can continue to do to personalize and provide seamless engagement for our consumers. And all of this, of course, rests on making sure that we accelerate our infrastructure, both from a cloud perspective and, of course, data and AI. So partnering across the company, we are modernizing many of our legacy applications, bringing more and more of our workloads to the cloud and utilizing advanced data and AI capabilities. When we do this, we speed the pace of innovation, we increase resiliency, we lower our costs and we improve the experience of our consumers and our colleagues.

Of course, we're not doing this alone, we're partnering with industry leaders like you saw with Microsoft and others to accelerate our journey. We're excited about the path we're on. And as Shawn mentioned, that path is already starting to yield results with increased agility, lower costs, and improved experiences. We have a very clear roadmap in front of us that we will aggressively execute.

So here is the most important summary. Across our retail and digital assets, we have unprecedented consumer engagement and scale today, and it matters. We'll become the health and wellness destination of choice, we'll accelerate our digital capabilities to empower consumers and advance our strategy. And we will be the leading retailer in the growing category of health and wellness, driving consumer engagement. We've invested in the right set of partners and talent to achieve these goals. This is our consumer-first forward-looking vision of healthcare, connecting digital and physical channels, creating choice and simplicity for our consumers, and powering continued growth for CVS Health. I couldn't be more excited about all that's ahead, and I know I speak on behalf of my colleagues.

So with that, a very sincere thank you, and let me ask my colleagues to join me on stage for some Q&A.

QUESTION AND ANSWER SECTION

Answer – Susan Vissers Lisa: Go ahead, Matt. When you get the mic, you could go and then (03:36:53).

Analyst: Matthew Borsch

Question – Matthew Borsch: Fantastic. I just wanted to ask about your confidence in commercial growth and healthcare benefits side. From here, I mean it's been a long slog in commercial for over many years. It's a little bit of a turnaround to be expecting growth at least from my perspective and maybe I'm wrong about that. And then the exchanges and how you have confidence there because that's been a real rollercoaster.

Answer – Karen S. Lynch: Go ahead.

Answer – Daniel P. Finke: Yeah. I'm happy to take that. And first of all on commercial, you're right, it has been an intense focus of ours. First, we're going to focus on a couple of things. One is, making sure we have the right cost position in the markets. And second is making sure that the solutions that we're offering to our employer group segment are meaningful to them. And so we're really encouraged by what we saw on the 2022 selling season and we're encouraged by the team's deep really focus and momentum going forward. So we're optimistic about commercial overall.

As far as the public exchange, I mean, look, we went into this with intention of being our first year of very disciplined approach to the markets. The product features that I talked about are resonating in the markets. But we do recognize that this is a really competitive marketplace. And so we're looking at this as more a longer term strategy. And we're focusing our attention on really making sure that the products that we have resonate and that we can expand in 2023 and beyond.

Answer – Karen S. Lynch: And then maybe talk a little bit about national accounts for 2022.

Answer – Daniel P. Finke: For – I'm sorry for 2022. Oh, yeah, I mean, our national account selling season was really strong. I mean, we saw a 95% retention. We saw a lot of uptake in some of those products and services that we talked about like virtual primary care, even our Transform Diabetes programs. Those are great examples of the services that I think are creating that stickiness and something that's differentiated.

Question – Matthew Borsch: Thank you.

Answer – Susan Vissers Lisa: Steve?

Analyst: Steve J. Valiquette

Question – Steve J. Valiquette: Yeah, hi. Steven Valiquette from Barclays. For the PBM, a couple of questions just on the rebate-sharing agreements. I guess I'm curious for traditional brands and specialty drugs, is the rebate-sharing percentage with customers typically the same or is that starting to vary maybe to control specialty spend a little bit better? And then just on overall rebates, where does Caremark stand on the rough percentage of PBM customer contracts that have 100% pass-through of all rebates? Thanks.

Answer – Karen S. Lynch: Go ahead, Dan.

Answer – Daniel P. Finke: Yeah. So, Steve, good question. So, on the first one, I would say that there isn't a differential sharing relationship whether it's a specialty brand or a non-specialty. The contracts tend to be consistent. To your second question, I don't know the exact percentage of client contracts which go either way. I think we've previously disclosed that over 96% of all rebates go back to our clients.

Answer – Susan Vissers Lisa: Josh?

Analyst: Joshua Raskin

Question – Joshua Raskin: Thanks. Josh Raskin from Nephron. Dan, I've got an HCB question as well. And I guess my question would be, what is the Health Care Benefits segment doing today with respect to using value-based care providers in some sort of capitated or sub-capitated arrangement? And then how do you envision that changing after hearing sort of the vision of CVS becoming maybe an owner or affiliate of those models?

Answer – Daniel P. Finke: Yeah. It's a great question. I mean, first of all, I started out with Aetna what seven years ago, and that was my role is to start the whole value-based contracting approach. I'm really passionate about it. We have almost 70% of our total contracts. Our total medical spend going through those contracts a little bit higher on that for our Medicare population, right about that level for our commercial population. And we've got some room on our Medicaid population. And we see that continuing to be a focus of ours, not only in the actual contracts, but making sure that we're growing those sort of up the value base continuum with our provider partners.

And, look, as far as that changing, I don't see a real shift in that. We're going to continue to work with those providers in the local market. The reality is these types of contracts, these types of relationships and integrated value. Our integrated health systems have sort of sat together in the market and aren't competitive like Karen described. And our goal is to continue to deepen those relationships with our provider partners in our markets through our own value-based contracting and also support the strategy that you've heard about today.

Answer – Susan Vissers Lisa: Question from the web for you Shawn from Justin Lake at Wolfe Research, two parts. Can you walk through the 7% to 8% long-term foundational growth that you've talked about in terms of building it up by segment? I think you touched on that, but a little bit more detail. And then the second part is if you could comment on the roughly 250 to 350 primary care centers that we've talked about as an example, the mix between de novo or acquisition given the 2024 timeline is likely more acquisition.

Answer – Shawn M. Guertin: Yeah. I think on the latter, as we should, we've thought about whether we would have to build these de novo because that's one thing we should consider. But I think there's numerous reasons why it would be beneficial even beyond timing that that would be done either with an acquisition or with a partner, frankly. So I would expect that the number that would be de novo would be fairly small in that whole kind of calculus. So as you think about our businesses and the segments – for the – there's always moving parts, but this is really a revenue growth game and that it's not an operating margin expansion story at large

as a company. There's always individual businesses where that's an opportunity.

So if you thought about the various growth rates, as I mentioned, I think in the near term, we're confident that HCB can grow in the high-single digits and, a little bit to Matt's question, even within that calculus, we probably have commercial at a lower growth rate than certainly the government to get to that number.

I think PSS, I think the pharmacy business, I think over the next three years because of some of the things that Alan mentioned about what's coming with biosimilars and generic specialty, our strength in the market, our strength of sales, I think we can do high-single digits over this time period in that. As I mentioned, I think we could argue like long, long term, whether that's mid-single digits or not. But I think in the near term, I think we can do high-single digits. And again, I think on retail, we tend to think about that as flattish, maybe up to low-single digits. And I think when you composite those, you might get a number in the 6-ish or something. If you did my math and you weigh, they're all about a third, a third, a third, roughly in the math. And then you think about sort of the cost improvement that we talked about, where we could add 1% to 2% to that and that could kind of get you into that 7% to 8% range going forward. And if you wanted to sort of complete the thought, even with the new strategy, you can ask yourself, could we add one more percent to that in 2024 through some of these new models. And I think those are the parts of the – those are the – how I see the pieces fitting together is certainly what we talk about as a team, needing to drive and deliver sort of at least that result.

Answer – Susan Vissers Lisa: Okay.

Analyst: Stephen Baxter

Question – Stephen Baxter: Hi. It's Steve Baxter from Wells Fargo. So, I want to ask on the health plan business. So I appreciate the comments on Medicare and the fact that you guys are looking for above market growth there over time. I guess, how should we think about the competition in the Medicare Advantage and what levers you can pull to grow at above market rates? In the past, it's sort of been geographic expansion, it's sounds like maybe more, it's now kind of an old story to some degree. Just trying to think about kind of all three, the big national plans trying to grow at or above market rates plus new competition and does that all kind of come together?

Answer – Karen S. Lynch: Go ahead (03:45:01).

Answer – Daniel P. Finke: Yeah. I mean, first of all, just to remind you, we have a broad portfolio, right. This is where we've shown growth across the whole portfolio of Medicare Advantage, duals, our strong Medicare group, as well as Med Sub (03:45:13). Our opportunity is to continue to go deeper into the markets and penetrate the markets that we're in. We do have some opportunity to expand geographically as well, especially in looking at our dual populations. And then we have an opportunity to use the broad portfolio for those conversion opportunities like I talked about, either our commercial block to Medicare group as well as our PD block to Medicare Advantage.

You heard us talk a little bit today about the more opportunities that we have to deliver that change in the game around engagement, whether it be for digital capabilities, use of local CVS stores and assets that all helps us grow. And primary care is a great unlock there. That's a great example of that. And so all of that comes together and gives us the confidence to really make sure that we're growing above industry on this.

Answer – Karen S. Lynch: And we'll continue to invest in stars (03:46:05), we'll continue to...

Answer – Daniel P. Finke: Yeah.

Answer – Karen S. Lynch: ...invest in innovative products and services. We recognize their premium plans are important. So all those factors, we feel confident on our ability to grow.

Answer – Susan Vissers Lisa: Another question from the web for you, Prem, from Ann Hynes at Mizuho. The segment faces significant reimbursement pressure each year and what is CVS doing to try and contract structurally to change that pressure? Others who want to comment?

Answer – Prem Shah: Yeah. So, it's a great question. And I'd say first, when we think about our business, we have tremendous size and scale, right? So, we focus on our purchasing economics, our cost of goods and how we can help deploy that. The second, as I mentioned in my presentation, we continue to look at better ways to serve our members and the cost to serve to take cost out, create more efficiencies. A good example of that is digital, right? We have extremely high digital penetration and how we continue to do that. And the third, as Karen and Shawn mentioned, as we stated previously, right, we continue to look at our fixed cost structure to make sure we have the right cost bases to serve our consumers. So, we continue to look at this all the time. It's very important. And then what I would say and Shawn mentioned this earlier as well, we are starting to see reimbursement pressure stabilize over time and we're starting to see that as we go forward.

Answer – Susan Vissers Lisa: Okay. Thank you. Here's, Anthony (03:47:21).

Analyst: Brian Tanquilut

Question – Brian Tanquilut: Brian Tanquilut, Jefferies. I guess just the question on – we've talked a lot today about primary care and personalized care focused – or based in the store. But in the past, we've talked a lot – you guys have talked a lot about kidney care, diabetes programs. So, how does that all link in or blend into the strategies you laid out today? And what are the opportunities you see to roll out other similar specialized programs going forward?

Answer – Karen S. Lynch: Yeah. It's a great question. If you think about, those were very specific categories and solutions. And what we've learned is they're part of our overall home strategy. So, think about a collection of services and enablers to really be in the home or in our primary care in the community or continue our digitally-led. So those are important elements of our ongoing strategy because we're looking at the whole person and trying to connect the experiences of that whole person. So as Alan said earlier, and I'll have him elaborate on this, really kind of thinking about how we can extend into other innovative products and services in the home will be critical to that longer term strategy as well. I'll ask Alan to comment.

Answer – Alan M. Lotvin: I think the way to add to that would be some of the more point solutions will get integrated or are being integrated into the overall care mile (03:48:45), specifically around diabetes or high blood pressure, could you see those in constellations. There are a couple of disease states that are so high need and needed something different like kidney care where once that diagnosis occurs, it becomes the dominant diagnosis. There aren't a lot of those. So in general, we're trying to look at the entire patient, what all the sum of both the medical, behavioral, social needs and where there are specific problems that are so unique that need new solutions, kidney care was one, there are probably some other ones in oncology, we'll add specifically there, but again, as Karen said, it's the whole person that we want to look at.

Answer – Shawn M. Guertin: The one thing I would add and I made the point a couple of times, and I do think it's important as you think about this going forward is, I think as this platform comes together, we now have a basis and a platform to assess and think about where the next logical opportunity might be and how that fits in across the platform. And as opposed to looking at a new opportunity and just thinking about it as an individual business, it's now about does it have those dynamics? But does it enhance the platform as well? Does it enhance the overall offering? And like a lot of things, when you plug that in to sort of a big platform, the economics can be a little bit different than when you look at it on a standalone basis. So I think that's one of the building blocks this creates for us.

Answer – Susan Vissers Lisa: Ricky?

Analyst: Ricky R. Goldwasser

Question – Ricky R. Goldwasser: Alan, a question for you and actually combines kind of like, Shawn, what you said about the platform. Thinking about HUMIRA 2023, really interesting biosimilar launch. It seems to play right to your strength, specialty pharmacy, interchangeable. Do you think that that platform that you have will allow you to play a different role? And how should we think about the economic at interchangeability? Does this mean that you can – have more influence at the point of dispensing and then knowing the patient, the member, does that open up opportunities upstream with the biopharma manufacturers?

Answer – Alan M. Lotvin: So, really thoughtful question, Ricky. We've been thinking about HUMIRA since 2018 and we've been adapting a number of the strategies since then. So to say we've been anticipating HUMIRA wouldn't be underselling this story. So I think the – when you think about the economics, first off, there is, you made the very good point, interchangeability and substitutability of the critical things, right? Substitutable means you need another prescription, (03:51:27) feels more like a brand interchangeable, more like a generic. And what we're seeing from the manufacturers and the FDA is they're doing the extra work to get the interchangeability. So we're sort of confident about those economics.

I think there's a lot of things that we – there are a number of things we've already started to do, but there's more that we can continue to do as we move forward inclusive of thinking about how our value-based contracts with physicians work vis-à-vis formulary compliance, thinking about the consumer interaction. So, the short answer is yes, we've been thinking about it. Yes, we've taken steps already. And yes, there's more opportunity as we get closer and closer to the launch date of the of the biosimilar follow-on products.

Analyst:A.J. Rice

Question – A.J. Rice: A.J. Rice from Credit Suisse. Maybe I'll ask two things. First, on the benefits side, can you give us updated thoughts about the target margins that you guys have for Medicare, Medicaid, commercial, and going into the public exchange what you think that might be? And then relative to those target margins, are you sort of within that range or do you still have upside in any of those businesses?

Answer – Shawn M. Guertin: Yeah. So I think as a general rule, going back to what I said, I think we're in the range of a lot of these things where we can maintain it, but there's always expansion. I have always thought about Medicare as a mid-single-digit pre-tax margin business. Medicaid could probably be low to mid depending on sort of where you are in that continuum. Commercial varies. Obviously, the self-insured business has different revenue – or different margin dynamics. And the fully insured can be, I think, probably mid to maybe the low part of high sometimes on that business. And, again, as you mentioned, they will all sort of oscillate sort of through there. But for the most – those probably got pressured a little bit in the year where we – COVID this year probably on Medicare. But I think we feel good about being able to both balance the growth at those margin levels with that sort of overall margin performance.

Question – A.J. Rice: Thoughts on the...

Answer – Karen S. Lynch: Exchanges.

Question – A.J. Rice: ...public exchanges?

Answer – Shawn M. Guertin: Public exchanges. I'll let Dan chime in. Obviously, at the beginning here, it's a ramp-up process, but I would probably think about that as mid on a sustainable basis.

Question – A.J. Rice: Okay.

Answer – Shawn M. Guertin: But it will be a multiyear journey probably for us to get there. Hopefully Dan would say the same thing.

Answer – Daniel P. Finke: Exactly.

(03:54:07).

Question – A.J. Rice: And then just let me ask, because it's front burner. It's not terribly strategic, but there's a lot of things on the table with this Build Back Better bill as well as the public health emergency, the Medicare sequestration. I guess on those two things, what is in your guidance for 2022? What are you assuming about the PHE (03:54:30)? What are you assuming about Medicare sequestration? And then when you think about some of the big provisions out of pocket limits on Part D, transparency on the PBM and then direct negotiations for drugs down the road – or at least a few drugs. How do those impact your businesses and

what's your view on those?

Answer – Shawn M. Guertin: Yeah. So I'll let Karen and Alan take the PBM and some of the drug thing. In term of the guidance on both of those, I think the sequestration change probably will be a modest headwind to us, not necessarily not one we can overcome. But it's certainly I think the net between the two things. It is a modest headwind to us. The PHE (03:55:15)...

Question – A.J. Rice: They're talking about extending that. In your guidance today, you're assuming it goes away at the beginning of the year, is that the way to think about it?

Answer – Shawn M. Guertin: Yeah, whatever the – I don't remember the exact date. Whatever – when we thought it was going away, and that's frankly going to be the same answer for the PHE (03:55:30).

Question – A.J. Rice: Okay.

Answer – Shawn M. Guertin: ...which is we assumed that we thought it would go through the first quarter. We've assumed that it doesn't. Now there's a lot of moving parts to that one, too, right, because depending on what happens, that can kind of help retail a little bit on the vaccine front obviously.

Question – A.J. Rice: Right.

Answer – Shawn M. Guertin: ...what can push on Dan's business as well? So, plus or minus, there's things moving each way on that one. So that could be a little drag as well. Obviously, the Medicare redeterminations is a big part of that, too. And now you're back into the Build Back Better and the interplay of all of those. But I'll let...

Answer – Karen S. Lynch: Yeah, on the transparency piece, I think we've always said we are transparent today. So what they're proposing is nothing new that we're already doing so that won't have any big impact to us. On the Medicare negotiations, obviously a lot more to unfold, a lot more to understand, and it won't start until 2025 and there's a small number of drugs. We're obviously continuing to manage our drugs getting the best possible price. So that doesn't start or won't have impact until 2025 and beyond.

Question – A.J. Rice: Okay. And the out of pocket on Part D, does that change the attractiveness of that business? You're a pretty big player there.

Answer – Shawn M. Guertin: I mean, I would think it's going to increase premiums.

Question – A.J. Rice: Right.

Answer – Shawn M. Guertin: Right?

Question – A.J. Rice: Okay.

Answer – Shawn M. Guertin: And I don't know that that will fundamentally change PDP. On the margin, I think, does that ripple through the MA? A little bit, right? But I don't know that it's going to fundamentally change sort of MA value offering there as well.

Answer – Susan Vissers Lisa: (03:57:06)? We got Lisa.

Analyst: Lisa C. Gill

Question – Lisa C. Gill: Alan, I remember when you came to the PBM industry. It's – sorry, Lisa Gill with JPMorgan. And I just want to go back to your comments around the evolution of the industry. And I was really surprised you didn't talk about value-based care and an evolution of value-based care within the PBM market. Can you talk about what you see there and what clients are looking for? And do we have a value-based care offering at some point? One of your large competitors talked about really having evidence-based type of pricing in the marketplace. I know you and I have talked about that over the years. Is that something that will come to fruition? And then as we think about pharmacy more broadly, do you think about it, again, from a value-based perspective, do we think about this being more looked at more holistically? Do we think about your pharmacy business taking on risk? So, just how do we think about it from that perspective?

Answer – Alan M. Lotvin: So, there's a lot in there, Lisa. So, first, on value-based care and value-based contracting because it usually came up in the context of value-based contracting with the manufacturers. And I think we approached it as, okay, we're interested and we're willing, but we had a few predicate, like, lines in the sand. Number one, we're not going backwards on the base discounts that were being driven out of the pharmaceutical manufacturers. It wasn't going to create risk on something that we were – so we were willing to think about incrementally getting more value. And then what we found was that we were able to extract that value with much more surety. So, that's why I think probably the biggest reason we haven't seen broad-based, value-based contracting.

They are all – I can go through all the technical reasons of when a drug actually has an impact, how long it takes to – that ends up being manageable. It all came down to we were able to get the value much more consistently now where I think we will see more opportunity on a go forward basis are the curative "gene therapies," right, where, okay, if you're going to tell me you're going to price based on the lifetime savings of gene therapy for hemophilia, when that lifetime savings goes away, we're going to amortize that price. So, I think that's where there is an opportunity.

I think the other area where there are opportunities for value-based care that we're deeply working and now we have a pretty extensive pilot that we're working out with Dan's business is on oncology, where there's far more ability based on individual genetic signature of the tumor to differentiate between different regimens. That also doesn't really exist, right? HUMIRA, Enbrel, Remicade, they all sort of work differently for different people, but we can identify. We can identify which tumors – which breast cancer tumor is going to respond to Herceptin, which ones are not. So we have the ability to be far more targeted and that allows us to create and we have in market right now value-based contracts with physicians that drive to that. And then that's what you can pull through into the manufacturers. So I think it was a little bit of a long detailed answer, but...

Answer – Daniel P. Finke: Yeah. And Alan, maybe I'll add two things to that because it was a great question, Lisa. If you think about what we did in specialty around our digital assets, that was really about how we can improve medical costs, but get better

connected so that we can really deploy that. And that's really a lot of what our omnichannel pharmacy strategy is about as well, right? How do you connect to these members? How do you interact and how do you engage? So we got the engagement piece and we're now going to start to, what I'd say is, think about how we can push that forward.

Answer – Susan Vissers Lisa: Karen, a question from Jeff Pensack (04:00:50). If you could go into more detail on the criteria we use for optimizing the retail footprint and deciding which stores to close?

Answer – Karen S. Lynch: Okay. So, as I said earlier, we did an extensive review of our footprint and really our intention there was to de-densify our portfolio. So, we looked across our business, we looked at the changing demographic patterns, we looked at the people – client preferences, we clearly looked at where the Aetna, Caremark members were. And that all led us – and obviously, we did a strong financial analysis and we don't do anything without doing financial analysis, which led us to saying, okay, this is – in order for us to really optimize our portfolio, de-densify that portfolio, it's 900. We also took into consideration and Shawn mentioned this that we didn't want to create pharmacy deserts. We didn't want to take out stores that were in underprivileged communities. So, all of that, so we did a financial factor and a lot of other factors to make that decision.

Answer – Susan Vissers Lisa: I think there's a question in the – oh, sorry, go ahead. Thanks.

Analyst: Nathan Rich

Question – Nathan Rich: Hi. Thank you. Nathan Rich from Goldman Sachs. When you think about the opportunity from the care delivery platforms that you talked about, the 1% to 2% contribution, how do you see that splitting between what might come from Aetna members today versus external lives? And maybe bigger picture, when you think about – you talked a lot about all of the lives that you touch across all three segments of the business, are there programs that you can put in place to kind of introduce consumers that might be using you through one channel- through to all the different scope of services that you guys offer?

Answer – Karen S. Lynch: Yeah. So, I'll start and then I'll ask Shawn to respond. So, if you think about the strategy, the strategy what really makes it unique and different is that we already have relationships with our Aetna and Caremark member, so we just start there. And then, obviously, we have the ability to interact with consumers in our front doors every day, you saw the numbers, 21 million visits every day, that gets us another touch point to engage members.

We, this year, as a matter of fact, one of the things we've done is, we've built Medicare centers in our retail locations, so we can engage with Medicare patients either for their care or actually to enroll. So, there are a number of touch points, and I think that as you think about this strategy, I think what the most important element of it is we have a platform of members and individuals today that we're already engaging with. And as we continue to interact with them digitally, we have a – and you saw from Michelle, we have the ability to interact with them and start pushing suggestions for additional products and services.

Answer – Shawn M. Guertin: Yeah. And so, when you think about the construct of the 2% increment, we've assigned about half of the value today to basically accelerants to our existing business. Some of that could come from improved margin or improved lifetime value of members. We have some of that could manifest itself as growth and I think that still needs to be played out, but it's around half of that. That's the side of the equation that where you guys sit there and you think about as we stand things up, that's clearly, we have volume that can benefit from that sooner, if you will, than if we were doing this without that volume.

So, that could be one that frankly shows up a little sooner, maybe not to the full degree, but because of the nature of that, it could show up sooner. But right now, it's about half of what we've put for that. And in some ways, right, part of this is, do you think you can get another point of growth out of that business with this sort of platform and integrating all these things, all these things together.

Answer – Susan Vissers Lisa: (04:04:57).

Analyst: Keith Andrew Mills

Question – Keith Andrew Mills: Yeah. Two questions, the first – first of all, Keith Mills from Trillium Asset Management. The first is for Karen, then I've one for Prem. Karen, so the $15 an hour by mid-2022, a good step, may not be enough though going forward. So, as you think about the new CVS going forward, the primary care delivery model, what are the company's plans to attract and retain the most talented and mission-driven employees, particularly those that are more customer-facing and aligning their motivations and performance with shareholders?

Answer – Karen S. Lynch: Thank you for that question and I would agree with you that we believe $15 an hour is a first step, but it likely won't be the last step. Obviously, there's an incredibly tight labor market, and as we think about our company going forward, we really do have – as you think about the population that's looking for jobs, they are looking for purpose-driven companies, and what's unique about CVS Health is we really have that purpose-driven company for them to really align around. We are trying to improve health outcomes. We are trying to advance health equity in America. So, that does give us one distinct advantage.

Obviously, we offer competitive benefits and competitive pay. We continue to look at that every year. When you come to CVS, it isn't about a job, it's about a career. And as you think about the size of our company, you have lots of opportunities to do a lot of different things, so that you're not just coming in to be an accountant or an actuary. You can actually have an opportunity to go and...

Question – Keith Andrew Mills: Do I have a career?

Answer – Karen S. Lynch: You could have a career. But you have the ability to go do different things in different parts of the company, you go out to the field, you can come into the corporate office. So, I think there's a lot of factors when we think about attracting and retaining talent, and I'm looking at my Chief People Officer and making sure she's nodding her head. For those of you who don't know, I actually did an HR job at one point in my career. So, I actually think I'm like really good at HR, but I do need my Chief People Officer to support me. Go ahead. You said you had a question for Prem.

Question – Keith Andrew Mills: I do. The question for Prem is related to the cold storage example you gave. Alan earlier today spoke about the product, I can't remember the name of it, I'm drawing a blank, seven years ago that was introduced that basically

gave the flexibility to the consumer to pick up their specialty medication where they wanted to, whether it be delivered at home, pick it up at the retail store, et cetera. So, as you try to extract additional cost savings in the delivery of medications, particularly this cold storage example, how do you change the consumer, right, or motivate, incentivize the consumer to change what they're accustomed to, to what still may be in their best interest, but what extracts savings for CVS long-term?

Answer – Prem Shah: Yeah. That's a great question and I think there's a couple things. First and foremost, if you think about that example, we offered like a benefit choice, they could go to mail or they could go to retail. If they wanted to connect through that or go back and forth, it wasn't made easily, so you couldn't go from mail back to retail. What we want to do is just simply ask the consumer when and how do you want the medication. So, for example, if you want it at your home, we'll deliver it. Let us decide if we're going to ship from the store that's a mile down the street or from a central mail order facility. And if they want it right away, because they're out of town, at their local CVS, right, they can do that as well. So, we're really thinking about the benefit design as well as the optionality and really it start with the digital assets, right. I mentioned earlier, our assets weren't fully connected. That's what we're aspiring to go, so that if we take a lot of that what I'd say is abrasion out, we can make that much more simpler to do deliver that.

Answer – Alan M. Lotvin: I think the other part I would just add is if you remember the example, we were surprised that 54% of people who had already been in the mail service system for specialty decided to move out. So, I don't know that we need to (04:09:08) so much, just give them the option and they'll walk with their feet as to what's most convenient and easy for them. And so – and again, I think to Prem's point, at some point this boils down to do you want 30 days or 90 days, do you want it delivered to your house however we get it there or do you want to pick up at the store, what's best for you, it becomes a very different experience for the consumer.

And I'll just add one more thing to what Karen said about the hiring. We hired several thousand people in the last month for – or almost two months for our welcome season. We had no problem hiring people, right. It was a combination of purpose, combination of the right benefits and the right rates, but people want to work for companies that do more than – that they feel they're doing more than just a commercial endeavor. Nothing wrong with commercial endeavors, but we're able to attract people. We've had no problems.

Answer – Susan Vissers Lisa: Okay. Another online question is one submitted for you, Michelle. If you could talk about – and about a year into your tenure, back to the hiring question, what led you to the decision to join CVS and what have been – what have you been most excited about the progress that you made in the past year?

Answer – Michelle A. Peluso: Yeah. Well, I said this earlier, but my whole career has been at the center of digital and consumer and kind of revolutionizing different industry. So, the change to do that in health care with such an incredible team was just an incredible opportunity. And I would say, since being here, I didn't predict, of course, the acceleration of digital with the pandemic. It is amazing how many consumers are looking for companies to kind of rapidly transform in health care. And so, to be at the forefront of that with the team that has released so much capability over the past year to empower consumers has been incredibly, incredibly empowering. And I would just say the purpose thing matters a lot. All of us have health care incidents with our families. And so, to be part of a company that thinks so deeply about how to make a difference for consumers.

I'll share one example from my first week, actually, I was in a vaccine clinic and I was helping shepherd people back for their second shots. This is the first week of second shots. And an 82-year-old man walked up with a cake. He had baked a chocolate cake in the shape of a heart and he had even sawed off the edges and that's our brand. And as I was walking him back to the pharmacist, he said, is there someplace I can leave this for the woman who gave me my first shot. He reminded us that he had not seen his children or grandchildren in over a year and that is really, really rewarding.

Answer – Susan Vissers Lisa: Okay. Any questions in the room?

Analyst: George Hill

Question – George Hill: Hey, Karen. Thank you. It's George Hill from DB. I've got one more. We'll play kind of a matching game on the primary care strategy which is, as I think about the primary care initiative, the risks that jump out to me are the ability to recruit physicians/labor, the ability to execute the risk model, the ability to execute the all-payer model, potential M&A risk, the competitive environment, and what I would consider a relatively immature industry, all these primary care organizations that are increasingly taking risk, and of course, because this is health care, there's regulatory risk. I'm wondering if you'd be willing to roughly kind of rank order how you think about the risks to the execution of the primary care strategy kind of – and if there are any that I haven't identified, I'd love to hear about them, too.

Answer – Karen S. Lynch: So, (04:12:37) I'll give you $10 if you can tell me who the match game host was. So, you're right, George. There are a number of risks, and obviously, there are a number of opportunities that we laid out today. As you think about kind of the rank order of those lists – of that list, it's really we said that this is a strategy that's about partnership and/or acquisition. And so, picking that kind of right partner is, it will be incredibly important to us.

You've heard about us as a company how we think about our company and that's going to be really important. And I think if you think about that integration that will be one of our risks. But what I would tell you is that, we have a proven track record as a team to integrate. And as you heard today from all of us, we recognize what we have to do here and the opportunities ahead of us. And you heard from Michelle, it's – we really do have an ability to make a difference in the health care delivery system, because of the unique assets and that unparalleled reach that we have. And having said that, that's going to be the important part, do we have that right partner.

Answer – Shawn M. Guertin: I'd just add one thing to that, too. As you think about – because sort of what's inherent in your question, right, as other people are trying to do aspects of this, too, right at the same time. But I think this whole thing about the assets we have is important, especially when you think about risk. We don't have to build a consumer platform or have consumer knowledge. We have it already. We don't have to learn how to manage risk. Heck, we take 100% risk on Medicare today, right. I mean we already know how to sort of manage risk.

So, there's a lot of – no strategic pivot is ever risk-free, but because I think we're uniquely across this continuum today, I think that that lessens the risk, because you're not starting from zero. And as you mentioned, there's aspects we've talked about the M&A and the hiring – and I'll just go back to something that's been said, because I don't know that this gets talked about enough. For

this work, this has to be a place that providers want to work, and much like Michelle was talking about the mission, we have to kind of create that environment there as well. So, certainly risks in any strategy, but I think our – we have extant positions sort of across this continuing – that we're starting from, which I think helps a lot in terms of managing the overall risk.

Answer – Daniel P. Finke: I think, George, equally implicit in your question is there have been previous efforts at aggregating primary care practices. I think what's different today and what plays into kind of what Shawn did said is it's about the risk, the ability to manage – to hold and manage risk that differentiates what we see now than perhaps what we saw 25 years ago and that's a critically important difference. And obviously, the skill set that's brought to the table through the broad risk-bearing capabilities that the organization has, I think, again doesn't eliminate, but starts to derisk some of that.

Answer – Susan Vissers Lisa: Somewhat related question for you came from Charles Rhyee at Cowen again. If you could talk about what we learned from HealthHUBs and as they evolve that led us to the decision that we need to expand beyond that and into these advanced primary care clinic?

Answer – Karen S. Lynch: Yeah. So, as you know, we expanded our health services and the HealthHUB, and then a pandemic hit. So, we weren't able to get the full benefit. But what it did show us as we continue to expand services people would engage with CVS Health in the hubs. And we have a really good example where we expanded with our mental health services. And what we are seeing is we are seeing people come in, we are seeing them come in four times, follow-up visits.

We recognize when we sort of blew out our virtual care strategy that there needed to also be another place for people to go and have those interactions. Our HealthHUBs are a great place for those people that need to be touched, to be seen by a nurse practitioner. So, having said all that, those are the things – and with the pandemic, it told us and it really reinforced the community presence as necessary. And so, having factored all of that in, that's what led us to evolve our strategy. We're already doing many, many of these primary care services. We're doing episodic care. We're doing chronic care delivery. This is a natural extension to truly have that longitudinal relationship and that's what we've learned and that's what we're going to do going forward.

Answer – Susan Vissers Lisa: Okay. One or two more questions in the room?

Unidentified speaker

Question – Unidentified speaker: Yes, two additional questions. I think this is for Alan. Alan, you and others today have spoken about the trust that consumers have for pharmacists and the frequency of the interactions. Karen, I think referenced earlier that, 60% basically of health outcomes they believe is associated with kind of personal lifestyle, et cetera. So, as you think about the primary care model moving forward, do you anticipate that the CVS pharmacists as well as their staff, but I guess particularly the pharmacists, will have a role in marketing, advocating for consumers to consider the new primary care offerings that CVS has? And if so, how do you incentivize them or will you incentivize them, particularly financially, to do so?

Answer – Alan M. Lotvin: Yeah. So, that's a really – again, a very interesting set of questions. So, certainly the ability – I would say, the first thing we're going to do is incorporate pharmacists directly into the care team, so the pharmacists will be an integral part of the care team. Each of the care centers that we either acquire or build will have a pharmacy in it. So, that's sort of one step. As we think about that kind of promotion, I think it's more a natural evolution for the customer, for the consumer, as they participate with within the care team. I think as you start thinking about sort of financial incentives for referral, I can certainly see our Chief Counsel out of the corner of my eye starting to get a little bit uncomfortable. So, really it's demonstrating the power of an integrated team and integrated experience to say to you, why would you want to go anywhere else when you can get what you need here.

Unidentified speaker

Question – Unidentified speaker: The second question is, earlier, I think in Michelle's presentation, she highlighted the Dashboard, and within the Dashboard example, you kind of gave the future of the Dashboard. I think you gave an example of somebody who had hypertension and specifically the recommendations were around new medications, I think a medical device that was sent to the home, et cetera. Nothing there was – and this is kind of a bigger picture question, nothing there was focused on the individual's responsibility potentially. I'm not saying that it was directly related to diet or exercise or lifestyle, but it could have been.

And I'm just wondering why it didn't include anything, maybe recommendations around diet, et cetera. And then, just how you think about that as a company, right, as a national player around healthcare, the largest community healthcare player/provider you're talking about, how do you think about changing American's behavior, personal behavior and accountability around diet, exercise, lifestyle, et cetera, that helps to reduce medical cost claims over time rather than throwing more drugs, medical devices, et cetera, more costs at.

Answer – Karen S. Lynch: Yeah. Let me start with that, because we've talked a lot today about engagement and that behavior change starts with engagement. And one of the things that we've been developing and we're doing it today, we're using artificial intelligence, and we're sending you information based on what we see kind of what we're doing and how you're interacting with us. And so, take the sleep thing. So, we're really – we believe in diet, nutrition, all of that will lead to better health. We know that, and then part of what we're doing is engaging with people to help them on those journeys. That's critical. We won't see better health outcomes unless people engage in their overall health. It is part of our strategy and how we think about it.

Answer – Michelle A. Peluso: And, yeah, Karen, just to add to that, I thought it was a great question for about sort of diabetes and one of the reasons we're building the Health Dashboard to be a platform to serve all diseases and be a longitudinal record for the consumer is, so we can have that place to give you the next best actions, the next best nudges, whatever they are. Coming soon to CarePass is a reward for everyday activity. So, we're working on things like the amount of steps you take, the kind of sleep you have, et cetera, getting rewarded with CarePass. And so, we're super excited about rolling that out in 2022. But we agree we've got this platform and this framework, we have this analytical capability to provide what we think are some good nudges, and we have that everyday engagement and reward mechanisms with CarePass to incent you on that behavior.

And (04:22:00) so, I'll challenge all of you to get on the Peloton or get out and walk today, anywhere between now and the end of the year. I want to – and with where I began this morning on why you should invest in CVS Health. First, we are reimagining health care and health. We're delivering simplicity, access, and affordability closer to home and in the communities that we serve. We

have very strong foundational businesses that are well positioned for growth.

The bold moves that we talked about today will create new sources of value for our shareholders. We do have the right people, the right expertise, and a proven ability to deliver. We are closest to the consumer with our ability to engage them across their care continuum. We have talked a lot today and we've shared a lot with you. I want to leave you with one key thought. We alone have the unique assets, the unparalleled reach and relationships, and the vision and the experience needed to redefine consumer health care experience. Our momentum will lead us to achieve sustainable low-double-digit EPS growth over time.

I do want to thank all of you virtually and in the room today for joining us. We really appreciate your engagement. We appreciate the conversation and discussions. We look forward to continuing to give you updates and talking to you very soon. And in the meantime, on behalf of my entire management team, we want to wish you and your families a very healthy and happy holiday season. Thank you.