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EDITED TRANSCRIPT

CVS - CVS Health Corp Corporate Analyst Meeting

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PRESENTATION

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

Well, good morning, everyone. Welcome to the CVS Health Investor Day. We know how busy your schedules are. We certainly appreciate that you're able to join us today.

We're going to open up today's meeting with a brief video. Let's watch.

(presentation)

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

Now the video you just watched is just one small example of the power and the capabilities of this new company. And by the way, that Hospital to Home product will be in market later this year.

Now our theme for the day is Creating Value by Transforming the Consumer Health Experience. That's patient value, client value, member value, and critically important for this group, shareholder value. And throughout the day, members of our senior leadership team will discuss how they're

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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 you 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'll be making forward-looking statements within the meaning of the federal securities laws. We'll also be using certain non-GAAP measures, so please take a moment to read the statement, which also appears in your slide books and on our website. You'll also find reconciliations to comparable GAAP measures there as well.

Now to set the stage for the day, I thought it would be helpful to provide the 4 objectives that we hope you'll 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 that we'll be bringing to market.

Second, we'll 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 that we're making in our business will translate into increased shareholder value.

So with that, let's start with some of the key trends in health care and why transformative change is needed now more than ever. It's been about 2.5 years since our last Investor Day. I think we can all agree that an awful lot has changed, both within our company but also within 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, and it's being driven by an aging U.S. population, the increased prevalence of chronic disease, price inflation impacts nearly all subsectors of health care, pharmacy included; and innovation has increased longevity and improved the quality of life but this further adds to the challenges with that access quality cost equation.

So needless to say, these challenges have wide-ranging implications from threats to consumers' financial wellbeing to the strain that they place on government and employer budgets.

Now all of the trends driving change in the health care landscape are in some way a direct result of these spiraling costs. First, the expansion of consumer-directed benefit designs. It's empowered patients to take a more active role in their health. And 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 anymore of being either healthy or being sick. Consumers are pursuing preventative care and wellness options that allow them to lead their fullest lives. And this includes actively seeking solutions to improve the physical, the social and emotional wellbeing.

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

We're 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 a very important complement to provider health care decision making. And lastly, we're 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.

Now with that important backdrop, let's take a look at how we are positioning CVS Health to be the driving force for change in our health care system. Our mission is to be the most consumer-centric health company, and we have the national scale and the local presence with our differentiated assets and capabilities to deliver on that goal.

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First, the breadth and depth of the consumer data we have access to through our numerous health care assets is unmatched. And this data, combined with our investments in advancing our analytics capabilities, this provides a powerful engine to inform health care 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 stand-alone entities simply can't match. We are truly operating with an enterprise mindset, and we're 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 that are needed to bring these newly created programs and services to life. Now these assets are the key differentiators that enable us to transform and dramatically improve the consumer health experience. They give us tremendous reach. We engage with about 1 in 3 Americans every year. And this reach allows us to meet patients where they are, whether it's in the community, in their home or today, 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 3 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 our services into their existing routines; their everyday lives.

We will also build upon our existing programs and established relationships to extend care into the consumer's home, and we've 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.

We're also seeing increasing the support that people receive through our digital properties. And just as one example, today, more than 72 million of our CVS patients are enrolled in our text messaging program, and this allows them to receive real-time alerts about their prescriptions and other services.

Now our ability to interact with consumers through a broad range of channels, it does provide us unique competitive advantages versus our managed care peers. Today, simply being able to manage benefits across medical and pharmacy, that's 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're creating. And numerous studies have shown that face-to-face engagement with a trusted health care professional is more effective than other forms of communication. And our numerous touch points with health care consumers, it enables us to provide healthier behaviors. That's going to lead to better outcomes and ultimately lower medical costs, benefiting consumers, clients and shareholders.

So with that, let me move and discuss how we'll be using these differentiating factors to accelerate enterprise growth on both the top and bottom lines.

Our enterprise priorities for accelerating growth, they revolve around placing the consumer at the center of our strategy. And with that comes an objective of making health care local, making it simpler to access and navigate and helping the consumers that we serve achieve their best health. And with that nucleus, we plan to accelerate growth by executing on 4 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 me dive a bit deeper into each of these priorities, and I'll start with our core businesses. We're aggressively addressing the near-term headwinds affecting some of our businesses through an action plan that's designed to enhance profitability and accelerate our return to growth. And a few of the highlights include driving engagement through personalization. And our retail business is successfully executing on this strategy through our clinical programs and pharmacy. And through our ExtraCare program in the front store. And we intend to build on these efforts.

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

To combat reimbursement pressures, we're 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're also working to improve productivity and efficiency throughout our operations. And to that end, we recently launched a new cost reduction effort. I'll touch on that in just a moment.

And lastly, we're introducing new products and services that can only be brought to market through our integrated model. Now we're going to address all of these topics in much more detail throughout the morning, but I do want to take a minute to highlight the early success that we've had with our HealthHUB stores.

Now 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 3 stores in the Houston area earlier this year. We are 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. And Kevin will talk more about the early learnings and expansion plans in greater detail.

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

I want to focus on the value that 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 that you'll hear about this morning.

Second, we plan to take a portion of those savings, 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 and this will help to improve retention, both for the customers who use our capabilities and also for the clients that we serve across both the pharmacy and medical benefit. And lastly, we will make these products and services available to a wide array of partners through an open platform model and drive adoption through our existing relationships with companies across the health care landscape.

Now 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. And that's based on the product and service offerings in development and on the drawing board today.

Now building out our technology infrastructure is essential to our goals by simplifying the consumer experience, improving health outcomes and driving efficiencies. And uniting CVS Health with Aetna provides us direct access to an unparalleled breadth of data. We're 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 very simple, to turn data into insights and then insights into action.

Our last enterprise priority is to become a more efficient operator and take costs out of the business. And we see 2 opportunities to accomplish this goal. The first is through achieving our near-term synergy goals from the Aetna acquisition and the majority of these synergies will be derived from the reduction of corporate expenses, the integration of our operations and some medical cost savings. Now as you'll recall, when we announced

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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.

Second opportunity is through our newly announced enterprise modernization initiative. And 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 billion and $2 billion in 2022. And these savings will allow us to offer more competitive products and services in the markets we compete in and provide the capacity to invest in our strategic and transformational initiatives.

Now I've given you a number of drivers that we expect to contribute to our performance in the coming year. So we thought it would be helpful to provide you with a view of how these 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 earnings per share growth to be in the low single digits.

In 2021, we expect the investments that we're 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.

And 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 potential M&A. And we expect that to translate into annual adjusted EPS growth in the low double digits.

Now please keep in mind that we are still in the early innings of our transformational journey. We're now transitioning from the planning stage to the execution stage. And this will be a multiyear journey with benefits building over time as we continue to build and refine new programs to better serve the needs of our stakeholders. And we remain confident that we have the right plan in place, we've got the right assets and capabilities needed to deliver, and we certainly have the right people to fulfill the potential of this incredibly powerful new company.

So before I wrap up, I want to reinforce that all of the efforts are totally aligned with our commitment to deliver superior shareholder returns. And 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 goals at the 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. We'll be thoughtful and disciplined in how we allocate that capital across our businesses and this includes a continual evaluation of all of the assets in our portfolio to make sure that they are supporting the overall growth strategy of our company. And by executing across this framework, we firmly believe that we will deliver superior returns for our shareholders.

So with that, let me outline 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 that we are putting in place to accelerate enterprise growth.

Our Chief Operating Officer, Jon Roberts, will walk through the steps that we're taking to build the foundation for those transformational efforts, including the details of our enterprise modernization initiative.

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Then following a brief break, Karen Lynch, President of our Aetna business, will discuss how we're positioning our Health Care Benefits segment to take advantage of the opportunities across all lines of business as well as 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're 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 Health into a consumer health destination.

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

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

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

Thank you, Larry, and good morning, everyone. Following Larry's overview of how we plan to transform the consumer health experience and our priorities to drive long-term shareholder value, I'd like to delve a bit deeper into what this means for our financial performance in the near term and how we're positioning ourselves for long-term sustainable growth.

We're focused on strengthening our business by working across the enterprise to create incremental operating income and position CVS Health for sustainable growth. We have robust opportunities, including synergies, transformation and modernization. These initiatives will augment our substantial earnings and free cash and allow us to more effectively optimize our capital allocations. We expect this to fuel our earnings now and in years to come. Optimizing our capital allocations and returning value to shareholders continues to be and will remain an important component of our value creation strategy.

So today, I'll cover a brief recap of our 2019 outlook, then walk through the value we're creating through synergies, modernization and transformation. And after that, I'll cover our financial outlook and capital allocation strategy.

We're reaffirming our 2019 expectations for all elements of the guidance we provided on our Q1 earnings call. We exceeded our expectations in the first quarter. In this transition year, we're pleased with our performance today and remain focused on executing against our business plans.

We're making significant progress on our integration efforts and our plans to drive enterprise value. These efforts, as I've said, fall into 3 key categories: synergies; modernization; and transformation.

So let me start with a review of our synergies. When we closed the Aetna transaction in November, we set a goal of delivering $750 million in synergies in 2022. Since then, the team has identified additional value. We continue to expect to deliver $300 million to $350 million of synergies this year, and we tracked to the higher end of that range. We now expect to realize synergies of $800 million in 2020, with a run rate of $900 million thereafter. Costs to achieve these synergies will continue to be excluded from our adjusted earnings per share.

The largest source of synergies will come from business integration as we adopt standardized programs. For example, moving Aetna's formularies to Caremark enable us to use our scale and our negotiating skills to deliver incremental savings for the enterprise. Combining the pharmacy operations also enables us to streamline front-end services for our mail and specialty operations in the PBM. We will also continue to increase enterprise dispensing. Using best practices from each organization, we will enhance the strength of our PDP and competitive position by lowering cost and improving care.

Synergies will also come from streamlining our corporate functions. These will come from improving vendor contracting and consolidating many of our corporate areas.

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Finally, we'll realize meaningful synergies from medical cost savings. These will be modest in 2019 with greater contribution expected in 2020 through the use of our combined assets. For example, we're already engaging with Aetna's members through the use of our retail consumer touch points and applying data from across the enterprise to drive desired outcomes. Reducing overall treatment costs and providing direction to lower-cost sites of care.

In May, we announced a new enterprise modernization initiative. This is in addition to the synergies that I just outlined. It builds upon the success of the streamlining efforts CVS Health initiated in 2017 that continue to produce steadily increasing savings. More than a cost reduction effort, this initiative seeks to improve productivity across all of the enterprise and is expected to remove $1.5 billion to $2 billion of net cost in 2022. Again, these savings are separate and in addition to the $900 million of integration synergies I discussed previously.

Productivity benefits will be derived by bringing together knowledge, technology and capabilities across our businesses to improve the way we work without having to build new platforms or undertake significant reengineering. Said differently, we already have the tools we need within the combined organization. Jon will walk through our enterprise modernization initiative shortly in more detail.

As for cost, we expect this initiative to require an investment of approximately $200 million to $300 million annually through 2022 and those costs are netted in the savings I just articulated.

In addition to synergies and modernization, we see significant value coming from what we're calling transformation which will accelerate, augment and amplify our growth. We will do this by delivering products, services and capabilities that we couldn't have done in our legacy businesses. The clearest way to envision this transformation is to contrast how health plans have interacted with consumers in the past with the consumer-centric model that we are creating which will enable us to create value in a number of ways.

The first is a development of infrastructure that will increase consumer engagement and provide a truly connected health care experience. As we've said many times, greater engagement in the right programs improves health outcomes. Improved health outcomes lowers medical cost.

Second, we believe our expanded capabilities will enhance our competitive position to grow membership, particularly among planned sponsors and Medicare Advantage members. And, as you know, our local footprint is a key differentiator for us, whether by rolling out our HealthHUBs at scale, introducing new MinuteClinics or building out at home services. We have incredible opportunities to drive productivity by expanding the use of CVS assets.

These transformational efforts together with our trusted brand, our established community presence and our customer relationships provide us the opportunity to increase customer satisfaction and thus, retention.

And finally, we see exciting opportunities as we take these programs and services and create an open platform.

We expect these efforts to contribute $850 million in incremental operating income in 2022 with significantly more benefit thereafter. And again, these are additive to the value we expect to capture from both synergies and modernization. Alan will share greater detail on our transformation initiatives, the substantial profit contribution that we expect over time and our road map to achieve that income.

Bringing it all together, we expect synergies, modernization and transformation efforts to drive approximately $3.5 billion of incremental operating profit in 2022.

Let's now transition to our financial outlook, our capital allocation strategy and how we're positioning ourself for sustainable growth.

It's important to note that as we continue to work on the products and capabilities that are central to driving long-term transformative growth, we are intensely focused on the near-term execution. Within each of our businesses and across the enterprise, we're doing what's necessary to mitigate the headwinds, increase profits, capitalize on our opportunities to create new revenue streams and optimize our asset portfolio. We're also maintaining rigorous discipline in how we allocate our capital to enhance both near- and long-term shareholder returns.

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As Larry said, we expect enterprise growth to accelerate over the next several years. In 2020, we expect low single-digit adjusted earnings per share growth, accelerating in '21 and leading to low double-digit adjusted earnings per share growth on average over time beginning in 2022.

Now there are a few things to keep in mind as you think about 2020. First, due to the uncertainty around the health care legislation that may be implemented, our current outlook contemplates existing policies.

Second, as part of our plan to maintain a strong balance sheet, we will continue to refrain from share repurchases and maintain our current dividend as we work to pay down our long-term debt and achieve our targeted leverage range which we expect to hit in 2022.

So this outlook captures expected organic EPS growth and some minor share repurchases in 2022. After that, we'll have the flexibility and expect to accelerate our share repurchases and that is reflected in our long-term projection.

Lastly, while we're focused on driving improved performance in each of our businesses, we're agnostic as to where value flows from our transformational efforts.

With all of that factored in, we expect to achieve at least $7 of adjusted earnings per share in 2020 driven by low single-digit top line growth, integration synergies and benefits from our modernization, partially offset by the headwinds we've discussed previously.

Now I'll take you through some segment-specific year-over-year drivers.

Health Care Benefits is expected to deliver healthy revenue and adjusted operating income growth, largely driven by membership growth and synergies. The projected membership growth is generated primarily from continued expansion in government services. Net Medicare adjusted operating income growth is expected to be somewhat neutral with growth in Medicare Advantage, offset by the roll-off of the economics related to the approximately 2 million Aetna PDP lives we divested to WellCare and the stranded costs that will remain.

We'll maintain our target margins, and we have not modified our views on that. We remain disciplined regarding hitting these target margins and have been operating at the high end of that range, and we expect our margins to moderate back to the midpoint of our target ranges in 2020.

With the streamlining of corporate functions and the benefit from medical cost savings generated, a larger portion of our integration efforts will accrue to the Health Care Benefits segment as they did in 2019.

Although the HIF will add to both revenue and operating income, the after-tax effect is expected to be a headwind on earnings.

We expect the combination of these drivers to lead Health Care Benefits revenue growing in the mid-single digits and adjusted operating income in the high single digits. And as a reminder, there is no prior period development factored into our 2020 outlook, but the favorability we realized in Q1 of '19 is included in our 2019 outlook.

Within the Retail/Long-Term Care segment, we expect strong top line growth driven by prescription growth continuing to outpace the industry. These projections are fueled by our Patient Care Programs which improve adherence as well as continuing to collaborate with payers around preferred networks.

On the front store side, we expect to continue to benefit from our personalization strategies and our new store formats while mitigating the headwinds created from a shift to digital. We expect front store margins to expand and there will be larger benefits from break-open generic drugs and savings from enterprise modernization. Continued reimbursement pressure, including reimbursement within our long-term care operations are expected to offset these factors.

We will also begin to benefit from the services we are offering such as expanded durable medical equipment, wellness and dietitian services. For this segment, reducing cost while expanding these services is critical in the near term.

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Omnicare is expected to improve in 2020 with higher customer retention and lower operating costs. So in 2020, we expect the Retail/Long-Term Care segment revenue to be up low to mid-single digits with operating profit up low single digits.

Moving to the Pharmacy Services segment, revenue will be affected in 2020 by the net selling season and the continued roll off of Centene members. The combined impact will dampen revenue growth by nearly $9 billion. And please recall, the Anthem contract is on a net basis. We expect this headwind to be mitigated by continued growth in specialty.

Operating income will continue to be negatively affected by the existing rebate guarantees in 2020, although to a lesser extent than we realized in 2019.

We also expect continued growth in specialty, benefits from synergy modernization and favorable purchasing economics to benefit the segment. All told, we expect the PBM revenues to be down low to mid-single digits and adjusted operating income down mid-single digits.

Derica will discuss the 2020 selling season in more detail and our expectations for positive net new business in 2021 and beyond.

Let's transition to our capital investments. To achieve our long-term vision, we expect capital spending to be in the range of $2.3 billion to $2.6 billion, similar to our current levels. These investments will be directed toward reformatting our stores, advancing our digital programs and driving our transformational efforts.

As you know, our enterprise generates a significant amount of cash. And as we grow the business and improve our working capital management, we will free up additional cash. Our priority in the near term is to use that cash to repay our long-term debt as you see outlined on the slide. We expect to pay down approximately $7.5 billion of debt since the closing of Aetna by the end of 2019. And since the close, we've already repaid $5.1 billion of debt including an incremental $1 billion since our earnings call last month. We expect to reach the mid-3x adjusted debt to adjusted EBITDA in 2021 and low 3x in 2022.

Once we reach that target, we expect to generate cash of roughly $10 billion to $12 billion annually to enhance shareholder value. Consistent with our priority of delivering value to shareholders, once we hit our target ratio in 2022, we expect a key priority will be to resume returning value to shareholders through share repurchases and dividends. Additional cash can be freed up through -- from further opportunities to improve working capital or close underperforming store locations. Moreover, we continue to look at the assets in our portfolio to determine what is key to our long-term strategy.

In 2022 and beyond, our targeted adjusted earnings per share growth rate of low double digit on average represents the growth potential we see for the enterprise. Given the unique set of assets we now possess, there's significant value that can be generated and returned to shareholders. These long-term estimates are based on the following assumptions.

For Health Care Benefits, we continue to expect to see membership growth primarily in government services and benefits from our transformation to favorably affect medical costs.

Retail/Long-Term Care expectations include strong script growth, improvements in long-term care, increased revenue from new service offerings as well as the HealthHUBs. Offsetting these will be continued reimbursement pressures and the fluctuations of the benefit from generic launches.

In the PBM segment, specialty and claims growth will remain favorable with offsets from pricing pressure. In addition, the PBM will benefit from the continued introduction of biosimilars and benefit from our open platform. Our enterprise assumptions include declining interest expense as we pay down the debt as well as transformation.

Finally, our longer-term projections' outlook reflects margin expansion at the adjusted operating income level. Some of this will be driven by the cost reduction efforts we've outlined. It will also come from new services across our business and changes in contracting methods.

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In addition to presenting our goals and plans for 2020 and beyond, we'd like to share with you our scorecard we will use to measure our success. The information you see on this slide is a summation of the initiatives that we're working on and that will be discussed throughout the presentations today. The entire management team is laser-focused and accountable for achieving these objectives.

Our long-term and highly specific targets are realistic and achievable despite the near-term challenges. Our targets demonstrate what our enterprise is capable of accomplishing and our commitment to delivering superior shareholder returns.

I hope you leave today with a greater understanding and clarity about our road map to get there. Moreover, our unique and integrated model fueled by synergies, modernization and transformation will deliver long-term enterprise value. And our disciplined allocation of capital is designed to enhance the returns our businesses generate.

Bottom line, there is significant value to unlock as we execute on our consumer-centric vision of local, simple and improved health.

Thank you. And with that, I'll turn it over to Alan to discuss our transformation efforts.

Alan M. Lotvin - *CVS Health Corporation - EVP of Transformation*

Great. Thank you, Eva, and good morning. This morning, I'm going to take you through our strategy for the transformation of the industry and our company. But before we start, let me run a quick video. Can we play the video, please?

(presentation)

Alan M. Lotvin - *CVS Health Corporation - EVP of Transformation*

So that video is a great example of our strategy, becoming a deeper part of people's lives to help them make those everyday choices that really impact chronic disease. And at the heart of it, that's what we're trying to do.

In this country, we're really very good at dealing with acute illnesses. You break a leg, get in a car accident, heart attacks, we have great outcomes. The cost is too high and we're dealing with that, but we have great outcomes. It really is in chronic disease where we have not met that standard. And as I'll show you going through this chronic disease is really where the bulk of the need, the unmet need and the bulk of the expense is in this country.

So before we start, I just want to show you the team that we've assembled to execute and develop these transformational strategies. This is a group of people from legacy Aetna, legacy CVS, and from outside of the organization, places like Iora Health and others and really bring to us a very diverse set of experiences and backgrounds.

So this morning, what I'll take you through is our strategy for accelerating growth. I'll try to give you a flavor for how the assets that you've heard about from Larry and Eva can be put together to meaningfully change the consumer experience in health care and then show you our product road map and how we're going to create the value that both Larry and Eva showed you earlier.

So first, starting from the bottom, as we create that truly consumer-centric health care that Larry talked about, our North Star is to improve health. It really is to make the patient experience simpler, using technology to incorporate these services into people's lives to help them make those choices that improve their health outcomes. We know that with better health outcomes, you have lower costs.

Part of making it simple is not just enhancing the digital experience, but it's linking the digital and physical experience, which we are uniquely capable of doing through the community assets that we'll show you. And by doing that, we'll actually be able to help people every single day make those choices.

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So it really is our community assets that make us different. As Larry mentioned, we're in people's homes. We're invited into their homes 700,000 times a year. We're embedded with their devices. Now we talked about 72 million people allowing us to text them. And in 2019, talking about texts may not seem like the most technologically advanced experience, but remember, health care is one of those few industries that still runs largely on telephone, snail-mail and fax. So by being able to communicate with people in a much more modern fashion, we are changing that experience.

And finally, we're in their communities. We are part of their lives. They choose to come and work with us. When we want to offer programs, bring new services to people, we're not calling them at six o' clock. We're not sending them unexpected mail or e-mails. They are choosing to interact with us. And what we've seen is when people are interacting with a health care professional, and pharmacy is the most frequent interaction in health care, they are remarkably receptive to opportunities to enroll and engage in new services and new programs to improve their health. So these are the things that no one else can do. We are literally where people are. As Larry said, 1/3 of Americans work with us, 4.5 million people a day walk in our stores.

So our experience with MinuteClinic is a great example of how we've listened to our customers and brought more services into the local community. So many of you know legacy MinuteClinic as low acuity kind of acute care, cough, cold, flu, immunizations, sports physicals, and that's where it started out. But we saw that 50% of the people who we see in MinuteClinic don't have a primary care doctor. We refer millions of people a year to primary care.

So we've started to expand services. What we've seen is an incredible willingness of people to engage in this setting, in the retail health setting, as a principal and primary part of where they get care. And right now, MinuteClinics, particularly the MinuteClinics that we've expanded services in the HealthHUBs in Houston, can manage about 80% of the scope of a typical primary care practice and, in fact, bring some services that most doctors don't have. Sleep apnea screening is an example or cameras to take pictures of the back of the eye or retina, which is a critical evaluation for people with diabetes. So this is a great example of how using our community assets, listening to our customers allows us to create a differentiated experience in the community.

So Larry talked about the transformational products and services that we're going to build. We have 4 guiding principles here. One is we want to solve our customers' biggest problems. And by customers here, I mean the organized payer community. And for organized payers, their biggest problems are those chronic high-cost diseases, so oncology, kidney disease, rare diseases requiring specialty pharmacy; diabetes, people with multiple chronic diseases. This is where there are poor outcomes impacting their workforce and high costs.

We're going to accelerate growth in the fastest-growing segments. Larry talked about government programs and Medicare. You're all familiar with the fact that 10,000 people a day are aging into Medicare.

Specialty. Derica will talk more about our -- continuing our success in specialty where the growth is driven by the pipeline and unmet medical needs.

And lastly, the consumer. And we think this is a true greenfield space. If you think about it, if I needed to go get a cab outside, I would call Uber. If I wanted to look up a piece of information, I'd go to Google. And if I wanted to watch a movie, I'd go to Netflix. There is no equivalent in health, yet there is a tremendous need for it. And that's why we're seeing so much investment money going into developing those applications for consumers.

And we think we have a great head start, right? They know us. They trust us. We're where they are. And in some cases, in many cases in health care, you often have to touch the patient. So being in that local community is going to help us create those services.

We're going to deliver true innovation. So what do I mean by true innovation? In health care, there's 2 sorts of innovation. One is new things, new devices, new drugs. And our home hemodialysis machine is an example of something truly new that we're bringing to market.

And the second form of innovation in health care is new ways of using what we already know of expanding it. So the greatest example here of what we're doing with the HealthHUBs, and Kevin will talk more about it in his discussion. But we're not inventing new ways of dealing with diabetes or congestive heart failure or high blood pressure. People have done this successfully, but they've only been able to do it in small settings, either a clinical trial or a small academic medical center.

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One thing that is an absolute core competency of our organization is the ability to scale programs -- clinical programs nationally. We've done it with Pharmacy Advisor. We've done it with our adherence programs. We've done it with MinuteClinic. This is a real opportunity for us to make a difference in the health care delivery system.

And finally, we're going to differentiate our legacy businesses. As we improve -- bring out programs at lower health care costs, we're going to improve the Health Care Benefits business, the Aetna business. As we bring more services to payers, we're going to provide the Caremark business with more opportunities to differentiate itself from its competitors. And finally, things like the HealthHUBs truly create a new experience in the community that will thoroughly make the -- what people experience in CVS different than any other corner drugstore.

So I'm going to take you through -- we thought about 6 big areas. And in addition to the way we've thought about is we want to be sure that not only are we solving big problems, but we're solving big problems where the size of the prize, for want of a better term, is large. So comprehensive -- I'll cover 2 of them now then walk you through sort of the experience of members in these 2 and then take you through the other 4.

So if you think about comprehensive chronic care and disease management, this as I said earlier is the problem in this country. 60% of adults have one or more chronic diseases. Almost 3/4 of the spend in the U.S., $3 trillion is on chronic disease. And if you look just within the Aetna book of business, that's $50 billion. The numbers are so large that modest impacts on the patient, modest impacts on costs have huge financial benefits.

If I go down one to home hemodialysis, dialysis is the #1 line item in the CMS budget. It's almost 10% of the budget. It's $114 billion last year just on kidney disease. And if you incorporate and include the commercial population, the amount of money spent on the care of kidney disease in this country, approximates what we spend on drugs. This is a huge problem. It's a huge unmet medical need. And CMS in particular is starting to talk much more actively and much more publicly about how to drive more people to a better solution which is home therapy, allowing people to have more dialysis. And we'll talk about that some more in a minute.

So I want to move now to how the assets we've talked about really change the consumer experience. And what I want to do is really walk you through some stylized journeys about patients who have these diseases. But I want to show you first how we think about this. And it's important because we don't think about people as a collection of individual diseases walking by. People are not diabetics or hypertensives or oncologic patients, they're people who have a series of chronic conditions. Sometimes the chronic condition itself is the biggest problem that they face. Other times, it's the associated social issues that they have, transportation issues, stress, anxiety, depression that really exacerbate what's going on with the main disease.

So what we do is, first and foremost, stratify people into risk buckets, try to understand what their specific needs are. Is it the condition itself or is it the social determinant? Understand how they want to be communicated with. Understand which communication methodologies are best for the intervention we're doing and then deliver those very impactful interventions.

So by understanding the risk profile of the person, we can better target the amount of resources, the amount of investment in that person and their conditions to be able to really carefully ensure that we're getting the most return both in health outcomes but also in lower health care costs for those investments.

So as I take you through these journeys, there's 3 things that are really important that I want you to be on the lookout for. One is the multiple community touch points, being present with people. The second is connecting that physical and virtual experience across the entire care team and care delivery system that we're facilitating. And the third is this concept of 2-way data flows that are meant to defragment care. We're not just giving people reminders. We're not just giving them nudges. We're actually checking in with them, coaching them, ensuring that what we intended to happen, what we wanted to happen as part of the care plan actually did happen and making sure that if there are barriers to that, that we address them.

So there's 2 people we're going to talk about. Joseph is the first. This is Joseph. Joseph is 1 of 30 million Americans with type 2 diabetes. Doesn't see his doctor that often. He's on meds, can't really manage diet and exercise that well because of his job. We all know one or more Josephs in our life.

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And our second is Susan. Susan is a little older. Susan has poorly controlled high blood pressure. Does see her doctor and really enjoys what she does and wants to keep working for a while. So we'll talk a little bit more about these 2 as we go through their journeys.

So if I start with Joseph, he's going to go into his local CVS and pick up his prescriptions. But it's going to be a different experience because when he gets to the CVS, the pharmacist is going to take him aside and say, "You know, it's time for you to have an annual exam." And that's not a random interaction. We will have prespecified and -- done the analytics to feed that up to the pharmacist or anyone else in our enterprise who sees Joseph. The pharmacist happens to see him first.

Joseph will be offered some options about where -- go back to your primary care doctor, see an ophthalmologist, however you want to get the diabetic annual exam which consists of 4 things. It's an eye exam, it's an evaluation of your kidney function, blood pressure and a blood test to see how well your glucose is controlled.

Well, Joseph decides that he'd rather just walk across the hall and go to MinuteClinic and get that done and get it done in about an hour. He knows exactly what it's going to cost. He knows exactly what the wait time is.

When Joseph has these tests, it demonstrates that a couple of things are problematic. One, the blood test that shows how well his diabetes is controlled is substantially elevated. And he's got some moderate changes in the back of his eye, suggesting that not only is he at risk of blindness but probably has other problems in his arterial tree, so heart attack, strokes, et cetera. So we identify him as higher risk and refer him into our home care management settings.

When the care manager goes and visits Joseph, she's going to ensure that the care plan that was agreed upon, going back and seeing the primary care doctor, potentially seeing the endocrinologist, increasing his follow-up, ensuring that he has all the digital tools that are needed, are there. She's going to review all the results from the MinuteClinic visit because they're going to be available to her on her iPad. And she's going to work with Joseph and his family to understand what can be done better to help manage his disease and set up a recurring schedule, where she'll come back to ensure that all those barriers are met. And if we do that and we avoid blindness, we can avoid strokes, we can avoid heart attacks, we reduce the overall cost to the system and obviously make Joseph's life a lot better.

Susan's a little different. Susan, like many people who have kidney disease, doesn't know it. In fact, in this country, up to 70% of people start dialysis. It's either unplanned or even worse, it's an absolute emergency, 70%. In other countries, it's 15% or 20%.

Early diagnosis is critical in this disease because we can delay the onset of dialysis. We can avoid that emergency hospitalization, $25,000 and a very -- imagine the experience of going into an emergency room thinking that you have a stomach flu because you're nauseous and being told that your kidneys don't work. You're going to be on dialysis. You're going to spend the rest of your life going to an in-center facility 3 times a week for 4 hours a day.

We started -- the first program we rolled out as an integrated company was in kidney disease. And we started in April. We have several hundred people in. And one of the most common comments that we get from people is, "I didn't even know that there was an option for me other than center dialysis." And those are even people who have nephrologists.

So by doing these advanced analytics, understanding Susan's risk, engaging her with a case manager and then building a care team around her, including her primary care doctor, encouraging a referral to a nephrologist, we start to meaningfully change that experience for Susan.

She'll have the opportunity to have a fulsome discussion about all the options that exist for what's called renal replacement, using something else other than your kidneys, starting with transplant and working the way through different home dialysis methodologies. Home dialysis is preferable because you can do more dialysis. We know more dialysis is what makes people better in terms of their outcomes and lowers their costs.

So Susan goes through that experience and chooses home dialysis and starts it at home on her own. When she does that, she's able to maintain her job, able to maintain her active lifestyle because she's doing dialysis not 3 times a week in a center. She's doing it at home 5 or 6 times a week, 5 or 6 hours at a time.

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And again, dialysis is one of those examples where more really does make a big difference. And that's actually the home hemodialysis machine in the back corner that we're bringing through the FDA. It's intended to be used by people and their caregivers at home. It's cloud-connected so that the nephrologist, our care team, the nurses, are all able to connect to the dialysis experience and know how complete the dialysis was, any alarms with the machine, any services that are needed, any supplies that are needed. So again, simplifying the experience for someone by bringing more tools into their home and into their community.

So as we think about how to change behavior, it really is about community touch points. It's about being part of individuals' lives. Everyone in this industry right now has great data. Everyone has got analytics. I would submit that our analytics are better, but this is now table stakes if you want to be in the health services industry.

Where we truly differentiate is the ability, as Larry said earlier, to take the insights that come out of that analytics and data and turn them into actions in the individuals' lives that improve their health, lower their costs. Lowering health care costs obviously has huge benefits throughout our enterprise.

Let me talk about what we're doing and when we're doing it and where the value will accrue. So I talked about the 2 in the middle, in terms of large problems we want to solve, I talked earlier the consumer-facing products are a greenfield opportunity. No one exists -- there is no killer application here. Substantial effort is going into it. And we believe that we have a head start in what can be an enormous opportunity, an enormous business.

As we get better at managing chronic care, particularly oncology and kidney care which are huge pain points for our self-insured customers, we have the opportunity to offer them predictability and cost savings by offloading some of the risk to us. In kidney care and oncology alone it's about $180 billion spend and a major client -- pain point for our clients.

If we think about that diabetic exam we talked about, not only is it good medicine, not only is it good for the patients, but it's a HEDIS measure, a HEDIS quality measure. And because it's a HEDIS quality measure, it's a STARs measure. Raising our STARs scores has a direct impact on the amount of revenue in the Medicare business. And at the highest levels, the highest STARs scores allow you to enroll people year-round. So these are meaningful, not just clinical programs, but meaningful financial impacts on our enterprise.

And finally as I said, I believe we have the best analytics in the industry. As we build these products and build these services to improve, manage and optimize our own business, we can make it available to other customers within our enterprise, much like Caremark -- SilverScript helped other PDP plans grow faster than the market. We can help other health plans grow faster than the market by making our analytic tools available to them.

So Larry and Eva showed this slide on where and how we create value. I'll make it a little bit more tangible. If you think about Susan and Joseph, while many programs will create value in multiple places, as we lower health care costs, the benefit will show up in the relevant lines of business within the Aetna book of business.

If you think about Joseph and using MinuteClinic services, CVS Pharmacy services, or you think about the Hospital to Home program that Larry showed earlier, that Karen will talk about some more later using DME, it shows how we can use the CVS assets to generate a greater financial return.

And then finally, home hemodialysis is a great example of a new business. Everything that we're doing is an example of what we can do in the open platform model to extend out into other payers that are part of our enterprise.

This is our road map. These are the 6 areas that we've talked about. I mean you can see in 2019 for the top and the bottom, we start -- we actually have 10 products or programs going into either in-market or going into market this year. Things like chronic kidney disease program I mentioned, we have an oncology pilot starting in the summer, a readmission prevention -- or an expanded readmission prevention program and, of course, the HealthHUBs which you're familiar with.

As we move further out into 2020 and 2021, many more of some of the newer businesses, newer products, things that we -- are in development now or have a longer sales cycle will start to matriculate into market. And then the gradient of this Gantt chart is meant to represent the ramp

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because you don't put a product in market and get to full penetration instantly. So that's how we've sort of generated the numbers that Eva and Larry showed earlier.

And again, we're projecting about $850 million in operating income in 2022. This is a little bit more detail. We think about -- just over half of that is going to appear in medical cost savings. Obviously, we have more control in the fully insured books of business with respect to putting products into market and having them adopted.

You can see relatively little from new businesses. It takes time to build large businesses. But as we move out longer term, call it the 2025, 2026 time frame, the new businesses really become material contributors to our operating income. Medical cost savings continue to grow as we develop new programs, optimize them and iterate the interventions. And now we have a substantial contribution from the open platform in the other payers at the bottom.

So we really are building the most consumer-centric health care company. We're differentiating ourselves by the community assets we have. And again, community assets are broadly defined as in the home, in the hand as well as in the hubs that we're building.

We believe we can achieve this. We have a balanced growth portfolio. There's no single point of failure. And we're supporting all of the legacy businesses. And again, we're projecting $2.5 billion of operating income over the long term.

So with that, I thank you for your attention, and let me invite Jon Roberts up to the stage.

Jonathan C. Roberts - *CVS Health Corporation - Executive VP & COO*

Good morning, everyone. You heard from Alan about some of the transformational products and services that we plan to bring to the marketplace. And I'm going to share the operational foundation that we're building to support that transformation work and to deliver even more affordable, convenient services to our customers and consumers.

So the historic combination of CVS and Aetna has created a new opportunity to enable long-term growth and differentiate our businesses due to our unmatched expertise across multiple areas of health care, our complementary assets across multiple areas -- our complementary assets and aligned purpose-driven objectives to improve health and a robust technology foundation with an extensive amount of data.

Capitalizing on these unique capabilities, we will evolve our operational foundation to deliver on our strategies, grow the business and generate greater value for our shareholders.

So I'm going to focus specifically on 3 key enablers to achieve our goals.

First is the data and technology infrastructure that will improve our operations and deliver those new consumer-centered products and services that you heard Alan discuss. Second is how we will continue to optimize our pharmacy supply chain to further reduce costs and pursue innovative value-based payment strategies. And third is how we will transform our operations through the multiyear enterprise modernization initiative that Eva referenced earlier.

So let me begin with an overview of our consumer-centric data and technology infrastructure. As both Larry and Alan said, the products that we -- the products and services that we develop will be designed around the needs of the consumer. They will include interventions in our stores, support in the home and new digital tools and capabilities.

All of this will be driven by a consumer-centric technology infrastructure with 3 interconnected elements. The first is integrated data and advanced analytics, which will give us a much deeper understanding of consumers. The second is an intelligent engagement platform, which will deliver personalized experiences to consumers based on their wants and needs. And the third are seamless and connected digital and physical experiences to drive simplicity, convenience and better health care outcomes.

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So let's take a look at each of these elements. In order to meet patients where they are so that we can influence their behavior when they are actively thinking about their health, we will integrate data that exists both externally and across our company into an enterprise data platform. This is going to drive value in several new ways. We'll be able to accelerate personalization to help individuals stay healthy, remain adherent to their medications and avoid unnecessary trips to the emergency room.

Integrating our enterprise data will also enhance our business operations, allowing us to act faster and reduce our costs. And it will help us drive new businesses such as powering our HealthHUB locations and services, improving the targeting of our Aetna community care program and disrupting traditional kidney care.

So by applying a wide range of analytics to our integrated data, including machine learning and artificial intelligence, we will be able to generate meaningful insights to drive growth, improve our business performance and execute against our strategy. For example, these insights can lead to increased membership growth by improving sales, marketing, product and pricing decisions. We will also be able to deliver differentiated tools to better support our provider partners. And we will further reduce costs by more quickly identifying trends such as overpayments and improving medical cost trend management.

At the same time, these valuable insights will give us the ability to inform individuals about their next best health actions. And I'll expand on that as I turn to the second element of our technology infrastructure, our intelligent engagement platform.

So our engagement platform will translate insights we derive from our data into recommended behavioral change on the part of consumers. In other words, turning insights into actions. It will enhance our understanding of each consumer's journey and create a customized engagement strategy for them. For example, the strategy for an individual with diabetes who is living a healthy lifestyle is very different for someone with a more advanced form of the disease.

It will give us a continually updated and holistic view of each individual consumer including their demographics, behavior, health status and preferences. It will also recognize the situational context. For example, if a person is admitted to the hospital, our engagement platform will ensure that communications going to them are appropriate for that particular situation.

It will ensure consistent and integrated communications across all channels, including e-mail, text messaging, push notifications and telephonic outreach regardless of which part of the business is sending that communication.

The topics and even the language used in these communications will also be personalized. And our engagement strategy will be centered around the foundational principles of data privacy and security, enabling consumers to decide how their data is used and how they choose to be communicated with.

So pulling it all together, here's a snapshot of what it looks like from the consumer's perspective. And I'll use the example of Joseph, who Alan just talked about. Our data platform will provide a continually updated view of Joseph including his health information and how and when he prefers to interact with us. Our analytics' capabilities will offer additional engagement recommendations to Joseph, including healthy food choices and recipes to support him as he manages his diabetes. And our integrated back-end system will facilitate seamless, simple and convenient front-end experiences for Joseph, as an example, enabling his care manager to see his lab results. And because we know Joseph relies on his mobile phone, we can send Joseph push notification that it's time for his appointment with his ophthalmologist, for example, or invite him to schedule his A1C test at a MinuteClinic.

So this consumer technology strategy will create an innovative health care platform that will be easier to use, less expensive for consumers and able to integrate broadly within the marketplace to deliver superior coordinated care.

With the significant technology investments that CVS and Aetna have made over the last several years, we are very well positioned to meet our enterprise product development and commercialization requirements for the next several years. Just as importantly, these investments give us a real head start in accelerating the implementation of these consumer-centric solutions that will be the foundation for long-term innovation and growth.

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As a result of both companies' investments, we will utilize platforms and capabilities that already exist at CVS and Aetna. And we'll invest in continuous improvements within the capital investment guidance that Eva has outlined. As we do so, we will use the best of technologies from CVS and Aetna. And we'll use off-the-shelf technology solutions and capabilities where appropriate.

We will also take an agile use case-driven approach building for specific needs such as launching personalized campaigns or new care management programs. As we do so, we'll be guided by the needs of the consumer and our enterprise.

We'll start small. We'll show value. We'll iterate with a design that allows us to expand and scale. And we will ensure that we're focusing on the highest-value enterprise opportunities that complement and enhance the overall CVS Health experience rather than just serving the needs of one business segment. So this approach will help us to maximize the value of our investments, reduce our upfront costs and operate in a true test-and-learn environment.

So next, I want to turn to how we will continue to optimize the pharmacy supply chain across our enterprise. Pharmacy will play a critically important role in our ability to provide affordable and differentiated health care offerings to our customers. And it's a big opportunity to drive additional value across our company.

There are levers you see here that you're all very familiar with and you've heard us speak about in the past, such as our ability to use our scale and expertise to optimize our generic purchasing along with the importance of specialty and biosimilars. But there are also new opportunities we have as a combined company such as being able to participate directly in the pharmacy administered under the medical benefit at Aetna to drive value along with our ability to partner with pharma on innovative contracting opportunities on very high-cost drugs. So let me briefly highlight each of these opportunities.

So we have several advantages that make us a marketplace leader in the procurement of prescription drugs. With more than 100 million lives under management across our PBM and Health Care Benefits businesses and 2.7 billion enterprise prescriptions dispensed and managed per year, no other company can negotiate with pharmaceutical companies with greater scale and expertise. Our intelligent purchasing decisions have translated into over $18 billion in savings from generics and biosimilars as well as $67 billion in incremental savings from rebate value over the last 3 years.

Traditional generics have historically played an important role in keeping our customer costs down by increasing competition as well as promoting improved medication adherence for patients which produces better overall health outcomes. Our Red Oak Sourcing venture with Cardinal Health continues to position us to win in this marketplace by obtaining industry-leading low costs on more than 8,000 generic drugs for our mail, retail and specialty pharmacies while at the same time ensuring continuity of supply.

We've continued to evolve Red Oak's capabilities using data and analytics to identify risk in the global supply chain as well as opportunities to lower our costs. This enables us to be a first mover in the marketplace to optimize the value that's available.

So as you look at this chart of historic and estimated future generic launches, you can see that the opportunity to increase our annual savings from new generic launches will diminish going forward as there will be fewer new generics coming to market. However, there continues to be opportunity for Red Oak. And let's start by looking at 2019 and 2020.

In 2019, we've seen a couple of positive changes occur. First, we've had some unexpected generic launches enter the market such as the generic for Ventolin. Second, we were able to achieve better buy-side economics on planned generic launches which has allowed us to capture some additional value for this year.

As you look at 2020, even though new generic launches are down from prior years, we believe overall, generics will contribute more in 2020 than in 2019. And this will occur from the wrap of the 2019 generic launches as well as break-opens for those 2019 launches. And we will also continue with our ability to achieve and improve our cost of goods from existing generics.

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So how will we improve our cost of goods from existing products? We see 2 primary areas of opportunity. First, creating more competition for complex generics such as Advair where there are limited suppliers. And second, working with suppliers on higher-cost, single-source generics where only 1 or 2 manufacturers offer a generic version of a branded drug. Our goal would be to develop lower-cost options.

To summarize, Red Oak will continue to work with our suppliers to ensure we continue to bring value to the marketplace even as the opportunity for new generic launches diminish.

Now as the traditional generic pipeline slows down, we see biosimilars as a growing opportunity. And while specialty manufacturers have historically faced very little competition, biosimilar approvals have gained momentum as the FDA works to lower the costs required for a manufacturer to bring them to the market.

So this graph shows the key drugs that have lost market exclusivity or about to. And one of the largest, as you know, will be Humira in 2023. So by creating additional competition, biosimilars will increasingly help us lower specialty costs for our customers.

And we know that biosimilars are more complex to manage than traditional generics. But our experience is that with the appropriate plan design, formulary management and utilization programs and attention to member incentives, it is possible to get prescribers and members to take advantage of the cost benefits that biosimilars offer. And because the vast majority of near-term biosimilars fall under the medical benefit as opposed to the pharmacy benefit, our enterprise will have even more levers to increase competition and lower costs in specialty.

About half of all specialty spending takes place under the pharmacy benefit, while the other half is covered under the medical benefit with much of that spend in medical coming from oncology drugs where there has been very little management. So our new company will take an enterprise approach to lowering our customers' drug spend regardless of where that benefit falls.

We have the opportunity to use our knowledge of the pharmaceutical manufacturers as well as payer pain points to more effectively align incentives across all stakeholders, including payers and providers, to increase competition and lower cost under the medical benefit. The recent CMS guidance that now allows utilization management programs in Part B is an opportunity to bring more competition to pharmacy that is under the medical benefit.

And we'll take advantage of our expanded provider relationships through Aetna to explore value-based collaborations and enhance formulary compliance. As an example, oncology is an area that we're currently focused on, and Derica will talk more about that in his presentation.

And across both benefits, we will work to ensure that drug prices align to the value that they actually deliver in the real world, particularly for very high-cost drugs. So let's take a look at some examples.

As new high-cost therapies such as gene therapy and CAR T-cell come to market, payers are seeking assurances of improved health outcomes and reduced overall cost through the use of these treatments. We have the opportunity to pursue innovative pricing and contracting approaches such as outcome-based pricing in which some portion of the cost is paid back by the manufacturer if the benefit is not fully realized. And we think there could be an advantage to pursuing innovative contracting opportunities for therapies like these because they affect a very small number of patients and because the expected health outcomes of these therapies are relatively clear.

So let me just cite one potential example. Here you see a $2 million to $3 million gene therapy for hemophilia that according to its clinical goals should help patients avoid bleeding events and their subsequent medical costs such as ER visits. It should also result in a significant decreased need for factor therapy which can cost $100,000 or more per year.

As an example, the contract for this drug could require that some portion of those costs be paid back by the manufacturer if the expected benefit of the therapy is not fully realized over a certain threshold, based on the clinical outcomes of that drug.

So while this is a hypothetical example, the point is that patients and payers have the right to expect that a drug will do what its manufacturer claims, and they shouldn't have to shoulder the burden of a very large price tag if it's not successful.

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So before moving on, I'd like to briefly summarize the points that I've just made. Even though the opportunity through traditional generic launches will not be as great as in years past, we have been and continue to be very well positioned to drive value in other ways such as creating more competition for complex and high-cost traditional generics through our expertise at Red Oak.

At the same time, the introduction of new biosimilars and our combination with Aetna, provide us additional levers to drive significant value in specialty, particularly under the medical benefit.

Moving forward, we are very confident in our ability to optimize our pharmacy supply chain and believe we are best positioned in the industry to drive value from both generics and biosimilars.

So finally, I'd like to take a look and turn to our plan to modernize our combined company. As Eva said, the integration of CVS Health and Aetna creates a tremendous opportunity for us to think differently and create even more -- and create a more innovative company. The aim of enterprise modernization is to take advantage of our combined capabilities, assets and reach to create capacity and invest in our growth.

So I'm coleading these efforts, which we project will produce a run rate net savings of $1.5 billion to $2 billion in 2022. The savings from enterprise modernization will be achieved by simplifying the work we do across the enterprise. In addition to reducing costs, this will also improve both the consumer and colleague experience and allow us to pursue a responsible sustainability agenda.

There are many long-term value opportunities aligned to enterprise modernization, which I would put into 4 broad categories: first is the modernization and optimization of our IT platforms, which doubled in size as our 2 companies came together; next is digitizing our enterprise service delivery areas by eliminating many of the manual processes that we have today; third is creating the member experience of the future and will initially focus on our call centers; and finally, reducing and optimizing our internal spend for products and services, which we're calling demand management.

So I'll briefly highlight a couple of examples.

Our enterprise is accurately configuring benefit changes for thousands of clients, offering different plan designs for millions of members. One example is benefit coding in the PBM, where we have over 2,000 clients that often update their benefit designs each year.

Today, those changes are submitted on forms. And even though we offer on automated format, we find that clients are often using their own internal systems to generate these benefit design changes. These changes are read by a person, and then they're manually entered into systems, and then they're manually coded into other systems and the result is a lot of time, cost and obvious potential for human error.

So we have used existing technology available in the marketplace to successfully automate this process with 98% accuracy in early results. To do this, we're using optical character recognition and natural language processing, along with artificial intelligence to read and translate client documents into coding that is ready to load into our adjudication platform. We then use robotics to automatically upload the code into the adjudication platform, and all of this is done without any manual intervention. The result is lower cost, higher accuracy and faster processing of these changes. And this is estimated to reduce our costs in this particular area by 80% while, at the same time, improving service. So you can see how we can deploy this approach in many other areas of the company to achieve our goals.

Here is another example. As an enterprise, our call centers receive more than 100 million phone calls per year, leading to more than $1 billion in operational expenses each year. By leveraging technology, such as enhanced interactive voice response and changing behaviors in our call centers to minimize handoffs to a second agent, we can resolve customers' issues more quickly and effectively. Our goals include reduced operational costs of more than 30%, a better member experience and more time for our agents to focus on high-value interactions with our customers.

So these are just a couple of brief examples of the work that we will do as part of our enterprise modernization effort, which will enable us to increase innovation, improve organization resilience and free up resources to invest in the future.

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So in closing, here's a few key takeaways. We're building a powerful operational foundation for our combined company. At its center is a consumer-centric technology infrastructure with advanced data analytics to produce transformational products and services that we plan to offer. We will continue to optimize our pharmacy supply chain by using our size, scale and expertise, capitalizing on generics and biosimilars, and using innovative contracting approaches. And we will implement a multiyear enterprise modernization initiative with run rate savings of $1.5 billion to $2 billion in 2022.

So in closing, let me add that I believe CVS Health is better positioned than ever to drive transformational innovation and growth, and to continue to address the rapidly changing needs of consumers and customers in what remains a very dynamic health care marketplace.

So thank you very much. We are now going to move to a break. So if we can be back here at 10, we'll hear from Karen, Derica and Kevin. Thank you.

(Break)

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

Welcome back. Good morning. I'm excited to be here with you today as part of the CVS Health organization. As you know, the combination of CVS and Aetna is a powerful opportunity to change and revolutionize the health care industry. Together, we'll be able to deliver a more personal, holistic, cost-effective and local health care experience for the millions of members that we serve.

But before I talk about our business strategy, I'd like to introduce my team to you. I have a very strong team, the majority of whom have remained in place since the close of the CVS transaction. They have extensive industry experience, with a track record of delivering results and sustained high performance. Several of them have worked with me for many years.

We run the business with the same level of discipline and accountability that we always have. At the same time, we're really excited to have the access to the strengths of CVS. Together, we have the opportunity to change American health care, improving quality, lowering cost and embracing consumers and providers and, as a result, rewarding our shareholders.

Today, I'll focus on 2 areas. I'll update you on our business strategy, and I'll share updates on each of our businesses where our strategy truly comes to life.

Beginning with our strategy. As you know, Aetna has remained laser-focused on executing our transformational strategy, progressing from a health insurer to a personal and local consumer health company. What I'll share with you today is not fundamentally different from the path that we've been on. This is a continuation of the work that we have been doing. But now, CVS Health accelerates that strategy and amplifies our capabilities, differentiating Aetna in the marketplace with unmatched service and unmatched value.

It's important that I start here because health care is personal. We've been on a journey to transition from episodic care and providing traditional health insurance products to delivering holistic, personal and locally based consumer health services.

Combining with CVS enables us to bring these services and capabilities to our members even sooner. Our strategy is unique because everything we do starts and ends with the member. As Larry mentioned, we are member-obsessed. Every decision we make and every product we design is created through the member's lens in order to earn lifetime value, loyalty and trust with the people that we serve.

We know that wellness has more to do with an individual's daily behaviors than what happens in a doctor's office. That's why we're committed to being in the communities that we serve and broadening our definition of health care. We're addressing the many important influences outside of a doctor's office, things like the environment, access to healthy food, access to transportation and, of course, a person support network.

And finally, by continuing our investments in technology, we will lead a digital revolution to transform the way our members consume and interact with health care. And while we're working to deliver new and innovative capabilities across a broad spectrum of health care costs, we'll continue to focus on the fundamentals of our business.

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We know that consumers rely on our expertise in serving them through pricing, underwriting, network and clinical management. Those fundamentals have made us who we are today. We have a strong track record of successful execution. But as you know, those are table stakes. What we're really talking about here today are the steps that we're taking to deliver a new level of differentiated care. That's the focus of our strategy.

While continuing to grow the core, we are aggressively building innovative solutions that you heard today from Alan that will create new, holistic and our local approach to care. And as we evolve, we'll become masters of logistics, coordinating services across a complicated set of health care experiences. Technology will catalyze this change, tying together our solutions and enabling to deliver care how, when and where consumers want it.

We're taking all of the Aetna resources that our customers are familiar with and combining them with the CVS resources. This is a game changer for us and for the industry. We'll bring together the shared expertise and insights to better engage with members, employing a variety of touch points, care teams, digital, specialty pharmacy and MinuteClinics, to deliver the most relevant information and support to our members at a particular moment in time. This is a key differentiator for us in our service offering and is one of the primary ways that we will earn lifetime value and loyalty from our members.

As Alan mentioned, chronic care management can materially benefit from these unique set of capabilities now available to our customers and our members, and we have more touch points across the spectrum for better coordination of services.

HealthHUBs are another key example of our combined enterprise strength. Through unique services performed by the care concierge and our HealthHUBs and all of the newly added products that Kevin will talk about later today, like durable medical equipment, we can facilitate a truly differentiated experience for our members, for example, returning from home after a hospital stay. I'll talk about this new service in a moment, which we call Hospital to Home.

We are uniquely positioned to be the leader in health care innovation. We're broadening the definition of health care while making it simpler and easier to access. Here you can see a sample of our innovative solutions that we're able to offer as a result of our combination. Neither Aetna nor CVS would have been able to offer these solutions as quickly or as effectively as independent companies. Largely due to the breadth of assets, we are best positioned to coordinate care and complex logistics across the holistic health care spectrum.

When I talk about each of our businesses, I'll share some of these innovations and how they're impacting those businesses. But before I move on to talk about those businesses, let me summarize the key tenets of our strategy.

We're evolving from a health insurer to a consumer health company in the home and in the communities. We'll execute by using technological leadership and our national footprint and by integrating the assets and capabilities of the combined company. The Aetna of the past delivered episodic care well, profitably and successfully. The Aetna of the future will deliver holistic care available in person, virtually, touching the whole life of a member. Our combination with CVS amplifies our capabilities and accelerates our rate of progress. Our strategy, however, is best reflected in each of our businesses, so let me now turn to Medicare.

Over the past few years, our Medicare business has achieved double-digit membership growth, outpacing the rate of the industry. This can be attributed to our strategic execution and our investments in innovation. Aetna has become an industry leader in Medicare Advantage as demonstrated by our significant growth in this product. Both of our individual and group Medicare Advantage businesses have experienced strong membership growth since 2015. Our individual Medicare Advantage offerings have grown to 1.3 million members. Our group Medicare Advantage business has grown to more than 900,000 members. And we're also the largest PDP business in the country, with nearly 6 million members, representing a sizable opportunity for future conversions to Medicare Advantage.

Let's talk about where the growth is in Medicare. As of March 2019, we served 2.2 million Medicare Advantage members, a number we have grown 18% since 2015, approximately 2.5x the industry rate. This provides a strong foundation and creates significant positive momentum for us.

Medicare Advantage also represents a compelling, long-term growth opportunity, with both an aging U.S. demographic and an underpenetrated marketplace. As you know, 10,000 people are turning over 65 every day, and this rate is expected to continue through 2025. From 2016 to 2025,

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the absolute number of seniors is expected to grow to nearly 70 million people. In 2016, seniors made up 15% of the U.S. population. And by 2025, that number is expected to increase to nearly 20%. And in March 2019, the Medicare Advantage market was only 35% penetrated. So you can see there is tremendous upside.

So let me take a few minutes to talk about how we're going to grow Medicare Advantage. It truly starts with the foundation of our business. And there are a few factors that drive success in Medicare. And we've made very deliberate investments in developing these capabilities. One of them is STARs. Aetna has ranked #1 among publicly traded companies in 3 of the past 5 years, with the highest percentage of members in 4+ star-rated plans while also exceeding the industry average in each of those 5 years. This year, 79% of our members are in 4+ star-rated plans, reflecting the high quality of our plans amidst tightened CMS guidelines. We will continue to invest in STARs, with the goal of increasing the number of our members in 4.5 star-rated plans.

A second factor of growth is geographic expansion. We've grown our national footprint from 45% of Medicare eligibles in 2015 to just over 75% in 2019. We have plans to reach approximately 80% of beneficiaries in 2020. Additionally, we'll produce attractive growth within our existing geographies. We intend to go deeper to continue to grow membership in each of our existing markets.

And finally, another opportunity for growth is our conversion from PDP to Medicare Advantage. CVS and Aetna is the nation's largest Medicare PDP provider, presenting significant opportunities for Medicare Advantage conversions. Prior to the divestiture of Aetna's PDP business, we had strong success in converting PDP to Medicare Advantage. And we'll use all those experiences as we focus on the SilverScript PDP plans, which service a large number of low income Medicare beneficiaries. These beneficiaries, when eligible, may find strong value in our dual special-needs plan. Our D-SNP's footprint is relatively small today. However, SilverScript will be an important referral source for the D-SNP product, and we have plans to accelerate and expand into D-SNP.

The earnings opportunity is particularly significant when you consider the lifetime value of a Medicare member, which, on average, is 2 to 3x larger than a self-insured large group commercial member. Focusing on those conversions will be our priority from 2020 and beyond.

Our strength in Medicare relies heavily on our differentiated capabilities, capabilities that reach members at the local level, gaining deeper member insights and providing a simplified and unique consumer experience. We're designing holistic products that incorporate an array of nonclinical benefits and expanding our programs, such as transportation, meal delivery and healthy home visits.

We're continuing to work with our providers to share more risk for better patient outcomes, and we're evolving our contracting model towards value-based care. All of this is supported by our digital capabilities, which assists us in developing personal care plans, pinpointing cost savings for our member and identifying quality providers and community support for them. We're bringing together all these capabilities in new ways to drive a better and easier experience for our members.

Let me share an example with you. We'll begin to pilot an exciting new program for our Medicare population later this year. It's a program to help our members more easily and effectively transition from hospital to home. The program was featured in a video that you saw earlier that Larry presented, and what you saw was a personal, high touch, concierge-level experience designed to improve member experience and improve health outcomes.

Before a member leaves the hospital, their prescriptions will be called into the pharmacy and delivered to their home. Also included in the home delivery will be other necessary items for their recovery, like a walking cane or other durable medical equipment.

To assist in their recovery, we'll also provide guidance on to how to use their medications, and we'll provide follow-up -- we'll provide scheduling for follow-up appointments, and we'll also provide transportation to get them there, with an expectation to reduce costly readmissions.

We'll also provide a home health specialist to help them get settled and ensure that their home environment is safe and conducive to a healthy recovery. And we'll also arrange healthy meals delivered for a period of time so they can focus on their recovery. We'll begin piloting this program for the Medicare population in the fourth quarter of this year for those transitioning from home with knee surgeries, and then we'll expand this

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program to those with hip surgeries. We're really excited about this pilot to deliver a better member experience and to improve overall health outcomes.

So in summary, our Medicare business has been and will continue to be a growth engine for our company. We remain committed to industry-leading STARs performance by investing in a multifaceted approach that elevates the quality of care for our Medicare beneficiaries.

And finally, we'll continue to focus on bringing a unique, holistic, personal care to our Medicare population, delivered to them in the convenience of their home and in their local community.

Turning now to Medicaid. Medicaid continues to be another growth opportunity for all of us. We are pleased with the opportunity ahead of us and to further expand our Medicaid business by deploying our demonstrated leadership in managing highly complex populations at the local level with holistic solutions. And as more states move their most vulnerable populations into managed care, we have the expertise, the experience and capabilities to offer states a proven solution to help them improve quality, achieve their desired outcomes and effectively control their cost.

Let me ground you in where we are with Medicaid today. We cover nearly 2 million members across both insured and administrative service contracts. This includes the entire spectrum of populations, spanning from TANF and CHIP programs to the highly complex long-term services and support programs, or LTSS, as we call them. We work with at least 16 states currently, and our success to date has clearly been driven by our focus on the fundamentals of managing utilization, quality and outcomes.

We approached this by focusing on the whole person, coordinating care across a broad spectrum of needs and developing solutions to address the social determinants of health and improving member outcomes. We have a proven ability to bend the cost curve for states while providing access to quality providers in efficient settings.

Let me turn now and talk about the landscape. Through 2025, CMS projects that Medicaid expenditures will continue to grow at rates higher than inflation. In fact, managed Medicaid spending is projected to grow to $431 billion by 2022 and nearly $540 billion by 2025.

CMS projects that 60% of Medicaid expenditures will be serviced by managed care by 2025. The industry growth is expected as a result of the shifting demographics and high acuity managed care. And the Medicaid's market clearly presents an opportunity for growth.

As I mentioned, the Medicaid program serves some of our nation's most vulnerable individuals with needs that are complex, very costly and far reaching. We believe that we have a unique ability to serve the Medicaid population through a more holistic approach that connects the full spectrum of members' needs across their physical, behavioral and social determinants of care.

Our business model includes a full circle of support that surrounds members and their caregivers in helping them lead healthier, more productive lives in their homes and in their local communities. Our opportunities to grow this business will come through expansion of our existing relationships with our current partners, expanding into new states and expanding our service offerings to dual special needs population, particularly to serve the LTSS population.

And as we look ahead, we are currently actively monitoring a pipeline of opportunities, representing 6 million members, with expected release dates through 2020, and we'll continue our discipline, as we always have, of identifying those states where we feel that we can provide the best expertise and the best value.

Aetna and CVS will grow and retain our Medicaid business by becoming simpler to interact with, improving the experience for our members and our provider partners, improving the overall health for our Medicaid enrollees through expert coordination and management of this complex population and by delivering innovative solutions and building strategic partnerships that differentiate us in solving those gaps of care.

Let me give you an example. Aetna and CVS can better serve the population by improving local access to care and creating value with our provider network by complementing how we think about bringing value-based care into the community. We can do that through our approximately 1,100

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MinuteClinics, who provide access 7 days a week, including evenings, which responds to an unmet need in the marketplace by providing a more cost-effective approach to noncritical ER visits.

The HealthHUBs will further expand our opportunities. We believe that we can materially increase the use of MinuteClinics through new awareness and education campaigns of our Medicaid enrollees as well as local community campaigns. The clinics, we believe, will improve our access to care and care management, which in turn will lower overall costs and generate improved health outcomes. And we're launching these capabilities in the fourth quarter of this year.

So in summary, regarding Medicaid, we continue to view Medicaid as a growth opportunity, with numerous rebid and new business opportunities in 2020 and beyond. We strongly believe that our value proposition resonates in the marketplace due to our superior clinical management and our proven ability to address socio-economic factors. And while our government business has been our primary driver of growth for a number of years, we're optimistic about the potential in our commercial business given our new combined assets.

So let me summarize our commercial business for you. At the end of the first quarter, our commercial medical membership represented 18 million medical members. We are one of the largest providers of dental and behavioral benefits in the United States, and we provide service to members in all 50 states and the District of Columbia, serving more than half the nation's Fortune 500 companies. And as you can see, we have significant presence in a number of geographies across the country. That said, the commercial market remains a highly competitive marketplace.

The commercial market overall, as you know, is mature and highly penetrated. Price is still the key purchasing criteria for many employers. Currently, 156 million people are enrolled in employer-sponsored health plan, which translates into 49% of the U.S. population. The commercial industry is expected to grow in the low single-digit percentage revenue growth through 2022. In the near term, we expect both our commercial membership and revenue to grow, on average, in the low single digits, and we expect to grow through further penetration of our ancillary businesses.

The health care industry in commercial has been flat to declining over the last several years and is forecasted to continue to contract over time. We know that winning in this space comes down to one thing and that's differentiation. And we have many ways to achieve this. We'll differentiate by being in the community, serving our members where they live and where they work, all while gaining insights into the best next action to inform them of how to support them in achieving their unique health care experiences.

Our supplemental offerings like dental and vision have been and will continue to be critical components of our commercial offering. And as you can see, we're projected to generate about $2.7 billion of revenue of those businesses in 2019, and we expect to further penetrate and grow this business through increased penetration.

We have several value-added solutions that have been or will be introduced to the market for our commercial customers in the near future. One of them is our Aetna One Advocate model, which integrates our clinical and our nonclinical service into one single offering. Another is our comprehensive oncology solutions program, which is being brought to market later this year, and Derica will talk about that in more detail when he presents.

We're optimistic about our growth in the self-insured business and believe that we have a compelling value-added solutions that are resonating in the marketplace. And, at the same time, we know we have work to do in our insured commercial business. And we expect to achieve growth in our insured business by focusing on value-based contracting, enhancing our product and distribution capabilities, and leveraging the CVS resources.

So let me take a minute to show you how we're combining our assets to deliver a new solution in the commercial market.

We know that pharmacy is a key driver in our commercial business, so we're seizing this opportunity to better support our members' pharmacy needs. We will roll out a personalized adherence coaching in all of our stores by the end of the year, where members will have medications associated with one or more chronic diseases and can talk to a pharmacist about the importance of medication adherence, and also we'll refer them to our Aetna care management programs.

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In our HealthHUBs, we're taking that one step further and have even a more comprehensive intervention called Pharmacy panels, which Kevin will talk about in more detail later. The goal of this program is to have our pharmacists help bridge the gap for our members living with chronic conditions.

Using both our medical and pharmacy data, we'll offer a more personal, local and higher level of care and suggest next best actions to those members who will most likely benefit from them. These members often have complex set of medications and, based on the data, we know that more than 50% of those medications for chronic diseases are not taken as prescribed. We also know that 1 in 3 members with a chronic condition have not seen a doctor in the past year. And when they do see a doctor, they spend about 15 minutes of their time with that physician.

So to improve member outcomes, our pharmacists will offer personal solutions that will educate patients on their conditions and their medications. They'll suggest ways to save out-of-pocket costs, and they'll potentially recommend dosage changes or stopping the use of a medication if it's interfering with their overall health.

So as I wrap up our commercial business, I'd like to leave you with 3 things: we're focused on driving profitable growth; we're committed to maintaining strong underwriting and actuarial principles; and we're committed to delivering innovative product and offerings and solutions.

So as I wrap up, I want to emphasize that we have the focus and the clear priorities to advance our strategy, which is now further accelerated and amplified by our combination with CVS Health.

We're approaching health from a holistic standpoint, coordinating, connecting and managing across a full continuum of the needs of our members. We are uniquely positioned to drive growth.

And with that, thank you for joining me today. I'm going to turn it over to Derica Rice, Executive Vice President and President of Caremark.

Derica W. Rice - *CVS Health Corporation - Executive VP & President of CVS Caremark*

Thank you, Karen, and good morning, everyone. It's my pleasure to be here and actually to meet many of you for the first time in my new capacity. And it's absolutely my privilege to share with you our approach to driving growth and innovation here at CVS Caremark.

Now for more than a decade, CVS Caremark has been a leader in the PBM industry. Today, I'll highlight how our CVS Health enterprise assets and touch points, when combined with the new transformation solutions that Alan showcased earlier, will enable us to provide even greater value to the broader range of consumers, members, employers, health plans, government agencies and shareholders that we serve.

Now over the last 3 years, as list prices for prescription drugs increased by 25%, CVS Caremark helped significantly reduce the impact of that drug price inflation, limiting our client growth to just 3.1% and, at the same time, delivering more than $141 billion in pharmacy savings for our clients.

Now we did this by prioritizing the use of effective lower-cost drugs, by promoting appropriate utilization, employing proven network strategies and effectively negotiating with manufacturers. Now over that same time period, we also helped members reduce their out-of-pocket spend year after year, allowing clients to save more than $18 billion and avoided medical cost as a result of improved adherence.

Last year alone, 44% of our CVS Caremark clients saw their net prescription prices actually decline. Members' costs at the same time stayed low. In fact, 2 out of every 3 CVS Caremark members who used their pharmacy benefit last year spent $100 or less on their prescriptions.

Our ability to anticipate and address client and member needs is the foundation of our industry leadership. Clients hire us for 4 main reasons. First, we have a strong track record in managing drug spend with innovative formulary and utilization management strategies. Going forward, we will continue to drive innovation in these areas, rolling out a range of new flexible pricing models and continuing to drive down cost of our goods as well as through innovative trade agreements.

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Second, we provide operational excellence. We consistently onboard clients and their members seamlessly. And we provide a breadth of Medicare D capabilities. For instance, we offer health plans operational and consultative services, including formulary and plan design recommendations as they create their own Medicare offerings and prepare their bids.

Now over the last 3 years, our support and expertise helped clients grow in MAPD and PDP enrollment by 7.1% as compared to 3.5% for the industry.

Now earlier, Jon highlighted the comprehensive enterprise modernization effort that we have kicked off. As we look to the future, Caremark will continue to bring greater automation to our processes to increase operating efficiency for our clients on the back end. And on the front end, we are building a consumer-centric technology infrastructure and a connected data ecosystem that will enable a more personalized and streamlined experience for our members.

Third, we outperform in specialty. Our scale and expertise have enabled us to win in this area. We have made specialty medications more affordable for both payers and their members. Looking ahead, we will be offering a new wave of best-in-class solutions to enhance patient care and provider connectivity, drive appropriate therapies to the patient and deliver low net cost to both the client and the member.

Last but certainly not least, we have delivered innovative integrated solutions working across the enterprise, such as Maintenance Choice, Specialty Connect and Pharmacy Advisor. These solutions rely on our ability to align economic incentives and provide a unique and differentiated consumer experience to members, based on both our assets of Caremark and retail. And as you've heard about the next generation of transformative products that we'll be developing, we will further our ability to help meet clients' goals and deepen our members' engagement.

Now the fundamental needs of our clients and members have not changed. Clients continue to look to us to manage drug spend, provide operational excellence, outperform in specialty and deliver enterprise-wide innovation. However, as I just highlighted, how we will meet client and member needs will change. With our combined asset and new solutions, we will provide the next wave of innovation to meet client and member needs, and we'll do so in a sustainable, differentiated and profitable way.

Now before discussing our long-term strategy, I want to take a moment to walk you through some near-term challenges we are facing and explain why we believe these are temporary in nature.

CVS Caremark has traditionally grown by generating significant cost of goods improvements that offer or offset price concessions and rebate guarantees when coupled with strong selling season and increased utilization in specialty. We are currently experiencing a few transient headwinds that have impacted that formula in 2019 and in 2020, though we expect them to diminish by 2021.

First, insourcing our PBM services notably by Centene as well as other net new business losses have impacted the 2020 selling season.

Second, as we discussed on earnings calls, larger changes in the pharmaceutical marketplace have impacted our rebate guarantees. In fact, our rebate exposure will peak this year in 2019 and will begin to diminish in 2020 as we've previously stated.

As these temporary factors dissipate, we expect to see continued strong performance in the areas of the business that traditionally drive growth including improvements in specialty and our cost of goods.

Now let's take a closer look at the 2020 selling season itself. To date, we've won $3.2 billion in gross new business while maintaining leading service and performance levels for our clients. However, year-to-date, we are down approximately $8.7 billion in projected 2020 revenue.

While there is no single root cause behind this performance, we do understand that the market continues to evolve. And we've listened very carefully to the feedback received throughout this selling season. And we are taking several steps to improve flexibility in forecasting our pricing models. By focusing on we believe low net costs, flexibility and increased transparency and greater cost predictability, we believe we can return to historical retention rates.

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Digging a bit deeper into these results. Most of the larger books of business within our remaining pipeline have already renewed, particularly in the health plan space. Our outstanding 2020 renewal business today stands today at approximately $7.7 billion. Now of the remaining renewal clients, almost all of them are from segments where we have -- historically have seen a higher retention rate.

As we look towards the future, our go-forward strategy is based upon our view of key trends impacting the health care and our payer client including: an aging population, consumers struggling to navigate a complex health care system, increased utilization and high spend in specialty pharmaceuticals; and a complicated regulatory landscape. These kinds of challenges can only be addressed by the kind of continuing innovation that our integrated model is uniquely capable of delivering. I'm excited to share our strategy with you here today.

Our long-term strategy is designed to increase the value for our clients and stakeholders by driving down costs and enhancing the member experience and engagement. As I mentioned earlier, the next wave of innovation to meet client and member needs and capitalize on our strengths will come in 4 ways: creating new economic models that help our clients and members manage their spend; reducing costs and improving the member experience through the enterprise modernization initiative that Jon described earlier; delivering a superior experience for members and providers in specialty while delivering low net costs for our clients; and through our open platform, offering new differentiated solutions to all of our client segments.

Now let's take a look closer look at each pillar. The PBM industry has evolved considerably over the last 20 years given market pressures, greater competition and regulatory changes including, most recently, CMS looking to finalize a rule to eliminate the safe harbor for rebate for Part D drugs. We recognize that there is no one-size-fits-all model for our PBM contracting. But given that dynamic, we offer a full range of pricing model options for our clients ranging from traditional PBM arrangements, our new guaranteed net cost models to exploration of integrated risk-based models, allowing us to take advantage of Aetna's expertise. These new models will focus on predictability, transparency and low net cost as key criteria for our commercialization.

And for our members, we offer new industry-leading solutions to help make it easier for them to manage costs and achieve better outcomes. For example, we provide real-time prescription benefit information across all member touch points at the doctor's office, at the pharmacy and to members directly through our digital tools.

Now to help members and their providers make more informed decisions and achieve lower out-of-pocket costs, we're providing this tool. At the point of prescribing, physicians are able to check whether a given medication is on the patient's formulary before prescribing it and also see the member's out-of-pocket costs for lower-cost cover alternatives.

We know that when prescribers are presented with lower-cost options and make the switch, this solution has saved members, on average, $90 per fill. What's more, real-time prescription benefit information at the point of prescribing has resulted in a 14 percentage point improvement in primary adherence as well.

Complementing our real-time benefits capability, we continue to offer other important tools to help members save money out of pocket. Now recognizing the rise of high deductible health plans, CVS Caremark was amongst the first in 2006 to offer our clients the ability to pass along manufacturing rebates to members directly at the point of sale.

Today, 54% of our clients with high deductible health plans offer their members preventative medications for chronic common conditions without a copayment. And we are leading the industry in client adoption of POS rebates with over 10 million members enrolled. We will continue to make enhancements to these important tools to make them even more flexible for our clients to drive broader adoption.

Now we just talked about some of our solutions that help make prescriptions more affordable for our members. But I also like to take a moment to talk about how we are enhancing the member experience and helping members navigate and manage their own health care. Now to do this more effectively, we are driving towards a digital-first approach so that we can reach members with meaningful, timely and customized messages using their preferred communication method and targeting outreach at a time when we know it will be most effective. And we are making significant investments to enhance the member experience including best-in-class self-service tools, on-demand clinical secure messaging and proactive communications to providers. These investments will improve member satisfaction and outcomes while also reducing costs.

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Now we know that specialty pharmacy now accounts for 45% of pharmacy spend, and it remains a consistent focus for our clients. While the specialty market continues to grow at 9%, CVS specialty pharmacy continues to outperform at 11%. Our outperformance is driven by investments in a differentiated member and provider experience by superior purchasing economics and by our scale.

CVS Health offers clients a results-driven approach to specialty pharmacy. Cost containment is one of our clients' top priorities for specialty itself. Now despite manufacturer brand inflation of 7.6%, we were able to limit unit specialty price growth for our clients to just 1.7% in 2018. And we know this was the lowest reported in the industry.

We also are an industry leader in patient engagement with 80% of specialty patients using digital tools to stay adherent to their medications and manage their symptoms. We use a proprietary secure messaging platform to interact with patients bidirectionally. In fact, this technology was just featured at the annual American Society of Clinical Oncology conference, or ASCO, highlighting demonstrable outcomes and increasing the share of optimally adherent patients by more than 5%.

It is equally important to recognize that almost half of the specialty pharmacy costs are under the medical benefit. And I am proud to say that our NovoLogix medical benefit management system now has over 60 million lives managed. In fact, last year alone, our coordinated prioritization program delivered over $365 million in savings for our clients.

We will continue to be relentless in being the best manager of specialty cost and utilization and also delivering superior value to clients through 3 key levers that we believe act in concert: improving provider connectivity of patient care, driving appropriate therapy and delivering low net costs.

Now let me give you an example of a new solution that is focused on patient care called Specialty Expedite. Through our electronic health record connectivity, Specialty Expedite allows us to streamline the prioritization process and gather relevant patient information securely and directly from the continuity of care document. And it benefits patients by enabling them to start therapy up to 3 days faster.

Specialty Expedite also allows us to have real-time electronic communications with patients, obviously with their consent, so that they understand the status of their prioritization and the timing of when they can expect to receive their prescription. It is also a positive experience for physicians' practices, allowing them to spend more time and focus on patient care.

To drive appropriate therapy and further drive down costs, we're also working to create additional competition amongst manufacturers through innovative contracting strategies and robust utilization management solutions that go beyond anything in the marketplace today. We've seen accelerated adoption of our NovoLogix solution, which makes it easier for prescribers to recommend the optimal therapy. And as we look ahead, we will continue to expand that platform's capabilities.

Our fourth and final growth pillar is the open platform solutions itself. Now CVS Caremark has had a long history as acting as an open platform, providing solutions to a broad range of health care stakeholders including those that are not traditional PBM clients. Our size and scale enable us to reach more than 75 health plans, more than 90 health systems provider organizations and accountable care organizations and more than 1,400 employer clients and more than 94 million members. We are excited about the opportunity to bring new health care solutions to this wide range of stakeholders.

Our transformation portfolio, as you saw, aims to solve some of the most critical health care challenges facing our nation. For example, as Alan mentioned, our chronic kidney disease solution, recently launched to both our PBM and non-PBM clients, aims to revolutionize care for a very underserved and costly patient population. CVS Caremark has developed a new vendor management benefit tool service in direct response to client feedback. It's designed to help our PBM clients more easily contract, implement and manage their third-party health and wellness benefit solutions. Now this new service offers clients a seamless way to access precontracted pricing, coordinate contracts, automate eligibility verification, simplify billing and payment processing and standardize results reporting across multiple vendors.

These enterprise innovations, including our new HealthHUB store format and our chronic care solutions, are all using an open platform concept. And we are designing these tools based upon input we're receiving from all stakeholders that we serve. In fact, we are inviting our clients to

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collaborate on many of these solutions with us, capitalizing upon our shared commitment to improving health care in the communities that we serve.

We are confident in our ability to address the critical needs that health plans, members, payers and providers all face. For example, since the close of our Aetna transaction, we've been very focused on developing a new comprehensive oncology solution. Now our goal for oncology is to create a solution that improves the quality of care while reducing overall costs for our clients and their members.

Cost management is critical in cancer care because oncology accounts for approximately 25% of the total specialty drug spend and about 10% of the total health care spend. Reducing those costs while optimizing treatment requires us to focus on 3 critical elements: aligning physician incentives with health plans, enhancing the patient experience and improving care quality.

Today, cancer care spend is highly variable across regimens and providers largely because there is a significant variation in chemotherapy regimen selection. We believe this is due in part to conflicting physician incentives. To drive more appropriate therapy choices and enable value-based payment, our solution leverages NovoLogix clinical decision support tool built around the NCCN guidelines, which are widely recognized and used as a standard for clinical policy and oncology by both payers and clinicians.

This approach enables the prescriber to select the most appropriate therapy to expedite payer approvals electronically and, most importantly, to improve care quality. At the same time, our program enhances the patient experience through holistic patient advocacy and high-touch engagements with dedicated nursing staff. Taken together, these interventions enable us to reduce administrative costs and overall medical spend through improved compliance with the most appropriate clinical pathway.

So let me summarize what I've shared with you here today. We are confident that our leading PBM platform will position CVS Caremark for delivering transformational health care while returning to healthy growth. With a new wave of innovation focused on delivering strategic growth, we have repositioned CVS Caremark to evolve and remain the market leader.

Thank you for your time today. And now I'll turn it over to Kevin.

(presentation)

Kevin Hourican - *CVS Health Corporation - Executive VP & President of CVS Pharmacy*

Okay. Good morning, everyone. I'm excited to have the opportunity today to present our retail business strategy, how we're driving consumer-first innovation that will lead to profitable growth. I will also describe in detail our new HealthHUB format, and how the HealthHUB will help transform health care accessibility, affordability and quality.

The video that you just watched highlights some of the recent retail innovations. And I'll double-click on several of those innovations throughout my presentation.

I'll start today by discussing the overall health of our retail business and then pivot to articulate the aspects of our growth strategy.

CVS is leading the industry in prescription growth. At CVS Retail, prescriptions dispensed has solidly outperformed the industry, growing 10% in 2018 and an impressive 7% on top of that growth in Q1 of 2019. This 2-year stack has increased our industry-leading market share to 26.3%, the highest in company history.

The growth we are delivering in pharmacy is roughly 3x the rate of the industry average. And in Q1, the composition of the growth is the following: 55% of our growth is being driven by industry-leading clinical adherence programs. We call that organic growth. These programs are intended to help patients stay adherent to their medications that their doctors prescribed. To improve adherence, we train our pharmacists and our technicians to help customers address the barriers to adherence like forgetfulness, confusion about medication effectiveness and overall medication costs.

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35% of our growth is coming through strategic partnerships with third-party payers and -- like Medicare Part D plans and through our real estate program. The remaining 10% of our growth is coming from the expansion overall that's taking place within the industry.

Our front store business is growing as well. We're up 1.5% in 2019 on top of a 1.5% growth in 2018. We are delivering this top line result while simultaneously expanding profit margins within the front store.

Our front store growth is being driven by innovations in our health and beauty businesses. We are generating growth in these 2 categories through a combination of product introductions, improved personalization and an improved in-store shopping experience. As you can see, health care sales in Q1 grew a solid 5.6% compared to last year. This is during a soft cough-and-cold season for the industry. Beauty and personal care grew 3.2% driven by strength in our facial care business.

Sales results for consumables and general merchandise reflect our strategy of driving more profit by reducing low-margin promotions and shifting our investments to our core winning categories. The result is that we are growing our top line sales in health and beauty at a rate that's more than 2x the industry while we are simultaneously expanding profit margins.

CVS Pharmacy is winning customers and growing share in pharmacy and in our front store business. Our innovations are attracting customers and business partners alike. Despite this significant growth, 2019 is a challenging year from a profit growth perspective. We have headwinds that are impacting the bottom line of our business. We continue to experience reimbursement pressure and have seen a reduction in the traditional offsets like the benefit created from generics. The ongoing shift of consumer spending online unmitigated will lead to traffic declines into stores.

And while we have been successful in offsetting the digital impact of traffic to our stores, we were not able to fully offset the impact of reimbursement pressure in our pharmacy business. As such, our retail business is forecasted to deliver a year-over-year profit decline in 2019.

Over the next 15 minutes, I'll walk you through our plan to grow both the top line and the bottom line in 2020 and beyond. So let's transition to that growth strategy.

Our strategy will transform the retail consumer experience and help improve health care accessibility. With the rise of e-commerce, our stores must be a compelling place to shop. Store formats must vary to match the communities in which we serve. We must have a quality digital experience that delivers convenience our customers expect and offers products at competitive prices.

We must innovate within our pharmacy business to help patients stay adherent to their medications. We must introduce new products and services to attract customers into our store locations. And in order to transform health care, we must increase the strength of the relationships we have with our customers. We will do this through improving the customer service that we provide in our stores and through our digital tools. Our retail strategy addresses each of these critical success factors.

And finally, as Jon mentioned, we are on a path to driving meaningful productivity improvement that will enable a lower cost structure that will increase profitability.

CVS Pharmacy is positioned to win as we maximize the capabilities of our unique set of assets. We are confident in our ability to drive top line growth faster than the industry. And we will meaningfully improve our productivity in order to increase profit margins. We will begin the important effort to transform how we contract with third-party payers. And lastly, we are inspired by our opportunity to transform the health care experience through our store colleagues and through our stores.

Pharmacists and nurse practitioners are consistently rated as the most trusted health care professionals. We will build upon the relationships that our pharmacists and nurses have with their patients and transform how health care is delivered. I'll spend the next few minutes going into some detail on each of these efforts.

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We are driving growth in our $20 billion front store business in 4 primary ways: We are remodeling thousands of stores to renew health and beauty format and hundreds more to our [EMOS] format. Each of these store formats are resonating with customers, driving increased sales and traffic. These 2 formats are a compelling place to shop.

We are expanding our health and wellness assortment by adding thousands of new items with the goal to deliver the most comprehensive sick care and self-care assortment in the industry, examples being newly introduced items that are shown behind me in fitness, memory and focus and anxiety.

We are advancing how beauty is delivered in the drug channel as well. They're our new Beauty in Real Life format. The format, live in more than 50 locations by the end of the year, expands space to beauty, adds hundreds of new items and introduces new brands and services to CVS. Two recent partnerships highlight the advancements we are making. Beauty services delivered via GlamSquad and teeth straightening from SmileDirect.

And lastly, we are using artificial intelligence tools to improve the reach and relevance through our loyalty program known as ExtraCare. The improved relevance of offers has increasing conversion rates and sales from ExtraCare.

All told, these front store initiatives are growing top line faster than the industry while simultaneously allowing us to expand our profit margins.

Over the past decade, we've invested in our pharmacy system to create best-in-class clinical capabilities. Examples include Pharmacy Advisor, diabetes counseling and refill reminders. Recently, we've implemented a host of new capabilities to improve convenience and help customers on their path to better health. Examples include nationwide home delivery and our recently introduced Saving Patients Money program.

Our latest capability that Larry mentioned is called pharmacy personalization. It allows us to identify the right next service or product offering to the right customer at the right time. For instance, saving money motivates some people while saving time motivates others. We're going to pinpoint the right offer to the right person. I'd like to highlight some of our more differentiating capabilities over the next few minutes.

We built our proprietary pharmacy Savings Finder to proactively identify ways to save customers money on their out-of-pocket expenses. Many customers do not take the medications their doctors prescribe due to affordability challenges. Our Savings Finder helps address this important barrier to adherence.

Our proprietary system called ScriptPath determines the best time of day to take medications, considering the drug, its effectiveness, its interactions with all of the other medications a customer might be taking. ScriptPath converts the sometimes confusing medication instructions into easy-to-read prescription labels and displays that information on a consolidated medication schedule that you can see behind me.

Lastly, we've expanded our multidose packaging service nationwide over the last 6 months. The service provides personalized dosed packets that are shipped to the consumer in a convenient dispensing box. The monthly shipment can be sent to the customer's home or unique in the industry shipped to our stores as well. Many customers prefer to speak to their local pharmacist each month when they come in to pick up their supply.

The innovations that I just highlighted help us attract new customers, improve medication adherence and, as importantly, improve overall health outcomes. Each of these actions will drive financial value to CVS.

Many customers choose CVS due to our convenient locations and the relationships that they have with their local trusted pharmacist. We are investing to ensure that our proximity convenience advantage is strengthened over time. Our omnichannel investments allow us to bring the best of our physical presence in the community with the added convenience of rapid home delivery and digital first tools.

Each of our digital experiences has been crafted to reduce friction points in the customer shopping experience and to highlight new services that are available to our consumers. As Larry mentioned, 72 million customers are enrolled in our text message program and receive timely notifications of the status of their prescriptions. We are the first to offer nationwide home delivery of prescriptions and front store products, both same day and next day.

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In MinuteClinic, we launched video visits in 2018 to provide even easier access to health care providers. The services are receiving very high grades from our customers and provides increased access to affordable care.

Lastly, our recently launched CarePass program that you saw on our video is providing monthly rewards to customers for a low fee of $5. CarePass members receive free delivery, a 20% discount on CVS Health products and a $10 promotional reward that can be spent each month in our stores or online. CarePass is accomplishing our goal of increasing trips and spend levels with enrolled members. These programs are increasing our connection to customers and extending our convenience advantage.

As Jon mentioned, we removed material cost through our enterprise modernization efforts. I'd like to highlight some of those examples of this important work and how they positively and directly impact the retail business.

At CVS, our stores are compelling and competitive assets. However, we have a disciplined real estate management process that manages this wide fleet of almost 9,800 locations. With that said, each year, we have approximately 500 store leases come due for renewal. As these stores come due, we will closely evaluate our best financial options for those specific locations with the goal of further improving the overall productivity of our fleet.

Jon mentioned we will be automating and digitizing select pharmacy processes to enable us to work more efficiently. These improvements will help lower our costs and, as importantly, allow the colleagues in our stores to focus on the customers that we serve and less on the tasks that need to be completed.

In the front store, we are creating a more efficient business model, utilizing the improvements to in-store technology and making improvements to our supply chain that will physically remove work from our stores.

Lastly, as Eva mentioned in her presentation, we will improve the productivity of our working capital by reducing pharmacy inventory by approximately $1.5 billion over the next few years. We will reduce this inventory level through supply chain efficiencies without compromising pharmacy service levels and targeted in-stock levels in our stores.

As I mentioned previously, pharmacy reimbursement is putting a challenge on our pressure on all retailers, both big and small. To be clear, we are being asked to do more and being paid less year-over-year. At CVS Health, we are uniquely positioned to influence change in this environment. Our goal will be to migrate over time to contracts that better align incentives between payers and the pharmacy in order to lower overall medical and pharmacy expenses. CVS Pharmacy will then share in the savings that these efforts generate for the payer or insurer. We are confident that our best-in-class clinical programs will enable CVS Pharmacy to deliver value to health plans and PBMs.

It is important to note that the majority of these efforts that I'm describing will be for our 2021 contracting season as 2020 contracts are mostly complete. It is also important that we desire to partner with all major insurers and PBMs on this aligned incentives approach.

I'd like to transition now into how CVS Pharmacy is going to help create a more consumer-centric health care experience. As Alan covered in his presentation, we're helping transform an industry in improving how health care is delivered. We are focused upon leveraging the strengths of our unique assets across our physical stores, our trusted health professionals and our digital assets. We call it the HealthHUB, and it is unlike anything in the industry.

In our HealthHUB, we have curated a customer-focused health care experience that will help improve chronic disease management and provide customers with a convenient and compelling destination to manage their overall wellness, from sick care to self-care.

A quick highlight of what you will find inside our HealthHUB. We've added thousands of new on-trend wellness items. We have interactive digital displays that highlight health trends and new services. We have physically expanded our MinuteClinic and added new services, for example, more chronic disease management as Alan mentioned, for example, diabetes screenings. We have on-site blood draw capabilities, sleep apnea assessments along with CPAP dispensing. These are just examples. All of these services are fueled by an enhanced staffing model that decreases wait times and elevates the quality of care.

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As Karen mentioned, we introduced and enhanced our pharmacy care program, and we're calling it the pharmacy pharmacist panel. We will leverage at the health plan data to generate patient interventions that maximize their wellness opportunities. This could be the introduction of a pharmacy program like script synchronization to come in one time per month to pick up your meds. Or it could be the introduction of an Aetna-specific program like the in-home care solutions that Karen spoke of previously.

By combining the health and pharmacy data, we are better able to target the products and services that will help that specific member on their path to better health. For example, gaps in care tied to chronic disease comorbidities might not be readily visible to the pharmacy. The goal is to improve care and lower medical costs, for example, as Alan mentioned, preventing an unnecessary hospitalization.

An example of this work is a customer named Joan, who is recently engaged via our pharmacist panel in Texas. Joan is an Aetna member. She's 83 years old. She lives alone, and she's taking 8 medications to manage multiple chronic diseases.

And as a part of our pharmacist panel, we introduced Joan to the multidose packaging solution I highlighted earlier and introduced her to her free Aetna care coordinator and reached out to Joan's primary care doctor to communicate the status of this engagement.

Supporting the new products and services, we've introduced to our HealthHUBs 2 new roles to CVS: the health concierge and a dietitian. The health concierge is a real game changer inside of our stores. They are readily accessible to customers and help educate them on new products and services that are available in our stores and help connect customers to those services. Additionally, over time, the concierge will be enabled to answer insurance-related questions. Lastly, we have on-site dietitians that can help customers better understand the impact of nutrition on their overall health and wellness.

The initial impact of our HealthHUBs is very positive. We are exceeding our initial business projections as measured by increases in front store sales, MinuteClinic visits per day and prescriptions dispensed. We are also tracking the impact of HealthHUB on lowering overall medical costs over time for the customers that we serve.

As importantly, we are closely tracking the customer experience in these stores. The Net Promoter Score, as you see behind me, is over 75 for our HealthHUBs, nearly 900 basis points higher on a quality performance from our chain average. Pharmacy and front store overall satisfaction are also meaningfully higher in these stores than the rest of the chain. In summary, our customers love the format, and the initial financial results are compelling.

Based upon the initial success of our HealthHUBs, we're aggressively working on our expansion plans that Larry announced earlier this morning. Today, we announced that we will expand into 3 additional markets by the end of 2019: Philadelphia, Atlanta and Tampa, Florida, along with completing our rollout in the Houston market. Based on this expansion, we will have approximately 50 HealthHUBs by the end of the year.

Equally important, we are developing the plan to scale HealthHUBs nationally by the end of 2021. We believe that we will need to convert approximately 1,500 stores to the HealthHUB format in order to complete nationwide coverage. The remainder of our stores will act as spokes and will collaborate with the hubs in care delivery. This is an aggressive expansion plan but one we are confident we can deliver within our capital plan.

Our HealthHUBs are engaging with customers in new and compelling ways. I'd like to highlight a couple of examples that display it in the real world. A recent customer example from our Spring, Texas store brings to life the exact scenario that Alan spoke of in his diabetes journey. A customer named Luis recently visited our MinuteClinic with complaints of stomach pain. There's the key, came into our store with abdominal pain, something perhaps quite mild.

Our nurse practitioner was able to have blood drawn on-site and sent off for testing. The customer's A1C level was greater than 12%, which is 2.5x normal levels. Our nurse identified multiple gaps in Luis' medical history -- excuse me, medical therapy and medication management. He had not been to a doctor in 2 years and had not been managing his diabetes. The local presence of our HealthHUB and the expanded services of MinuteClinic help prevent a severe deterioration of his health and will reduce his future medical expenses by staving off the decline of the disease.

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A second compelling example begins with a recent intervention by the care concierge, that net new physician I spoke of in our stores. Our care concierge approached the customer in our self-care aisle to offer assistance. The customer was looking for products to help her manage her weight. After helping her find the item she was looking for, our care concierge introduced her to the on-site dietitian.

Through that initial conversation, our dietitian identified the customer had been experiencing severe headaches. Concerned with this information, the dietitian had the customer's blood pressure tested, and her BP was an alarming 200/120.

With this information on hand, the care concierge immediately engaged our MinuteClinic nurse. The nurse identified multiple gaps in this patient's care and prescribed medications to better manage her conditions. Our nurse learned through that conversation the customer had not visited a primary care physician in more than 2 years and had multiple family members with severe heart disease.

Our nurse helped establish a medication, diet and exercise plan for the customer. And we have followed up multiple times through our dietitian to ensure the customer is on her path to better health. Once again, convenient access to care in a trusted and compelling setting resulted in the prevention of a significant adverse event, saving a life literally and reducing future medical expenses for both the customer and the insurer.

I'd like to highlight that our HealthHUBs are intended to work in collaboration with primary care providers. In both of the examples that I provided, our customers had not visited their primary care physician in years.

To further highlight this point, approximately 50% of the patients that we see at MinuteClinic do not have a PCP. Our nurses refer these patients to a PCP network when appropriate to do so, like in the 2 scenarios I just described.

I hope that these examples bring to life the powerful real-world impact that our HealthHUBs are having on the lives of our consumers and the impact that we can have on lowering overall medical costs.

I'd like to wrap up our time this afternoon with a quick summary of our retail strategy. We will lead the industry in consumer-based innovation that will drive outsized revenue growth. We will increase automation in order to streamline workflows and enable a differentiated consumer service experience. We will collaborate with payers to align incentives, improve health outcomes and lower overall medical costs, sharing in the savings and helping to offset the pressure of pharmacy reimbursement over time.

Lastly, we will transform health care delivery via our stores and local communities via our trusted health care professionals and via our digital capabilities. We are confident that the HealthHUBs will enable our transition from a traditional retailer to a consumer health company.

To wrap up our time together, I'd like to show you a quick video that highlights Luis' journey. He is the first customer example I provided you a few moments ago. His visit started small with abdominal pain and had ended with care that was much bigger. After the video, Larry will come back up on stage to wrap up our presentations.

(presentation)

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

All right. Well thank you, Kevin. And first of all, let me thank everyone on our team for their presentations. I think you can see the strength of our executive team along with the leadership that they provide to a very strong bench that you don't have the opportunity to meet today. But that strong bench is what supports many of the activities that you heard about this morning.

So as our team is returning back up here on stage, as the table comes up on stage, yes, let me just wrap up with a couple of comments. And I want to focus on the examples that you heard this morning, whether it's the Hospital to Home product, a solution to the challenges associated with kidney disease or simply everyday life examples of an individual with chronic disease, someone that you've met this morning, like Joseph or Luis that you just saw in the video, every one of those solutions connects the dots associated with health care in a very different way.

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You heard the phrase health care ecosystem a few times this morning. And this is what that looks like for this new company. We can touch every facet of the health care market in a direct or in a complementary way with the consumer at the center of care. So imagine scenarios that you heard described this morning scaled all across the country millions of times every day because when you add that up, that's what creates meaningful value to impact our performance and ultimately what we can deliver to our shareholders.

So we're going to go ahead and move to the Q&A. And I do want to introduce you to another member of our leadership team, Tom Moriarty, just to my left. Tom is our Chief Policy and External Affairs Officer. He has responsibility for all of our activities in DC and the States. I'm sure there'll be some questions around that this morning.

So we have folks with microphones here in the room. Please raise your hand. We will come and find you. And we would ask that you wait for the microphone. So those participating via the webcast can hear your question. And we would ask that you state your name and affiliation. So [Sharon], up front here. Ann?

QUESTIONS AND ANSWERS

Ann Kathleen Hynes - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Ann Hynes with Mizuho Securities. So thanks for all that guidance on 2020 especially the operating profit guidance. What is higher than my estimate was the retail operating profit guidance, going from a 10% decline to positive next year. And I know there are some things that won't be repeated. But if we take that kind of negative 5% operating decline this year that you've talked about in Q1, that seems like a big shift to me. And I know we talked about generics.

Can you give us more detail on other drivers besides the break open in generics, especially the sourcing comments, because when I look at some of the generic manufacturers, they seem like they're under a lot of distress, but just any more details on how you can get there.

Kevin Hourican - *CVS Health Corporation - Executive VP & President of CVS Pharmacy*

I'll start that and maybe wrap up with Jon coming back up on Red Oak's contributions. So we are confident that we can grow the retail business in that low single digits that Eva talked about in her presentation. And where that profit will come from is top line exceeding the growth rate in the industry, significant productivity improvement through the modernization efforts that Jon spoke of. And the majority of that value in the next 18 months will flow into the retail segment through automation of work, a significant increase in contribution from sourcing activities, which you just referenced. And the last is a nonrepeatable, which was the investment we made in wage for colleagues that we've talked about over the last year.

So when you put all those things together, it will result in a low single-digit growth for next year. And we're confident we can be able to continue that over time. For the longer years, for the outyears, is when we want to be able to see an improvement in reimbursement tied to the value-based contracting that I mentioned.

So Jon, I don't know if there's anything you want to add, or Eva?

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

Yes. Ann, if I could just add a little bit of color there. We spoke a lot about the enterprise modernization. And as you look at the buildup of that, particularly in the near term, that disproportionately benefits the retail segment. So that's -- as you look at that near-term growth, that's a key driver.

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Jonathan C. Roberts - *CVS Health Corporation - Executive VP & COO*

And then for the generics, we talked about 2020 being a better year than 2019. And actually, if you look out over the next 4 years, 2020 to 2023, there's $41 billion of generics and biosimilars coming to market. So there's a fair amount of opportunity, although about 1/3 of that opportunity is in biosimilars.

And then when you look at existing generics on the product, there is -- there are a fair number of generics with only 1 or 2 manufacturers. So we will be working with our manufacturer partners to bring more competition to the market. We'll commit the volumes up-front, which will allow us to improve the economics. So think about it really going out and seeking out partners to help us bring products to market and reduce our costs.

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

[Robin]?

Michael Aaron Cherny - *BofA Merrill Lynch, Research Division - Director*

Mike Cherny from Bank of America. As you think about both the 2020 outlook from a profitability and growth perspective in 2021 and beyond, how do you think about the changing legislative regulatory landscape because you have Tom up there now? And I guess thinking about 2020 in particular, what are the moving pieces relative to other's drug pricing, some of the proposed or potential proposed bills, some other areas around managed care that are kind of encumbered and built into your profit guidance?

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

Tom?

Thomas Michael Moriarty - *CVS Health Corporation - Executive VP, Chief Policy & External Affairs Officer and General Counsel*

Well, I think as you look at the landscape, obviously there's an awful lot going on. There are things that are positive, some things that, depending on how they play out, may have a negative impact. Ultimately, as you look at all these things, whether it's the rebate rule, the change in DIR, spread price and other things, they ultimately have to be scored in terms of their impact. And as you look at the rebate rule and DIR specifically, they obviously have a huge cost associated with them.

So that balance in terms of making changes from the cost of it, we think the solutions that we drive and the data that we can bring to bear to show how we make a difference in bending that cost curve ultimately wins out in these policy arguments. But it will be obviously a busy summer as we go forward.

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

And Mike, let me just add one thing to that because it underscores Tom's point that as you think about some of the common themes that you heard throughout the morning, talked a lot about what we can do to enhance consumer engagement around their health and, at the same time, a number of opportunities that we believe will reduce the overall cost of care.

So when you think about that dynamic, I'm very confident that we're going to be seen as an important part of the solution. And Tom and his team have done a great job in terms of having a voice at the table to separate fact from fiction, which is critically important in today's environment.

[Sharon], up-front here.

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Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

It's A.J. Rice from Crédit Suisse. Obviously, growth in Medicare Advantage has been a great driver of Aetna's growth in the last few years. And it looks like you continue to think that will be the case in the future. I guess there's 3 dynamics. I would love to hear your thoughts about how you're thinking about this as you go forward.

One, the geographic expansion. It was 20%. It looks like -- this year, it looks like it will moderate to 6%. And then I wonder when you're at 80% how much farther can you go.

Second, obviously, we've got the health insurer fee coming back next year probably, as you guys have alluded to. How do you think that impacts your growth and the market growth? And then clearly, there's competitive dynamics that are out there and how you do you assess what's happening on the competitive landscape?

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

So I'll take that, Larry. Relative to geographic expansion, you're right. We have been growing. And we expect to get to 80% this year. We do think that we'll continue to do geographic expansion but our growth will continue to come from the existing markets, post the 80%, because we feel like, that we're almost at the point of diminishing returns.

So -- but as I said, if you think about where our growth has come from, 50% of our growth in the last 3 years has come from the geographic expansion. We have the opportunity now to take all those expansion markets and really go much deeper. So if you think about 75% of our existing -- in 2019, 75% of our growth came from our existing markets, 25% from geographic expansion. So you can see that we're benefiting from growth in our existing markets and we'll continue to do that.

Relative to -- relative to HIF, obviously, as Joe always reminds us, HIF is the law of the land. So that we know that, as of now, it's still in. We are considering it and are -- as we think about pricing, is one of the factors that we have evaluated as we put together our Medicare bids. We submitted our Medicare bids yesterday, and we're quite pleased with what we were able to accomplish relative to our product design, relative to the new markets that we're in, relative to continuation of our 0 premium plans. So we feel like we're in a good position relative to our Medicare growth.

And then yes, it will be a competitive market. We are assuming everyone will continue to price for HIF. And -- but we -- as you know, we continue to drive to 0 premium plans, and we made that effort this year and made our product designs to accommodate that.

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

[Kathy], maybe up front here. Lisa?

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

Lisa Gill with JPMorgan. I just really want to talk about the HealthHUB rollout a little bit, Larry. So if we think about your goal of 1,500 by the end of 2021, we talked about 50 today, how many of those are going to replace the MinuteClinic locations today where there's 1,100? Or do we think about there being 1,100 MinuteClinic locations, and then another 1,500 HealthHUB, would be my first question.

And then secondly, when you talked about the $850 million of operating profit and you kind of broke that down between medical savings, new business, other clients, how much of that is actually going to come directly from the HealthHUB? And how do we think about the time line of profitability on the HealthHUB side?

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

So Kevin, I'll ask you to start and then flip it over to Alan for...

Kevin Hourican - *CVS Health Corporation - Executive VP & President of CVS Pharmacy*

Sure. Well, Lisa, thanks for the question. The 1,500 will be inclusive of MinuteClinics. So the first places we would go would be to locations that have a MinuteClinic, and then we expand the MinuteClinic. If you saw in the video, a traditional MinuteClinic has 1 or 2 rooms. The HealthHUB has 3 or 4 rooms, depending upon how busy of a store it will be. So that does imply there would be a MinuteClinic expansion as a part of rolling out to 1,500 locations.

And I'll turn it over to Eva and Alan...

Alan M. Lotvin - *CVS Health Corporation - EVP of Transformation*

So, Lisa, if you think about the wheel that I showed, the MinuteClinic value is in that $300 million in the bottom right, so that comprises both the existing businesses, other payer revenue and other services. So can you think about it, in there from the perspective of the direct MinuteClinic -- MinuteClinic and other services value in the HealthHUBs?

Kevin Hourican - *CVS Health Corporation - Executive VP & President of CVS Pharmacy*

I think what's different, just to add one piece is that in the past, MinuteClinic was known for cough and cold, and that type of visit. With what Alan is doing, there'll be a much more everyday-type business towards chronic disease management, which has a different billing and revenue cycle associated with it as well.

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

And Lisa, the other thing I would just mention is that, we are in market -- in the Houston market with our go-to-market strategy relative to HealthHUBs, and it is generating interest. As a matter of fact, we just won a large group account in the Houston market as a result of having the HealthHUB there. So we're really excited about that.

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

And Lisa, maybe just to wrap up, the dialogue round that, because we may have surprised some folks this morning with a 2 year rollout plan, or 2.5-year rollout plan, and I think one of the things that we've come to appreciate, first of all, is you heard this morning, we're very excited about the results and, think about what we've done as just a soft launch. We have not turned on any marketing. So the best is yet to come, from our perspective.

And at the same time, whether you start thinking about multiregional or national clients, to Karen's point, we know historically benefit managers get excited about the opportunities, but quickly talk about the fact that, "Gee, this is great, but this only applies to 20% or 30% of my members." And I can't offer something that doesn't touch at least the vast majority of my employees. So we think it's the right plan, and we're excited in terms of what we've seen so far.

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Jonathan C. Roberts - *CVS Health Corporation - Executive VP & COO*

And Larry, just one more point. We'll also be going to market with the HealthHUB as an open-source model. So think of all of our other health plans and employers that will be interested, and this will, I think, support Kevin's goal of a new reimbursement model that has a value component, clinical component, as opposed to just a product component that we have today.

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

(inaudible)

Kevin Hourican - *CVS Health Corporation - Executive VP & President of CVS Pharmacy*

That's right. Yes.

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

So [Becky], maybe we can catch one. I don't want to miss the ends of the room. Maybe all the way over there. Any questions? So Becky , pick somebody, because I don't have my glasses on.

Peter Heinz Costa - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

Peter Costa, Wells Fargo. You talked about accelerating growth and earnings over the coming years. For 2020, you still have the Pharmacy Services business down in your forecast. You talk about the generic wave slowing after 2020 with the break opens, and you talk about no single reason for why the Pharmacy Services business lost the customers that it had.

So the question is, do you expect to get to that the accelerated growth for the overall company, the Pharmacy Services business to turn around and start to grow, going forward? Does it need to grow to hit that accelerated earnings growth?

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

Yes, Eva, maybe I'll ask you to start. And then Derica, maybe you can put some additional context on the selling season.

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

Yes, so thanks for the question, Peter, and I think there's a couple of ways you're breaking it down, kind of what do we expect in the near term versus longer term.

As we think about the business longer term, we expect all of our businesses to continue to grow. As we look at 2020, the low single digits is clearly affected by the selling season of the PBM, as I said during my prepared remarks. It's about [net], almost $9 billion of contraction there. And as we look at the near term, we also see benefits from the modernization to help mitigate some of the headwinds that the business has seen, the reimbursement pressures as well as the slowing of generics.

As you look out over time, I would say you start to pivot and you're relying on some of those legacy profit levers less, and you see value coming from what Alan presented in terms of the open source model, new products and services that we're able to sell and pull through, not only in Aetna, but also open source across the 90 million lives that are part of Derica's business.

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Derica W. Rice - *CVS Health Corporation - Executive VP & President of CVS Caremark*

And Peter, in terms of the 2020 selling season, if you all think back to the slide I shared that had the arrows up and down, what I was looking to depict there is that if you, the headwind clearly in '19 for the PBM is the rebate exposure. In 2020, the headwind is obviously the effect of the net selling season for 2020.

When you look at that number, while though it's large, it's actually a relatively small number of clients, in fact there's only about a handful of clients creating that outsized impact. I don't expect that to persist as we think about the '21 period.

And then likewise, we also expect to see the continued growth in specialty that I highlighted, and we know that, that's a key focus for our clients. And so our ability to continue to enhance our products and services and get appropriately compensated for that should allow us to grow in that '21 and beyond period. And you should think about our growth, longer term more along the lines of our claims growth, and then that gets accentuated, as you heard from Eva, with what's coming out of transformation as well as any additional products and services that we offer, core to the PBM.

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

[Becky], up front here.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Steve Valiquette from Barclays. So somewhat tied into that last question. I do have, I know you guys probably hate the mathematical questions, but just to go through this quickly. From Eva's presentation, if we have the integration synergies, plus the enterprise modernization, plus the transformation, the $3.5 billion of total operating profit from that, that's right around $2 of EPS that you would capture through 2022. So just using round numbers, that we take EPS from, call it, $7 to $9. Yet if we just extrapolate your official EPS growth guidance that you gave through 2022, by our math, we'd get to around about $8.25 of EPS. So something in there is kind of a subtraction of, call it, $0.75, give or take. It probably is the PBM segment, you're guiding for that to be down in 2020.

But I guess the 2 questions tied to that, again, similar to the last question, should we expect growth in the PBM beyond 2020 as we bridge to 2022? But also from those 3 programs, the synergies, modernization, transformation, how much of that does flow to the PBM as we think about just that segment profit through 2022?

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

Okay. So Steve, I appreciate the math and the multifaceted question there. As you think about the near term, right, I'm going to go back to what I said before, we've spoken a lot about the reimbursement pressures in our business. And as Jon has said, the value from generics will vary by year, but will also decrease over time. So they're the headwinds that we're working against.

We're leveraging the modernization and the synergies in the near term to help offset those headwinds, to deliver the growth that we outline today. And longer term, we see the real value creation as we grow the business through transformation and the products and services we offer.

I think at the end, you said how do we think about each of those by segment. Was that the last piece of your question? So I'll break it apart for you. First, if you start with the synergies, we've spoken about that, that the primary beneficiary of that is the Health Care Benefits segment, coming from both the medical cost savings as well as the underlying consolidation of the G&A and the corporate reductions.

As you think about modernization and the run rate of $1.5 billion, and this will vary depending what year you're looking at. But early on, you can think about nearly half of the modernization benefiting the Retail/Long-Term Care segment, and the remainder split across the various other segments. Earlier, PBM more; later, Aetna more. And the transformation, I think Alan laid this out on his wheel very nicely, if you think about the

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$850 million in 2022, about half of that early on is coming from medical cost savings, which benefits the Health Care Benefits segment, and the remainder, depending on the timing of the different levels -- levers will benefit the PBM and Retail/Long-Term Care with the services we sell in open source, the new products and services, the expanded MinuteClinic in our CVS stores.

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

Steve, just one other point, to just wrap up, if you go back to one of Eva's slides, as you look long -- this is longer term now, she had the other column in. And one of the things to be mindful of as we move -- this isn't 2020, this is beyond, that we've talked about managing at the enterprise level. So there are things today that we can't be certain as to how the benefits will flow across the segments. Trust that we will do the right thing to grow the enterprise, that's our priority, and you also have a commitment from us to ensure that we provide that level of clarity and transparency in terms of where things flow.

Robin? Justin. I think that's Justin. It is?

Justin Lake - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

Justin Lake, Wolfe Research. Question for Kevin on the pharmacy side. Can you talk a little bit about the pricing environment there? And specifically, what needs to change in terms of the 70,000 pharmacies? Where does that market need to be 5 years ago? What how are they thinking about shrinking your footprint? And when can you get pricing in line with what's happening with cost, with your customer base?

Kevin Hourican - *CVS Health Corporation - Executive VP & President of CVS Pharmacy*

Thanks, Justin. A multipart question there. I think some of it goes back to Ann's question on how are we creating profit for next year and the year after. We are taking a significant amount of cost out of the business. That also enables us to participate competitively, as Jon mentioned, for the reimbursement that's today based on drug, where being an efficient retail pharmacy matters, we can win share in that environment by lowering our cost and then therefore being able to absorb reimbursement pressure. So that's -- think of that as the majority of our contracts over the next couple of years.

We then desire, as I mentioned in my presentation, to migrate towards a portion of our reimbursement tied to the value that we create. And as Jon mentioned in the HealthHUBs themselves, we have the opportunity to provide services to customers that can meaningfully lower medical cost, and then we would expect to be able to share in the savings that are created from that.

We'll start by doing that within our own books of business. So Karen and Derica to my right, we're going to collaborate on a new reimbursement structure for retail, Aetna, Caremark, that does that. It will create value for mostly Karen's insured members, and then we can provide some of that benefit on to retail.

Jon said, well, we intend to extend that capability and that contracting methodology to all of the major insurers. We are optimistic that they will be interested in participating, because the incentives are in this interest, mutually aligned. It benefits them.

On the store count, I can't speculate into the future on the number of competitors and the number of pharmacies in the market. I would say, through our own real estate portfolio, I did mention this a little bit in my presentation. I'll provide a little more color now. I will answer the question. Will we open more new stores? We will open more new stores, and some of the lines are pretty obvious. The Pacific Northwest, if you look at a map of where we are, we're understored in the Pacific Northwest. We have select fill-in opportunities in high-growth markets throughout the country that we will do.

We will also close stores. We've closed a couple of hundred stores over the last few years. Those closures, in particular, were unprofitable locations. Larry reminds people that we were, in the past, selling cigarettes, and some of those stores that we closed were more acting like convenience stores than they were retail pharmacies. That's in the past. That's done. Others probably have to confront that. We're, we have that in the rearview mirror.

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The stores that are in our fleet today are profitable. I want to make that very clear. The stores that are in our fleet today are profitable. We do have the opportunity, however, as leases come up for renewal, and we do have options to be clear on that, the leases are up for renewal. We have the right to continue operating where we currently are, but we will evaluate each and every single one of those locations to determine the best possible outcome for the overall environment from a profit improvement perspective. And I hope that's quick.

Jonathan C. Roberts - *CVS Health Corporation - Executive VP & COO*

And Justin, maybe I'll add. The 3 large PBMs are now owned by health plans that own health risk, and so we do believe there's going to be a move towards this value-based reimbursement. So when you look at the 70,000 pharmacies, what percent of them can actually invest in the capabilities that achieves the health outcome goals? And that's how we think the market will move over time, that the larger payers will move to value-based pharmacy networks and they'll be looking to the players that can actually deliver on their goals and objectives.

Kevin Hourican - *CVS Health Corporation - Executive VP & President of CVS Pharmacy*

And Jon, thank you for that. And I agree. And the one point I forgot to mention is that over the last few years, we have reduced the number of new stores that we open per year by about 50%, so I think that also telegraphs where we're headed.

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

[Robin], up front. Josh?

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

HealthHUB question. I guess the first would be, when an individual presents at the HealthHUB, how do you differentiate that treatment of that individual, whether they're in CVS now, CVS Aetna member, versus sort of this open-source idea. I guess and I'm trying to think about how do you accrue more benefit to your specific book of business, rather than just sort of improving the market?

And then the second part would be, how long does a HealthHUB have to be opened before you start thinking out -- or a market has to be open before you think about that marketing and that campaign around, we're here, we're local, the differentiated care?

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

So I'll take the first part, which is, the question of how do we think about customers that come in the door. People who present in the door to MinuteClinic, they are treated. MinuteClinic and HealthHUBs are treated, and they're treated with the same levels of support and care across the continuum.

Where the differentiation can happen is that proactive understanding of what people need, having more information about them and their, either past history, the Next Best Action, their preferences and desires around how to be communicated with, and building those longer-term care plans. That's the current, I would say, advantage for the combined entity. And again, as we've made it very clear, in an open platform model, we can work with all of the payers in an area around the HealthHUBs to provide the same level of services.

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

And Josh, the other thing to accrue more benefit to us, we are improving our product designs to have 0 minute copays for example, so we can funnel traffic into the store. We also, through our care and management programs and our nurses, we can direct people into MinuteClinics so that we can broaden the access of our network using the HealthHUBs and MinuteClinics. So that's how that -- more benefit will accrue to us.

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Alan M. Lotvin - *CVS Health Corporation - EVP of Transformation*

And then the second part of the question, about how long do they have to be open, these have been open for 4 or 5 months. So we -- we're first filling out the Houston market this year, so we have a number of different methodologies to increase awareness, both in the community within a local payer community as a Caremark payers or Aetna payers. I think as we continue to complete a market that will -- marketing and awareness will be an important part of that.

I don't know, Kevin, if you want to add to that at all.

Kevin Hourican - *CVS Health Corporation - Executive VP & President of CVS Pharmacy*

Yes. I just, I'll actually end with the marketing. I just want to go back to the, what's available for everyone and what would be unique to Aetna numbers at this point in time. And as Jon mentioned, we would desire to extend some of these capabilities to the other major payers.

Anyone walking into the store is going to interact with the care concierge. That person will help them understand the new products that are being sold. As I mentioned, thousands of new items to help with self-care, extended MinuteClinic capabilities that will be available for all, pharmacy counseling on medications and the like.

What's different is with deep and trusted data sharing with Aetna, we have full visibility to the medication profile, the medical history of the individual, and Aetna actually will send to the pharmacy, here's the very next best thing to offer to that person. And it comes from data integration and deep trust.

There's also the opportunity for us to spend significantly more time with that customer. Now we will take that customer, you saw in my presentation, an actual picture of a consultation, where we'll spend an hour with a customer in a consultation room, because we have the opportunity to save $10,000 for the insurance business by avoiding the hospitalization. There's not a method you get compensated for doing that type of work in traditional retail pharmacy today. And as we mentioned a couple of times, we will extend those capabilities to the other 2 major insurers that also have PBMs, and we believe they're going to be interested, and we need to develop the mechanisms by which we will get reimbursed for that work. But we're more than happy to do it. In fact, we want to do it.

As it relates to marketing, Alan hit the point. When you have an entire DMA or city converted, then you'd make sense to do some direct-to-consumer advertising, and Karen will have member communications that would go along with that as well. And Larry hit the point really well, it's one of the reasons why we're accelerating to rollout nationwide by the end of 2021, as the cost-effectiveness of being able to do that brand awareness and marketing is significantly improved if we have national scale.

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

And Josh, in addition to...

Derica W. Rice - *CVS Health Corporation - Executive VP & President of CVS Caremark*

Hey Josh, I just want to make sure it's not lost that our intent is to create that same depth of relationship and understanding of the members of other health plan and employer clients as well, because that's where we get the full leverage across the entire book of business that I shared earlier. That's those 75 health plans. It's the other employers of 1,400. That's where you'll see the real uptick.

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

And Josh, the other opportunity we have and we're doing this currently in Houston is, we are working with our provider network, educating them about the HealthHUBs and having them understand that our members have another access point in the HealthHUB so they can engage with us in a different way.

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

And Josh, just to wrap up on this, to underscore Derica's point, because you started your question with the open platform concept, and this goes back to one of Jon's points in his presentation this morning. We have made investments in technology that today we can accept payer data from multiple sources. So that becomes a key enabler, to Derica's point, in terms of the open platform model, making it available to others.

So. Is that Ross? Thanks, [Sharon].

Ross Jordan Muken - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Healthcare Services & Technology*

Ross Muken from Evercore. So I guess if we think about a lot of the messages today and themes, a lot of it's centered around sort of the power of the enterprise, new and innovative solutions, being disruptive, taking share, all the sort of things that I think make a ton of sense. And in Eva's presentation, she translated eventually to kind of double-digit growth on the earnings line. And yet, we look at your stock, sub 8 times, the market is kind of implying little to no growth. I guess what do you think is missing, right? What are the key issues you hear brought up relative to any of the 3 segments that the market is getting wrong, relative to kind of the risk profile? What are the 1 or 2 big things?

And on the opportunity side, I think you did a great job today, kind of outlining -- in Alan's presentation, some of these new sources of growth. And then Eva also, when you touched on some of the cost side of things. I guess what do you think's underappreciated now? And is it -- and what do you think you're going to have to deliver for the market to sort of change its view, I guess? Because it feels like, today was a pretty compelling picture of the future, and yet the market's sort of not there, and so I'm just trying to bridge the 2.

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

Well, Ross, listen, I appreciate the question. And maybe I'll start. I think we all appreciate some of the open questions on how value can be created to drive long-term sustainable growth and provide the appropriate shareholder returns as a result. So to your point, hopefully, we answered a lot of those questions this morning in our presentation.

I think the second thing, Ross is, and it goes back to, I think Mike asked the question in terms of the [swirling] issues going on in D.C. and state level that Tom addressed. And in the comment about -- listen, at the end of the day, there are many things that quite frankly expand the tools and capabilities that we have, in terms of continuing to be an important part of the solution. I think that those things are undervalued because there's a lot of concern about whether it's the rebate roll or something else, and it goes back to the comment that at the end of the day, if we've got a business model that can drive engagement and reduce cost, we're going to be at the table as an important part of the solution.

Again, we provided a lot of information and context, near term, long term, and we're moving from -- there's been an awful lot of planning. In parallel, hopefully, you have an appreciation that there's been a lot of execution over the last 12, 15 months as well, whether it's the targets around the synergies or the work that's been done around the HealthHUBs. But to be clear, we are absolutely moving into the execution phase and we're laser-focused. We've got the right team. And we'll be very diligent in terms of providing clarity on our progress. [Sharon], over here. Ricky?

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

Ricky Goldwasser from Morgan Stanley. So 2-part question. First of all, maybe you can help us connect the dots. Karen in her presentation talked about the huge eligible opportunity and how you're thinking of growing in MA. We talked about the healthcare hubs, and you gave some examples

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of people haven't seen a PCP for a couple of years. So can you share with us what are you looking for? What type of characteristics you're looking for in the markets that you're expanding into the HealthHUBs, whether it's what type of demographics or economic profile, percent of overlap with Aetna membership? That's the first question.

The second one is a follow-up on a question that was asked earlier on, and it's more focused on the near term. So when you think about how your views on brand inflation are incorporated into the 2020 guidance, and how much flexibility do you have to meet the goals you outlined for us, if there's no brand inflation, comes January?

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

Karen, you want to take that?

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

I think Alan's going to start.

Alan M. Lotvin - *CVS Health Corporation - EVP of Transformation*

Yes, so if I -- I'll take the first one, on the siting of HealthHUBs, and how what we've -- so the first 50 for the remainder of this year are really organized around the 3 major characteristics. One is the density and preponderance of chronic disease within the Aetna book of business, because that's the information we have right now. The second part is around the local health care services available. And the third would be, for want of a better term, sort of store-specific issue. Is there a MinuteClinic already there? How big is the store, et cetera.

So that's how we did the first 50. As we expand out much more broadly, we're doing the same analysis around chronic disease, so the broader book of business within Caremark and using the pharmacy data as a proxy for the medical information, right? That's -- so that 's kind of the first X number -- a fairly large number of hubs with a chronic disease focus.

As we get to the 1,500, you start looking at different characteristics of either the target patient population. So one you mentioned, Ricky, around kind of Medicaid and dual eligibles, clearly a different set of services, different needs, and that's a really, I think a rich area for us to think about in terms of building more convenient, lower cost, highly reliable, in the sense of you know how long the wait time is, et cetera, access in those communities.

And then we're starting to look and just starting to work on different sorts of archetypes, perhaps focused more on true health and wellness and more in the millennial population, rather than chronic disease. So that's how we get from where we are to 1,500. And then there's, of course, the geographic overlay on where the population is growing, where there are unmet medical needs.

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

And Ricky, I'll start on the second part of your question as it pertains to brand inflation. As we put together our outlook for 2020, I would say we've assumed brand inflation is at the new norm, where we are today, call that mid-single digits-ish. Obviously, we've adjusted our underwriting in the PBM to account for the current environment, also looking forward as to what we expect. And if there are headwinds created as a result of inflation, we will work to mitigate those with other levers and some of the initiatives we've outlined here.

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Derica W. Rice - *CVS Health Corporation - Executive VP & President of CVS Caremark*

I would just add to that, Ricky, that I think the -- with the adjustment that we've gone through this year, in '19, I wouldn't anticipate that we have the same -- even if brand inflation went away versus what we're currently assuming, we wouldn't have the same size impact in terms of exposure, when you think about were inflation levels are today. And that's been factored into 2020 going forward.

So that's why we're confident that, that exposure should begin to diminish as we flow out of '19.

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

[Kathy], maybe all the way up front.

Unidentified Participant

Sorry, my own fault for sitting over here in the corner.

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

I was trying to look this way, so...

Unidentified Participant

You did, thank you. I was just hoping you could talk a little bit about the factors impacting reimbursement in the PBM business. I hear sort of, you talk about clients, but I would think it's really the intensity of the competition amongst the PBMs that's impacting -- reimbursement impacting margins. Can you just talk a little bit about the structural factors there? And what makes you hopeful that, that eases up somewhat as we go into, say, 2021?

Derica W. Rice - *CVS Health Corporation - Executive VP & President of CVS Caremark*

Sure, I'll kick it off. Very nice to meet you. What I would come back as, again I'll point you back to the arrow slide and saying, recall how we typically have generated growth in margin in the PBM. It's through our COGs improvement that we've been able to deal with price concessions.

We really haven't seen a change -- a big change in the pricing dynamic within the industry, even with the increased competition. What we are seeing, however, is beginning changes of expectation amongst the client base where they're wanting to see more transparency as well as more flexibility. And I think it's going to be upon those PBMs, starting with Caremark, that can best adjust to the evolving needs of the marketplace.

So you saw me focus on, in my presentation, about the things we're doing, whether it's our contracting models, whether it's the new service offering, things like Specialty Expedite, where we can further differentiate in the marketplace. And we've seen through our results in our own contract that when we can display that and we can put that type of value on the table, we can either retain or win new business, and that's the cadence and the pace that we have to be under.

Clearly, as Tom shared, there's obviously changes in terms of the environmental landscape itself, whether are the federal level around rebates or whether at the state level as it relates to spread. The models that we're building, we believe, can contend in those future scenarios, if things were to change from today's landscape.

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

Okay. So we're just past the top of the hour. So we'll take one more question.

[Sharon], back, just to your left.

Hima B. Inguva - *BofA Merrill Lynch, Research Division - Director*

Hima Inguva from Bank of America asking on behalf of bondholders for Eva. Eva, thank you for laying out the delevering target. So when you think about the pace and cadence of delevering and your expectation to reach low 3x leverage target by 2022, can you share your conversations with rating agencies and what ratings level do you think is best for CVS that allows most efficient balance sheet management?

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

Yes, thank you, Hima, for that question. As we've said, we've had meetings with the rating agencies at the time of the deal closure, before the deal closure, as recently as this week, and we've laid out our road map for them and our trajectory to growth and our commitment, quite candidly, to get to that low 3x leverage ratio by the end of 2022.

Overall, Hima, we're going to remain focused on that. I think the agencies understand there's a lot of opportunity here, and we'll continue to work and be transparent with them as we work to [pay this debt down].

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

Okay. Well, again, thank you for your time today. Hopefully, you saw it as productive. I hope you found today's presentations to be responsive to the questions that you've been asking. And hopefully, you've got a good sense that we're excited. We're confident in our future. And thanks again for your time and have a great summer.

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