

2019 Investor Day
Larry Merlo Prepared Remarks

Good morning everyone and welcome to the CVS Health Investor Day. We know how busy your schedules are; we certainly appreciate that you are able to join us today.

And we're going to open today's meeting with a brief video. Let's watch.

The video you just watched is just one small example of the power and capabilities of our new company. The Hospital to Home product will be in market later this year.

Our theme for the day is Creating Value by Transforming the Consumer Health Experience. That's patient value. Client value. Member value. And, very critically for this group, shareholder value. Throughout the day, members of our senior leadership team will discuss how they are managing their businesses and working across the organization, to meet the needs of the health care consumer, as well as capitalizing on the unique opportunities created through our newly combined company. And importantly, we will show how these activities are leading to value creation for our shareholders.

So before we get started, I want to remind you that throughout all of today's presentations we will be making forward-looking statements within the meaning of the federal securities laws. We will also be using certain non-GAAP measures.

Please take a moment to read this statement, which also appears in your slide books and on our website. You will also find reconciliations to comparable GAAP measures there as well.

To set the stage for the day, I thought it would be helpful to provide the four objectives we hope you take away from today's meeting:

The first is that our businesses remain strong and we have ambitious yet achievable plans for accelerating their growth prospects. Additionally, this growth is enhanced by our combination with Aetna and the transformational initiatives we are bringing to market.

Second, we will discuss how our differentiated set of assets and capabilities will enable us to dramatically improve the health care system to the benefit of consumers, clients, and other health care stakeholders.

Third, we will provide our high-level expectations for growth in 2020 and 2021, as well as our growth targets as we look to 2022 and beyond.

And finally, we will talk about how that growth, and the investments we are making in our business, will translate into increased shareholder value.

With that, let's start with the key trends in health care and why transformative change is needed now more than ever.

It's been about two and half years since our last Investor Day and I think we can all agree that a lot has changed - both within our company, but also in the broader health care ecosystem.

That said, the one constant is the challenge associated with health care access, quality, and cost. This trend is all but guaranteed to continue, driven by an aging U.S. population and the increased prevalence of chronic disease. Price inflation impacts nearly all subsectors of health care, pharmacy included. Innovation has increased longevity and improved quality of life, but -this further adds to the challenges with the access-quality-cost equation.

Needless to say, these challenges have wide-ranging implications - from threats to consumers' financial well-being, to the strain they place on government and employer budgets.

All of the trends driving change in the health care landscape are in some way a direct response to these spiraling costs.

First, the expansion of consumer-directed benefit designs has empowered patients to take a more active role in their health. As they have become more accountable, they have placed a particular emphasis on increased convenience and transparency.

Consumer conceptions of care have also changed: It's not a binary feeling of being healthy or sick. Consumers are pursuing preventative care and wellness options that allow them to lead their fullest lives. This includes actively seeking solutions to improve their physical, social, and emotional wellbeing.

With an aging population and the decision of many seniors to age in the comfort of their homes, there is a greater need for providers to extend care and support. This elevates the importance of care in the home, as well as the role of the caregiver

We are also seeing the evolution of personalized care, with a greater recognition that one size does not necessarily fit all patients. Advances in technology and the proliferation of

personalized data through the increased use of genomics and wearable technology have made analytics an important complement to provider health-care decision making.

And lastly, we are seeing the continued evolution of payment models from fee-for-service, to more value-based arrangements where the focus is on driving quality outcomes, while lowering the total cost of care.

With that important backdrop, let's take a look at how we are positioning CVS Health to be the driving force for change in the health care system.

Our mission is to be the most consumer-centric health care company and we have the national scale and local presence with our differentiated assets and capabilities, to deliver on that goal.

First, the breadth and depth of the consumer data we have access to through our numerous healthcare assets is unmatched. This data, combined with our investments in advancing our analytics capabilities, provides a powerful engine to inform healthcare decision making.

We also benefit from having pharmacy and medical benefits along with retail assets integrated into a single enterprise. These "owner economics" allow us to invest in unique programs that standalone entities just can't match. We are truly operating with an enterprise mindset – agnostic to where value is being created across our enterprise.

Additionally, CVS Health remains a recognized and trusted brand that resonates with consumers. We have one of the largest workforces of high-quality clinicians and health care professionals to help support consumers on their individual health journeys.

And finally, and most importantly, we have the consumer-facing assets needed to bring these newly created programs and services to life.

These assets are the key differentiators that enable us to transform and dramatically improve the consumer health experience. They give us tremendous reach - engaging with about one in three Americans every year. And this reach allows us to meet patients where they are –in the community, in their home, or even in the palm of their hand through digital devices.

We believe we have an unparalleled community presence. We have nearly 70% of the U.S. population living within three miles of a CVS Pharmacy. And being local enables us to become part of the consumers' normal, everyday routines. We can leverage the frequency

of these consumer interactions to build our programs and services into their existing routines; their everyday lives.

We will also build upon our existing programs and established relationships to extend care to the consumer's home. We have made great strides in this regard through our expanded prescription delivery program, our Coram infusion services, and through Aetna nurses or other care team members. In total, we provide about 700,000 visits to patients in their homes and other community settings annually.

And we are also increasing the support people can receive through our digital properties. As just one example, today, more than 72 million of our CVS customers are enrolled in our text message program, allowing them to receive real-time alerts about their prescriptions and other services.

Our ability to interact with consumers through a broad range of channels provides us unique competitive advantages versus our managed care peers.

Simply being able to manage benefits across medical and pharmacy has become the price of admission for industry peers.

Winning in an increasingly competitive marketplace requires both the ability to use proprietary data and the ability to reach patients and actively engage them, when they are thinking about their health.

And that's where we stand apart; that's the power of what we are creating.

Numerous studies have shown that face-to-face engagement with a trusted health care professional is more effective than other methods of communication. Our numerous touchpoints with health care consumers enable us to promote healthier behaviors, leading to better outcomes, and ultimately lower medical costs - benefiting consumers, clients, and shareholders.

So with that, let's discuss how we will use these differentiating factors to accelerate enterprise growth on both the top and bottom lines.

Our enterprise priorities for accelerating growth revolve around placing the consumer at the center of our strategy. With that, comes an objective of making health local, making it simpler to access and navigate, and helping the consumers that we serve achieve their best health.

With that nucleus, we plan to accelerate growth by executing on four enterprise priorities:

We will grow and differentiate our businesses;

We will use the unmatched breadth of our capabilities to bring new products and services to market;

We will create a consumer-centric technology infrastructure to support our transformational initiatives;

And we will become a more efficient operator by modernizing our enterprise functions.

So let's dive a bit deeper into each of these priorities, starting with our core businesses.

We are aggressively addressing the near-term headwinds affecting some of our businesses through an action plan designed to enhance our profitability and accelerate our return to growth. A few highlights include:

Driving engagement through personalization. Our retail business is successfully executing on this strategy through our clinical programs in pharmacy and through our ExtraCare program in the front store. And we intend to build on these efforts.

We are also focused on winning in the fastest growing market segments, specifically government-sponsored programs and Specialty Pharmacy. We believe our significant presence and differentiated capabilities will enable us to capture an outsized share of the overall market growth.

To combat reimbursement pressures, we are implementing new pricing models that compensate us commensurate to the value we provide to the broader supply chain; recognizing that effective pharmacy care is an important lever in managing overall health care costs.

We are also improving productivity and efficiency throughout our operations. To that end, we recently launched a new cost reduction effort and I'll touch on that in a moment.

And lastly, we are introducing new products and services that can only be brought to market through our integrated model.

We'll address all these topics in more detail throughout the meeting, but I'd like to take a moment to highlight the early success we've had with our HealthHub stores.

As a reminder, these stores bring to market a new retail engagement model that offers health care services in a more convenient, more accessible, and more customer-focused manner.

We opened our first three stores in the Houston area earlier this year, and we're very encouraged by the patient engagement and satisfaction scores, as well as the utilization of our health care services.

And as a marker of our confidence, we plan to roll out these stores more broadly across our footprint. By year end, we expect to have this concept in 3 additional markets and we see that growing across the country to approximately 1,500 total locations by the end of 2021. Kevin will talk about the early learnings and expansion plans in more detail.

The HealthHubs are, of course, just one opportunity in our portfolio of transformational initiatives. Alan will cover the series of transformational products and services in development that you see identified on the slide.

Let me focus on the value we expect to create through these transformational efforts, which will manifest itself in our results in the following ways:

First, through medical cost savings from many of the initiatives we'll discuss today.

Second, we plan to take a portion of those savings and reinvest them back into the business to grow membership.

Third, is through the increased utilization of CVS assets, as more customers adopt our new products and services.

Fourth, by improving the customer experience, we'll increase customer satisfaction. This will help to improve retention, both for the customers who utilize our capabilities and also for the clients that we serve across both the pharmacy and medical benefit.

And finally, we will make these products and services available to a wide array of partners through an open platform model and drive adoption by leveraging our existing relationships with companies throughout the health care landscape.

We expect these value creation levers to contribute approximately \$850 million of value in 2022, with a line of sight to more than \$2.5 billion longer term. That is based on the product and service offerings in development and on the drawing board today.

Building out our technology infrastructure is essential to our goals of simplifying the consumer experience, improving health outcomes, and driving efficiencies.

Uniting CVS Health with Aetna provides us direct access to an unparalleled breadth of data. We are creating a new data ecosystem to protect this data as well as leverage it across our organization to provide a holistic view of the patient, garner insights into the next best action to improve their health, and determine how to best communicate with the patient. Our aim here is simple: to turn data into insights and insights into action.

Our last enterprise priority is to become a more efficient operator and take costs out of our business. We see two key opportunities to accomplish this:

The first is through achieving our near-term synergy goals from the Aetna acquisition. The majority of these synergies will be derived from the reduction of corporate expenses, the integration of our operations, and some medical cost savings. If you'll recall, when we announced the transaction, we were targeting \$750 million in synergies in the second full year. We now expect 2020 synergies of \$800 million, growing to a run rate of \$900 million in 2021 and beyond.

The second opportunity is through our newly announced Enterprise Modernization initiative. Both CVS and Aetna have a strong track record of executing on cost reduction efforts and this program builds upon that legacy work with targeted run rate savings between \$1.5 and \$2 billion in 2022.

These savings will allow us to offer more competitive products in the markets we compete in, and provide the capacity to invest in our strategic and transformational initiatives.

I've given you a number of drivers that we expect to contribute to our performance in the coming years so we thought it would be helpful to provide you with a view of how those drivers will translate into enterprise growth.

Next year, aided by contributions from delivering on our synergy goals, along with stabilizing core businesses, we expect adjusted EPS growth to be in the low-single digits.

In 2021, we expect the investments we are making in transformation and enterprise modernization to begin to impact our results. We also expect our capital allocation strategy to continue to be focused on debt reduction and maintaining a healthy balance sheet. Given that, we expect adjusted EPS growth to be in the mid-single digits.

As we look beyond 2021, we expect transformation and enterprise modernization to be more meaningful contributors to our performance. Additionally, we expect our capital allocation strategy to begin to shift from debt reduction to a more normalized strategy that includes the expectation for share repurchases, dividend growth, and M&A. We expect that to translate into annual adjusted EPS growth in the low double digits.

Please keep in mind that we are still in the early innings of our transformational journey. We are now transitioning from the planning stage to the execution stage. This will be a multi-year journey with benefits building over time as we continue to build and refine new programs to better serve the needs of our stakeholders. We remain confident that we have the right plan in place, the right assets and capabilities needed to deliver, and certainly the right people to fulfill the potential of this incredibly powerful new business model.

Before I wrap-up, I want to reinforce that all of these efforts are totally aligned with our commitment to deliver superior shareholder returns. We will drive these returns by maintaining a consistent vision and strategy along with a relentless focus on execution across our enterprise. This includes delivering on our financial and operational objectives at a segment level, and also delivering on our targets for integration, transformation, and modernization. And we will hold ourselves accountable for that performance.

As you know, we have significant cash generation capabilities, and we will be thoughtful and disciplined in how we allocate that capital across our businesses. This includes a continual evaluation of all of the assets in our portfolio to make sure they are supporting the overall growth strategy of our company.

By executing across this framework, we firmly believe that we will deliver superior returns for our shareholders.

So with that, here is our agenda for the day:

First, Eva Boratto, our CFO, will take you through our plans to significantly enhance shareholder value including our near- and long-term growth target expectations, and capital allocation plans.

Then, our Chief Transformation Officer Alan Lotvin will talk about some of the programs we are putting in place to accelerate enterprise growth.

Our Chief Operating Officer Jon Roberts will walk through the steps we are taking to build the foundation for those transformational efforts including the details of our Enterprise Modernization Initiative.

Following a break, Karen Lynch, President of our Aetna business, will discuss how we are positioning our Health Care Benefits segment to take advantage of opportunities across all lines of business and the unique capabilities that are being created as a result of the CVS-Aetna combination.

After Karen, Derica Rice, President of CVS Caremark, will provide an update on how we are evolving our Pharmacy Services segment in response to the changing dynamics in the PBM market.

And, Kevin Hourican, President of CVS Pharmacy, will talk about our retail growth strategy including transforming CVS Pharmacy into a consumer health destination.

And then we'll wrap up the day with a Q&A session with all of our speakers.

And with that, let me turn it over to Eva.