

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

CVS - CVS Health Corp at JPMorgan Healthcare Conference

EVENT DATE/TIME: JANUARY 14, 2020 / 6:00PM GMT



JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

## CORPORATE PARTICIPANTS

**Eva C. Boratto** *CVS Health Corporation - Executive VP & CFO*

**Karen Sue Lynch** *CVS Health Corporation - Executive VP & President of Aetna*

**Larry J. Merlo** *CVS Health Corporation - President, CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Lisa Christine Gill** *JP Morgan Chase & Co, Research Division - Senior Publishing Analyst*

## PRESENTATION

**Lisa Christine Gill** - *JP Morgan Chase & Co, Research Division - Senior Publishing Analyst*

Okay, great. Good morning. My name is Lisa Gill. I'm the health care technology and distribution analyst at JPMorgan. We're going to do something a little bit different this morning, and we're going to actually do a fireside chat. So I have with me the CVS health team.

With me this morning is CEO, Larry Merlo. To Larry's left is CFO, Eva Boratto. And to Eva's left is President of the Healthcare -- Health Benefits business is Karen Lynch. So the breakout will be in the Georgian Room across the hall. Larry is going to start with just a couple of quick slides, and then we're going to get into the discussion. So.

---

**Larry J. Merlo** - *CVS Health Corporation - President, CEO & Director*

Okay. Well, thanks, Lisa. And first of all, let me just call your attention to the slide with our forward-looking statements. And before I turn it back to Lisa to get into the questions, I just want to spend a few minutes to briefly discuss CVS Health, how we're transforming the way we deliver care to millions of Americans with a goal of creating the most consumer-centric health company.

And an awful lot has changed since we were here this time last year. We celebrated our 1 year anniversary of the combination with Aetna last month. That was an important milestone for us. And we're now able to deliver integrated health and wellness offerings that are centered on making care simple and affordable, meeting people where they are and leveraging our community touch points all across the country.

And we are in the midst of a multi-year journey to deliver a comprehensive suite of products and services that are -- that we believe are unparalleled in the marketplace. And we're very excited about the new offerings. We're moving from the chalkboard to pilot, to beginning to scale them in 2020, including our new HealthHUB locations.

So while we're still in the early stages of our transformation efforts, we have been executing on the plans that we laid out last year at our June Investor Day. Many of you were there, and you'll recall that we shared a detailed long-term view of our strategic plan and the substantial value that we expect to deliver through integration synergies, enterprise modernization and the transformation activities. And we have been meeting or exceeding both our financial and operational milestones throughout the 2019 year.

And through the first 3 quarters of '19, we posted solid revenue growth across all of our segments. We had adjusted revenue of about \$190 billion.

And there has been momentum in the business throughout the year. We've had strong Medicare membership growth, along with strong retail script growth, in both cases, outpacing the market. And based on the early CMS enrollment data, we had even stronger Medicare membership growth for the 2020 year.

Now as we disclosed back in November on our third quarter call, we expect our 2020 adjusted earnings per share to increase to at least \$7 with low single-digit growth off of our 2019 baseline, which does exclude prior year's development and net realized capital gains. And we look forward to providing our 2020 detailed guidance next month on our fourth quarter earnings call.



JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

Now we've also reported on how we are executing on the strategic priorities that will drive sustainable, long-term profitable growth. And one of the most visible components of our integrated strategy is the rollout of our HealthHUBs. And our HealthHUBs are designed to address the full spectrum of care from health and wellness to chronic conditions. And just as 1 example, the MinuteClinics and our HealthHUBs locations are now able to address about 80% of what a primary care physician can treat.

And through a hub and what we're calling a hub-and-spoke model, we're offering expanded health and wellness products and services across all of our retail stores. And we'll get into some examples of that, I'm sure, later.

As you know, this time last year, we were in Houston. That was our first market. And as a result, we have seen increased store traffic, higher front store margins, more MinuteClinic visits as well as more prescriptions dispensed. And we ended 2019 with just over 50 HealthHUBs across 4 markets: Houston, Tampa, Atlanta and Philadelphia. And we now have about 600 HealthHUBs scheduled for this year, 1,500 by the end of 2021.

And our integrated pharmacy and medical data is enabling preventive care and treatment in lower cost care settings. Avoiding costly emergency room visits is just one example. Another important component of our transformation is our new health plan offerings. And we're offering many new innovative programs to help our clients and their members, help them improve their health and stay healthy.

And just a couple of examples here. We have some products with low or no co-pay plan designs. We have a hospital-to-home after care program that we call Healing Better. And then we have other programs that are directly focused on the management of chronic disease.

Another program focuses on managing chronic kidney disease. We have really 2 programs here. One is through utilizing data and analytics across the CVS-Aetna business, we're identifying patients who may be at risk of chronic kidney disease. And with the goal of developing the programs that can slow the onset of the disease and the ongoing or the ultimate need for dialysis.

And we have a second program that we're very excited about that clinicians will tell you that more frequent dialysis will provide for better outcomes. And we have been in development with a new home hemodialysis device. We have received FDA approval. We have begun the clinical trial. And if successful, we'll be in market by the end of the second half of 2021.

We've also been working to reduce overall operating costs as well as evaluating additional opportunities to accelerate growth across our enterprise. And importantly, we remain committed to repaying our debt and reducing our leverage ratio to the low 3x in 2022.

So we believe strongly in the uniqueness of what we're building, and we know that our model will have a significant positive impact on those we serve. So with very strong early results, positive feedback from our clients and their members, we are confident that we absolutely are on the right path to creating the most consumer-centric health company.

And I just want to take a minute to recognize and thank the efforts of nearly 300,000 colleagues for their hard work, their dedication to our purpose that will generate significant value for our shareholders.

So Lisa, with that, I'll turn it back to you for the conversation.

## QUESTIONS AND ANSWERS

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

Thanks very much. What a difference a year makes, right?

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

It sure does. Okay.



JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

Sure feels a lot better than it did last year.

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

I'm sitting up here with a smile on my face, Lisa.

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

I'm just happy that Eva doesn't have a headwinds/tailwinds slide. So Larry, with that, you talked about the transformation of the business, and you talked about the strategy from the Analyst Day in June, but what are some of the biggest challenges to actually meeting some of the goals that you have?

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Yes, Lisa. I mean, no surprise, I think, to anyone here, there are always going to be the environmental, regulatory, political challenges, especially in the health care industry. And -- but I would say that there are no challenges or drivers versus what we have discussed in the past.

And the strategic priorities that I touched on, that you've heard us talk about since June, we do believe, addresses those factors. And at least, if I just take a minute and maybe get into a little more detail around the progress that we have made, as mentioned in my opening remarks, we have completed a tremendous amount of work over the last 13 months. I couldn't be more pleased or proud of our leadership team as well as the colleagues that have been responsible for executing. We've acted swiftly to integrate our assets. We're well ahead of our integration synergies plan.

This time last year, we were talking about expected '19 value of \$300 million to \$350 million. On our third quarter call in November, we took that number up to at least \$400 million with a trajectory to \$800 million in 2020, \$900 million in 2021.

At the same time, in 2019, we developed a plan for what we're calling enterprise modernization, and we have moved from the planning phase to the execution phase. That will begin to deliver value this year.

And then what we're all really excited about is the transformation journey that's underway. As I mentioned, the most visible sign of that is the HealthHUBs, but there's so much more to the innovation that goes well beyond that. And I just touched on a few of them earlier.

So our plan is to deliver quality products and services across the spectrum of care, from wellness to the management of chronic disease, and to provide more personalized service to improve the health outcomes of those we're serving. We are using the power of real-time advanced data analytics, digital technology tools and a deep knowledge and expertise of what it takes to personalize the consumer experience.

And if you think about our history and think about what we've been able to do in the front end of our stores, we created this intersection between data analytics and technology with our ExtraCare loyalty program and have delivered value to our customers in a very personalized and differentiated way.

We're doing the same thing around health outcomes. We're calling it Next Best Action. And for each and every one of us in this room, that can mean something very different. For someone who is relatively healthy, it can be something preventive in nature. For someone with chronic disease, it could range from you're not adherent to your medication to closing gaps that -- to you haven't had your A1C level tested in more than 6 months, and we're excited about the journey that we're on there.

JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

So look, we expect the cumulative impact of everything that we're talking about to begin to deliver value in the near term as well as the long-term trajectory. And we're confident that all of these ultimately will improve health outcomes and bend the cost curve associated with health care.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

So Larry, as we think about the 3 businesses that you're in today, I think a lot of people in this room know that I followed the PBM industry for a long time. I miss having a PBM to talk about, but that model has been under an enormous amount of scrutiny, not just from the government but from stakeholders, like, for example, employers, people not really understanding, in my opinion, all of the variables of what PBMs do and what they're able to achieve because there's not transparency today.

And so as we think about how the business has changed over the last 10 years, and we've seen a lot of consolidation, we've seen a lot of changes around transparency in the business but not fully there today, how does it change from here, number one? A lot of scrutiny around rebates. And how do we think about value-based care? We've been talking about value-based care for some time. But can CVS finally make the change in that model?

---

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

So Lisa, maybe I'll take the first part and flip it over to Eva to talk more about value-based care. But look, there has been a lot of change, but the goals, in many respects, have remained the same. It's about ensuring that the right drug is provided to the right patient at the lowest possible cost.

And I would say that our enterprise has taken that a step further, utilizing technology and our clinical capabilities to help drive better outcomes. When you think about adherence to medications, it's just 1 example.

Lisa, you touched on rebates as a result of formulary management. I think the data has proven out that PBMs have been effective in reducing the net cost of care, and those dollars have been passed back to consumers, whether it's at the pharmacy counter and point-of-sale rebates or in the form of lower monthly insurance premiums.

And over the past decade, we've also seen a pretty dramatic rise in specialty. That continues to be an ongoing concern for clients. And there's a lot that we have done there.

And if you look in 2018, about 40% of our clients actually had a lower pharmacy spend over the prior year. And if you look at what we've been able to do in the specialty space, our trend for our clients in 2018 was up 1.7%.

So it is a data validation point in terms of the effectiveness of the tools that we're providing. And look, specialty is going to continue to be an ongoing focus, especially with the expectation for more biosimilars entering the market. And we believe that we have the tools and the assets to effectively manage. And Eva, maybe I'll flip it over to you to...

---

**Eva C. Boratto** - CVS Health Corporation - Executive VP & CFO

Yes, Lisa. So to your question on value-based care, we do think there's an opportunity for PBMs to evolve on this front. If we take a step back and look on the medical side in our business, about 65% of the Commercial and Medicare contracts are value-based. And in PBM, you're essentially at the starting line, right?

So we're embarking upon this now. We're starting with our transform care programs, where we have outcomes-based, whether it's around adherence, whether it's around reducing A1C. And I think with our community assets and the touch points and what we're building with the HealthHUBs, we see real opportunity to continue to bring this model forward.



## JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

As we think about the PBM model, last year, a lot of talk about guaranteed rebates and then the way that some of the contracting was done. I know that this is the last year as we think about that. But how do we think about how the market's changing around contracting on the PBM side?

**Eva C. Boratto** - CVS Health Corporation - Executive VP & CFO

Yes. I think, as Larry said, right, for the PBM, it always comes back to the value that we can deliver to our clients in reducing cost. And from a contracting perspective, we've continued to evolve our pricing models, right, whether it's a traditional model that allows for spread pricing, transparent, cost-plus models are guaranteed, our GNC pricing model to meet the client needs.

What we've seen is we've seen in the Medicaid space, the vast majority of our business move away from the spread pricing. We continue to offer it in our space. It's our clients' choice. I think as you look out over time, you'll continue to see clients move away from that.

But what we'll want to do, as we've done in the past, as the industry has evolved is look for models that meet their needs but enable us to deliver the returns and maintain our margins, as we've been able to do in the past.

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

As we think about the 2020 selling season, not just on the PBM side, but also on the health plan side, did you see opportunities for cross-sell between the Aetna products and like the Caremark products as we think about 2020? And how did it go?

**Karen Sue Lynch** - CVS Health Corporation - Executive VP & President of Aetna

Yes. Let me, Lisa, just step back and maybe talk more broadly about the selling season of all of our segments, and I'll start with Medicare. We had very strong momentum in 2019, and as we turn the corner in 2020, at the investor meeting in June, we said we would deliver above industry growth, and we have done that. We've had very strong performance relative to our Medicaid growth as well. And we're in the process of implementing 3 new accounts in Medicaid, 3 new states.

And then relative to your question on Commercial, we saw good progress relative to the integration. In January of 2020, we sold more pharmacy members than we did all of 2019. So very strong performance relative to people buying on that integrated value proposition. So we're quite pleased with that result.

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

And Lisa, just maybe finishing out the selling season on the PBM side, if I take us back to the June Analyst Day, we had talked about a small but sizable number of contract losses. And we did not see that as a new norm. And we said we expected that as we move into the 2021 selling season, we would expect a normal selling season trajectory.

And actually, what we saw as we move through the second half of the year, a more what you would expect selling season. And if you recall on our third quarter call, we had -- the net effect of that was an incremental \$1 billion over what we had talked about at the Investor Day in June.

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

So Larry, I think a lot of us in this room are excited about the HealthHUBs and what they're going to look like and how you're going to integrate medical and pharmacy and data, et cetera. So as it relates to the ongoing rollout of the HealthHUB, how do you determine where do you put those



JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

HealthHUBs? I mean what's the determination there would be my first question. And then secondly, can you talk about the types of services that are going to be available in these stores?

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Yes, Lisa, maybe I'll take the first part, and then I'll flip it over to Karen to talk more about the service components. Look, you think about the challenges in health care, and we talked about the need to make health care local. And at the same time, you're hearing people talk about the demise of bricks and mortar. And we're sitting here saying there is a physical role for bricks and mortar, but the challenge becomes how do you meet the needs of today's consumer? And we see the HealthHUBs as an evolution of the drug store to meet those needs and become more of a health destination. So it satisfies the need to make health care local, meeting people in the community.

And today, we've got 10,000 consumer touch points. About 75% of the U.S. population actually lives within a few miles of a CVS. So we've repurposed about 20% of what we call that front of store to more health-related services, and I'll let Karen get more into that.

And as far as the front of store goes, we continue to have a focus on products of health, beauty, personal care and some elements of convenience. And as I mentioned earlier, while it's a small sample size, okay, we have spoke to it qualitatively in terms of the increased utilization of the store. And that is what is giving us the confidence to move with a rapid rollout, and we're very pleased in that regard.

And probably no surprise is as we evaluate those locations, there is a direct link between the ZIP codes associated with Aetna membership and the locations of these HealthHUBs.

**Eva C. Boratto** - CVS Health Corporation - Executive VP & CFO

And Lisa, before Karen jumps into a couple of examples, right, as we think about the value that can be created from these hubs, it's the value in the 4 walls of the store, whether it's the products and services at a higher margin, the additional traffic but also the value created through medical cost savings, both in the Aetna book as well as, as we think about from an open platform across our broader business.

**Karen Sue Lynch** - CVS Health Corporation - Executive VP & President of Aetna

And Lisa, one of the things that we did this year is we sold low cost, no co-pay MinuteClinics to really drive more members into our HealthHUBs and into the CVS MinuteClinic. By the end of the year, we'll have about 2 million members that will have 0 co-pay or low co-pay.

The services that we'll have in the HealthHUBs are really for us to really do differentiated connections with our members. So we're using data and analytics from the Healthcare segment to provide our pharmacists real-life data about the care of our patients.

So what we've been doing, if we can't reach an individual consumer, we send that data, that information to a pharmacist, and they're connecting with our members. We have -- we established care concierge. We also have done a lot around expanding our services within the MinuteClinic and with the HealthHUBs through expanded lab services, expanded hours, so there's a -- and then we have wellness centers, really dedicated and isolated for activities like nutrition classes, yoga and really to address isolation in our Medicare patients as well.

So there's a whole host of services I could spend 20 minutes talking about, but that just gives you an example of some of the things that we're doing to drive those connections with our members.

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

And Lisa, I think the point underscoring all that is everything that you're hearing is it's reducing some of the fragmentation that exists in health care today, and it's enabling a more holistic experience of the needs of that individual consumer or a patient. We use those 2 words interchangeably.



JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

If I think, though, about HealthHUB and we think about whether it's episodic care through a MinuteClinic or we think about tangentially the relationship you have with a chronic patient, do you think you need to get into primary care at some point and actually own primary care doctors would be my first question.

And then secondly, Larry, we had Teladoc here yesterday. They talked about their renewal of the relationship with Aetna but also talked about some of the things that they're working with you as they've now rolled out to 41 states, right, through your relationship. So how do you think about telemedicine playing into this as well as primary care? And do you need to own primary care?

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Yes, Lisa. I think I mentioned this in my opening comments that the nurse practitioner can treat about 80% of what the primary care physician can treat in his or her office. But for the reasons that you're talking about, we have the opportunity to bring that physician into the MinuteClinic in as part of the patient visit in a very virtual way. So again, it speaks to the ease of access and the cost associated with providing that particular access. So we feel very good about the touch points, the connectivity that we have and the ability to, again, create that surround sound experience.

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

And then how about on the telehealth side? Just your relationship with Teladoc. Any update from your perspective?

**Karen Sue Lynch** - CVS Health Corporation - Executive VP & President of Aetna

No, we updated our contract. We really think that for this year, it will supplement members that are in rural areas. It will supplement those episodic approaches, and we're really excited about our relationship with Teladoc. And I think we will see expansion into telepsychiatry, which I really think is critically important as we think strategically in the future.

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

Yes, and I agree with that. I mean, I think, Karen, as we think about this, and I've heard you talk about this and then other health plans that we really need to start to think about the mental as well as physical components of people's health. And how do you address that? And I think that those are some of the areas that Teladoc can help to enhance what you're seeing in the clinics today?

**Karen Sue Lynch** - CVS Health Corporation - Executive VP & President of Aetna

Exactly right. And one of the additions that we did this year in our MinuteClinics is we added depression screenings for all MinuteClinic visits to really put that head with that body. And then what we're doing is we're taking the information and sending it to, open source, to our own EAP so that we can start those conversations to help people with that mind-body connection.

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

We have so many other questions. We hope everyone is going to come across the hall, but I've been asking everyone this, Larry. As we think about 12 months from now, we're going to be sitting here together, it'd be 2021, what do you hope that investors will appreciate about CVS 12 months from now that they don't necessarily appreciate today?





JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Well, Lisa, look, I think we're getting there. In terms of where we started this, I think there's a much different, not just understanding, okay, but tone of what we're doing. And look, we're executing against the plan.

I do think that there's also an acknowledgment that we have seen the emergence of consumerism in health care. And you start looking at what all that means, an acknowledgment that, look, okay, you have the emergence of a retail health consumer and you have this integrated model that puts the consumer at the center of that strategy. So we have become a leading source for consumers seeking out health solutions. And I would sit here and say, I still believe that, that element is not appreciated to the level that the opportunity exists there.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

Great. We'll leave it there. We're going to head across the hall to the Georgian Room. Thank you so much.

---

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Thanks.

---

**Karen Sue Lynch** - CVS Health Corporation - Executive VP & President of Aetna

Thank you.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

Okay, great. Good morning. My name is Lisa Gill, and I'm the health care technology and distribution analyst with JPMorgan. This morning, we are in the breakout session for CVS Health. To my right is Larry Merlo, CEO; to Larry's right is Eva Boratto, CFO; and to Eva's right is Karen Lynch, President of the Health Benefits business.

So thanks very much. We started with a fireside chat discussion in the other room, and so I thought we would just kind of pick up from where we left off, if that's okay.

Specialty. A lot of talk around specialty. Clearly, at this conference, we've heard a lot about it from our surveys that we've done with plan sponsors. A couple of questions here. One, what's your penetration rate today within your PBM? If we think back, Caremark is one of the largest specialty players in the marketplace. And secondly, how do we think about receptivity to things like narrow networks? And then thirdly, as we think about some of these really expensive drugs that are coming to market, I would love, Karen, maybe if you can have a little input on this, how do we pay for these over time, and also a combination of maybe the pharmacy and medical benefit over time? But if somebody wants to start with the first one?

---

**Eva C. Boratto** - CVS Health Corporation - Executive VP & CFO

Sure. So Lisa, a couple of things. In terms of the penetration, at the highest level, the vast majority of our clients use our specialty services. If you want to break it down a little more, if you just looked at the employer book, the corporate employers alone, it's over 90%. When you include state and local government, you're in the 80% to 85%.

As we think about continuing to grow this important business, right, for those who have tracked us over the last number of years, this has been a very important growth driver and will continue to be as we go forward. We look at areas to innovate to improve our service of these more sick



JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

patients. And you've seen innovations of the past, things like Specialty Connect, that allows members to pick it up at the store or have it delivered home.

And more recently, we launched a program called Specialty Expedite, which allows us to work with the physician offices in a more electronic way, capturing insurance, capturing lab work to eliminate all of the paperwork and the faxes back and forth. I can tell you, the providers have really -- the result has been spectacular, I would say, the feedback. We have over 500 institutions connected to date, and we'll continue to look and build that more.

Another innovation is around our digital tools. And these patients, 80% of our patients are connected to us digitally in one way or another. So we'll continue to look at these opportunities to continue to grow the business.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

Karen, I'll...

---

**Karen Sue Lynch** - CVS Health Corporation - Executive VP & President of Aetna

I think Larry is going to take it.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

Okay.

---

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Yes, Lisa, your point around the expensive drugs that -- look, we've made progress on the PBM side when you look at the Novologix properties that we have that does enable us to begin to manage the component of pharmacy that's flowing through the medical benefit. There's much more now that we can do as one company. And we have a program out in pilot. Karen, I think we're in, what, 10 or 11 states now?

---

**Karen Sue Lynch** - CVS Health Corporation - Executive VP & President of Aetna

11 states, yes.

---

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Focused on oncology. And what we can do around that in terms of looking at the variables around the NCCN guidelines, the cost of therapy, and there is an added element for some late-stage cancers now where we're looking -- we're actually looking at genomic testing of the tumor DNA in terms of working with physicians to more accurately pinpoint the therapy in a most cost-effective way. So I think there is a tremendous amount beyond what we're doing today. And not losing sight of what Eva had talked about over in the general session in terms of what we can do around value-based contracting. And I think one of the challenges that we will have is what is the longitudinal period with which outcomes will be measured. And I think that's something that we still have more work to do there.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

This morning, I think some of you in this room were at a specialty panel that we hosted. And one of the things that was suggested around some of these CAR-T and other really expensive gene therapies is that maybe you come to the market with a new insurance product, right? So the per



JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

member per month is a couple of dollars, and so the ability to manage that because if you have an Aetna member, and they -- you pay for this \$1 million treatment, and then the next year, they move to Cigna, right, how do you manage that over a longer period of time? So what are your thoughts around bringing some kinds of new products in the market around these?

---

**Karen Sue Lynch** - CVS Health Corporation - Executive VP & President of Aetna

It's a really great question. So we're in the process of looking at how do we think about a kind of a stop loss program, a stop loss product and bring it to the market and how do we price for that. And we've got innovations in place right now. The challenge that we're facing, you just described it, we have them, then they move a year later to another carrier, and then they move a year later to the other carrier. So that's what we're trying -- that's the calculus that we're trying to understand how to price for, and then what's the -- how do we -- what's the longitudinal effect of those drugs and how do we keep them healthy in the long term. So that's what we're thinking about.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

I think there's also a lot around drug pricing in the marketplace and how we think about drug pricing and how we think about different elements. And I think that you bring up a good point, Larry, that there's a data there today to really show the value of what you're getting out of that pharmaceutical. And in certain cases, you can say, yes. In many cases, you can't necessarily say so.

So we talked a little earlier about PBM and how the PBM business model could change and evolve. And we talked a little bit about value-based care. But as we think about this from a government perspective, what -- if you were sitting and you were talking to CMS or to HHS about your thoughts on the way that drug pricing should evolve, what are your thoughts?

---

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Well, Lisa, if you go back and look at what has been effective in reducing, I'll just say the cost of care, and one of the dynamics is competition within therapeutic classes. And it's no longer about the brand to generic conversion that can drive value. It's about the therapeutic equivalency of non-chemically equivalent products. And that can provide effective care for the patients that we're serving in a more cost-effective way.

So we do talk a lot about whether it's biosimilars or some of the things that have prevented products from entering the marketplace that -- whether it's some of the issues around the pay for delay, the what we would call the abuse of REMS programs. And the data has supported that more competition will drive down the cost. So we've talked a lot about that.

I think one of the other dynamics, and it goes back, Lisa, to the question around value-based care, looking at things longitudinally that you look at some of these costly therapies. You look at the product that cures blindness as one example, okay? And there is an absolute defined outcome of success or failure. But sometimes, we get locked into the Medicaid best price as a barrier to what value-based care can be. And we think there's opportunities there to look at value-based care in a true outcomes way that doesn't get boxed into a corner because of legacy practices around best price that will be another mechanism with which we can reduce the overall cost.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

So Larry, reimbursement in the pharmacy setting has -- continues to be challenged. Your largest competitor reported last week, continues to talk about reimbursement challenges that they're seeing in the marketplace. They actually called out that Aetna did well in Medicare Advantage and continue to expect to lose business because of that going forward. But how do we think about the reimbursement environment, the ability to combat some of the reimbursement pressures that you feel? We know that Red Oak continues to do well from a procurement perspective, but what are some of the things that you can do? And can you gain market share over time to offset some of that?



JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

**Eva C. Boratto** - CVS Health Corporation - Executive VP & CFO

So Lisa, it's a 7-part question. So let me try. As we've spoken about consistently year in, year out, right, the reimbursement pressures haven't accelerated, but they certainly haven't decelerated. And as we look at ways, particularly I'll speak longer term and then come back to the near term, right? As you look longer term and what we're creating in our retail stores and the value that we believe we can deliver, how you start to think about value-based contracting for the services that the pharmacists and the pharmacy provide to each of those patients.

Now additionally, that's not everything you're going to do, right? Additionally, you'll continue to have your purchasing arm with Red Oak, whether it's generics, whether it's biosimilars longer term, other purchasing improvements. And additionally, in the nearer term, you heard us talk about our modernization efforts, right? And we spoke about that at our Investor Day. And in the nearer term, the areas for which we're focusing on are more disproportionately benefiting the retail segment. So that's how we look at it.

Additionally, I'll add one more thing outside of the pharmacy. Just as you look at the footprint on our -- of our stores and the change in mix as we move more toward health care, health and beauty in the front of the store, and the services, they carry a higher price point and a higher margin point.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

So when you look at the initial HealthHUBs, and you talked about the success of the HealthHUBs, I know it's probably early to give us specific numbers, but directionally or even anything that can quantify as far as what a HealthHUB store look like versus just kind of a traditional store.

---

**Eva C. Boratto** - CVS Health Corporation - Executive VP & CFO

So Lisa, based on the handful of stores that we've had, we've been disciplined, I'll say, to not provide quantitative metrics. What we've said is when we have more, I'll call it, critical mass in the middle of this year, right, some time in the summer, if you will, we'll have some additional data. But rest assured that there are tremendous amount of metrics that we are tracking. Larry spoke to earlier, we're seeing lift in front store sales, margin, greater engagement. And I think the engagement is the first step of looking beyond just the 4 walls of the store. It's how we deliver the medical cost as well as greater pharmacy penetration.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

And before we leave retail, I mean, you've had an executive leave for a CEO job, which I think speaks something for the leadership, right, underneath you. So Kevin Hourican, who ran retail, is leaving to go to Sysco.

---

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Sysco Foods.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

And that was announced. So one, Larry, as you think about the potential person to take over that, have you have someone in mind that's going to take over his position?

---

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

And Lisa, look, someone had mentioned yesterday that CVS has become a proving ground for retail executives moving into C-suite roles. And look, we wish Kevin continued success as he moves over to Sysco Foods. But look, the things that we've been talking about here over in the general



## JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

session, there have been a lot of people responsible for that. We've got a deep, talented bench. And as -- if you take anything away from what we're talking about today, we have made a lot of progress in becoming a truly integrated health services company.

So Jon Roberts, who has extensive retail experience, will assume responsibility on an interim basis, and we'll evaluate our internal candidates as well as do an external scan of the marketplace, which is typical for what we would do.

---

**Lisa Christine Gill** - *JP Morgan Chase & Co, Research Division - Senior Publishing Analyst*

Okay. And just as a -- I think in the press release, you did update, right, thoughts around margin. Did I -- maybe not, for -- did you say anything about your retail business in that press release?

---

**Eva C. Boratto** - *CVS Health Corporation - Executive VP & CFO*

No. No, Lisa, we didn't. But we provided a lot of color back at our Investor Day, right, around the expectations of the performance. As you look at how we've performed each quarter in and out, right, we've met or exceeded our expectations. And if you take a step back from when we presented at our Investor Day in June, and we spoke about the headwinds and tailwinds of the retail business, really, there's nothing materially that has changed since then.

The only thing I would point out that has changed is the suspension of the HIF for 2021.

---

**Lisa Christine Gill** - *JP Morgan Chase & Co, Research Division - Senior Publishing Analyst*

Right. And then as we think about the retail segment of your business, Omnicare. It's been, what, almost 5 years, Larry, since you bought Omnicare in 2015. Does it still fit strategically within CVS?

---

**Larry J. Merlo** - *CVS Health Corporation - President, CEO & Director*

Almost. Yes. You know what, Lisa, the Omnicare business, obviously, it has been disappointing. And it's a challenging business environment. We have made -- over the '19 year, we've made a lot of progress in terms of making improvements in the efficiencies, productivity of the business, while dramatically improving the level of service to the clients that we serve.

The skilled nursing space continues to be challenged as there continues to be a greater focus on convalescent in the home. We continue to see the opportunity in the growth of assisted and independent living, and that's where our focus remains.

---

**Lisa Christine Gill** - *JP Morgan Chase & Co, Research Division - Senior Publishing Analyst*

And as you -- I remember when you bought it, you started the pilot programs around the assisted living component of the business. Have you seen the pull-through from that perspective? Or are we still in the early stages?

---

**Larry J. Merlo** - *CVS Health Corporation - President, CEO & Director*

No. You know what, Lisa, we -- I won't say we're in the early phases, okay, because we had started with a number of things. What we learned from our early efforts had us go back with a, I'll say, a secondary offering. We have seen some incremental lift, but our belief is we can still do better.



JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

So Larry, you touched on this in your prepared remarks, which was around the kidney care initiative. So could you give us a little more color around this, the impact that it potentially can have in 2021?

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Well, Lisa, look, I think it's something that we're extremely excited about in terms of the opportunities. I'm trying to remember when it was the second half of last year, HHS came out and talked about end-stage renal disease representing almost 20% of the Medicare budget. And as I mentioned in the prepared remarks, the clinical literature says more frequent dialysis will create a better health outcome. And our belief is an in-home hemodialysis device becomes an important part of that solution.

So look, we are -- we still have a long road to go, okay? But getting the FDA approval to begin the clinical trial was a critical and important milestone. So far, so good, as we begun the journey. We have patients that are live on the device. And as I mentioned earlier, that, that being successful and getting -- gaining FDA approval, we'll be in market in the second half of 2021.

I think it becomes a huge opportunity for our integrated business. And I think it certainly fits the profile of -- we talked about the concept of open platform, okay, and how we can partner broadly in the market to make that available.

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

But is the initial opportunity in the Aetna book of business, when we think about that, right?

**Karen Sue Lynch** - CVS Health Corporation - Executive VP & President of Aetna

Yes, we've already added the kidney care program across our entire portfolio. We're connecting it to our clinical programs. And then obviously, the real impact will be this hemodialysis machine, which should have a big impact on Aetna business.

**Eva C. Boratto** - CVS Health Corporation - Executive VP & CFO

So Lisa, if you go back to when we embarked on this initiative, right? It was before the combination of Aetna and CVS Health. And when you think about there's \$114 billion of spend in Medicare for kidney care and end-stage renal disease, the opportunity to look at this in this new enterprise, and like Karen said, try to start to treat kidney disease earlier, it's a broader opportunity than even initially mentioned.

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Yes. I mean, Lisa, and by the way, there's a lot of dialogue about what needs to happen, but we all know, come 2021, ESRD is now MA eligible, okay? So you start thinking about how the dots connect in some of these other -- the direction of some of the other programs and the opportunities that can create.

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

So as you think about the consolidation of the industries and now we have 3 big players. We have CVS, we have Cigna, we have United. As we think about competitively, what do you think really differentiates the CVS offering versus some of the others, number one?



## JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

And number two, the growth at Optum, especially at Optum within United, it's exceptional. And it really surprised us just based on how big that business is. That's \$100 billion business today, and you start thinking about the law of large numbers. Do you think that there's opportunities for CVS in a similar way, just given all the incremental services that you're now providing in the marketplace?

---

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Yes, Lisa, it's a great question. Maybe I'll start and Eva and Karen can jump in as well. But look, we have great respect for our competitors and give United credit for their success.

First of all, health care is approaching \$4 trillion. And we've probably all seen the projections that have it going as high as \$6.5 trillion on its current trajectory within the next 10 years.

So first of all, that says innovation is needed. And it also says that you can have more than one successful business model. I think what differentiates us and makes us unique is we're putting the consumer at the center of our strategy. And we touched on this across the hall that we believe that we're in the early innings of the emergence of consumerism in health care. And we see the opportunity to be an important part of that solution in terms of making health care local, making it simple and as a result, being able to improve the health of those we serve.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

And you talked about a platform, though, of being somewhat agnostic, right? So do you see that opportunity? And I think everybody in this room knows I'm a huge believer of consumerism in health care. When you think about that platform or you think about your other chief competitor in drug retail and what they're trying to do, do you see opportunities to work with these other large health plans because you're clearly so much further ahead than where Walgreens is today?

---

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Well, Lisa, the answer to that absolutely is yes. And what is embedded in that answer economically is why we believed it was important to bring CVS and Aetna together. And I could remember having many discussions with Mark Bertolini that Mark, all of the opportunities that we have at a local level to engage your members and improve the health of your members, we're going to incur the cost, and the benefit for that is all going to accrue to you.

And I think one of the challenges that exist today that how do you replicate that in some type of contractual arrangement or partnership. And that's why we brought the 2 companies together. And 13 months later, there's nothing that's telling us that we're not right.

---

**Karen Sue Lynch** - CVS Health Corporation - Executive VP & President of Aetna

And Lisa, what I would add to that is we get to build new innovative products and services that we can -- using our data and analytics that we can broaden and reach into other health plans as we have a -- as it evolves. So it will give us additional revenue streams.

On a go-forward basis, that's the intent. And if you think about it, 4.5 million people are walking into a CVS store every single day, agnostic of what payer they have, so it's another touch point for us to get to consumerism and to really enhance our overall business model.

---

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

Just lastly, Larry. So 2 things. One, when we think about the competitive landscape and we think about DC and think about the regulatory landscape, what are the things that you're most focused on? And what keeps you up at night?





JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Well, Lisa, first of all, it's just a reminder to something that we all know. It's going to be important to separate politics from health care policy for the balance of this year. I think there'll be a lot of borrowing between the 2. But look, I think for all the reasons that we've been talking about, and Karen makes a great point, we see 4.5 million customers every day. So I think we're viewed as an important part of the solution for that reason and the fact that we engage directly with consumers. So we have the pulse of their concerns. We understand that. And we're able to speak to that firsthand.

The second thing, and Lisa, you brought up data earlier. And look, we'll continue to hear drug pricing and other things. I think a lot of people were surprised when the proposed rebate rule did not move forward. And...

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

And we hear that's not completely dead.

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Well, and I know who wants to resurrect it as well, okay? But look, if you look at the dialogue around that, what stopped it, and it was the data in terms of the dollars do get passed back to consumers, whether it's at the pharmacy counter or in the form of lower premiums, okay? So -- and who is going to be the benefactor of that? Another industry was, and it was going to cost the government more. So I think that what -- the data, the scoring of all these proposals will separate fact from fiction.

Maybe I'll just kind of put a close on this by saying there is a tremendous amount of rhetoric around access. And we believe that all Americans should have access to affordable care. We don't believe that there's nearly enough dialogue on outcomes.

And think about the things that we're talking about here. And at the end of the day, that is what is going to make a meaningful difference in the cost trend in this country.

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

Is the outcomes.

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Is the outcomes.

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

Totally great. Well, with that, we will end there. Thank you so much for your time this morning. I appreciate it.

**Eva C. Boratto** - CVS Health Corporation - Executive VP & CFO

Thank you.



JANUARY 14, 2020 / 6:00PM, CVS - CVS Health Corp at JPMorgan Healthcare Conference

**Larry J. Merlo** - CVS Health Corporation - President, CEO & Director

Thanks, Lisa.

**Lisa Christine Gill** - JP Morgan Chase & Co, Research Division - Senior Publishing Analyst

Thank you.

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.

