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CVS - Q2 2019 CVS Health Corp Earnings Call

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OVERVIEW:

Co. reported 2Q19 adjusted EPS of $1.89. Expects 2019 consolidated revenue to be $251.4-254.2b, GAAP EPS to be $4.93-5.04 and consolidated adjusted EPS to be $6.89-7.00. Expects 3Q19 adjusted EPS to be $1.75-1.79.

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PRESENTATION

Operator

Good morning. My name is Lisa, and I'll be your conference operator today. At this time, I would like to welcome everyone to the CVS Health Q2 2019 Earnings Conference Call. (Operator Instructions)

Thank you. Larry Merlo, you may begin your conference.

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

Well, good morning, everyone, and thank you for joining us. Before we get started, I'd like to introduce our new Senior VP of Investor Relations, Valerie Haertel. And Valerie brings more than 2 decades of Investor Relations experience in the health care and financial services sectors, and we're excited to have her on board.

So with that, let me pass the call to Valerie to get us started.

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Valerie C. Haertel - *CVS Health Corporation - SVP of IR Officer*

Thank you, Larry, and good morning. I'm excited to join the CVS Health team and look forward to working with all of you. I would like to welcome you to the conference call to discuss CVS Health's second quarter 2019 results and outlook for the remainder of the year. As a reminder, this call is being recorded.

In addition to Larry, I'm joined this morning by Eva Boratto, Executive Vice President and CFO. Following our prepared remarks, we'll host a question-and-answer session. Jon Roberts, Chief Operating Officer; Karen Lynch, President of Aetna; Derica Rice, President of Caremark; and Kevin Hourican, President of CVS Pharmacy will also be joining us for the question-and-answer session. (Operator Instructions)

In addition to this call and our press release, we have posted a slide presentation on our website that summarizes the information in our prepared remarks as well as some additional facts and figures regarding our operating performance and guidance. Our Form 10-Q will be filed later today, and that, too, will be available on our website once filed.

Please note that during this call, we will make certain forward-looking statements that reflect our current views related to our future financial performance, future events and industry and market conditions and forward-looking statements related to the integration of the Aetna acquisition, including the expected consumer benefits, financial projections and synergies. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from what may be indicated in the forward-looking statements. We strongly encourage you to review the information in the reports we file with the SEC regarding the specific risks and uncertainties. In particular, those that are described in the Risk Factors section of our annual report on Form 10-K and the cautionary statement disclosures in our quarterly report on Form 10-Q. You should also review the section entitled Forward-Looking Statements in this morning's earnings press release.

During this call, we will use non-GAAP financial measures when talking about the company's performance and financial condition. In accordance with SEC regulations, you can find the discussion of these non-GAAP measures and the comparable GAAP measures in this morning's earnings press release and the reconciliation document posted on the Investor Relations portion of our website.

And as always, today's call is being broadcast on our website, where it will be archived for 1 year following today's call.

Now we'll turn the call back over to Larry.

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

Well, thanks, Valerie, and welcome to our team.

Well, Q2 was a very strong quarter where we continued to execute against our objectives and build on our positive momentum with adjusted earnings per share of $1.89, exceeding the high end of our guidance range.

Now this performance was driven by strong operating results across the enterprise with Retail/Long-Term Care and Pharmacy Services performing above expectations. Importantly, these results reflect strong revenue and share gains across the enterprise.

Given our results to date as well as our expectations for the remainder of the year, we are raising our adjusted EPS guidance to $6.89 to $7, and Eva will provide a more in-depth review of our results and our updated guidance in her remarks.

We are highly encouraged by our strong results through the first half of the year, demonstrating our continued focus on executing the strategic priorities we outlined at our June Investor Day.

We are transforming our company and the health care industry and accelerating enterprise growth as we move forward. Our first priority is to continue to grow and differentiate our businesses. And nowhere is this differentiation more apparent than in our retail stores through the conversion

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of our HealthHUBs. At our June Investor Day, we announced plans to convert 1,500 locations to hubs by the end of 2021. As part of this plan, we'll be expanding to 3 more metropolitan areas later this year, and we'll add an additional 10 areas in the first half of 2020. Our expansion strategy is reinforced by the strong results we are seeing in our initial hub locations, including increased customer traffic and incremental sales in pharmacy front store and MinuteClinic.

We've also received strong consumer feedback reflected in Net Promoter Scores at the HealthHUBs, outpacing our broader chain by about 900 basis points. So we're extremely excited with the reception to our innovative offering that will allow us to engage with consumers in a differentiated manner in the communities where they live and, importantly, improve health outcomes.

In our Health Care Benefits segment, we continue to show strong momentum, particularly in our government business. On July 19, we were notified that we were 1 of 2 health plans awarded a statewide 5-year contract to serve the Healthy Kids Program of Florida. So we're excited to build on our strong existing relationship with the state and its physicians, health systems and other providers to support healthy outcomes in this important geography. And this win speaks to our breadth of capabilities in serving the Medicaid populations.

We also continue to see opportunities to further grow our Medicare products. With Medicare Advantage, our competitive products, strong STARs performance and continued geographic expansion position us well to capture significant growth opportunities in the marketplace. And our expansion for 2020 will provide coverage access to about 80% of Medicare-eligible lives.

In Medicare Part D, we are utilizing the best practices of the combined organization and are pleased with the preliminary benchmark results received from CMS for the 2020 plan year where we qualified in 31 of 34 regions. Now I want to remind you that we see opportunities to accelerate PDP-to-MA conversions to provide our members with incremental value from an integrated medical pharmacy benefit, and our PDP bids reflect this strategy, which may result in fewer choosers selecting SilverScript.

In our Pharmacy Services segment, we continue to provide value to our clients through our cost management programs while also earning high marks in both client and member satisfaction, and we are pleased with our progress on the 2020 selling season. Post Investor Day, our gross new business has increased by $600 million with net new business improving by about $1.4 billion. The second quarter also marked the beginning of the implementation of the IngenioRx business. The first wave of members were migrated on May 1. And by the end of Q2, we added millions of IngenioRx members to our platform. The date to migration has gone flawlessly due to the thoughtful planning and dedicated execution of the joint implementation team comprised of colleagues from both IngenioRx and CVS Health.

Our second priority is to deliver transformational products and services. One of the key initiatives is our chronic kidney care program, which includes the early identification of chronic kidney disease, targeted patient engagement and education to help slow disease progression and the increasing access to transplants and home dialysis to optimize care. Last month, we received FDA approval to initiate the clinical trial of our hemodialysis system. This system is designed to make home hemodialysis safer and simpler while allowing patients to receive longer, more frequent dialysis treatments, where the research has shown leads to better health outcomes. Now we have already enrolled our first patient, and up to 70 patients will participate in the clinical trial. We expect the trial to be completed over the next 16 to 18 months with product launch to occur in 2021. This strategy is aligned with the administration's recently announced Advancing Kidney Care initiative aimed to help improve early detection and expand treatment options for kidney disease, including home dialysis. The administration's focus is in line with the core objectives of our own kidney care program, and we look forward to being able to dramatically improve the treatment experience for millions of Americans suffering with kidney disease.

We've also made meaningful progress on another key transformation program, our comprehensive oncology solution, where we're aligning stakeholders around a common goal of improving the quality of care while reducing costs for plan sponsors and patients. We recently launched our pilot program with a cohort of Aetna members and providers across 14 states. This provider group will use our Novologix proprietary technology platform to drive adherence to clinical guidelines, cost-effective therapy choices and enable value-based payments. For patients, we are providing high-touch engagement through a dedicated team of nurses to enhance the patient experience and improve adherence to their therapy regimens. Our goal is to expand the pilot to more Aetna members and providers later this year.

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Our third priority is to enhance our consumer-centric technology infrastructure to support many of the new programs and services we are implementing through our transformation efforts. This includes integrating data and enhancing our analytics capabilities, developing an intelligent engagement platform and seamlessly connecting digital and physical capabilities to improve the customer experience. Now we've launched several new integrated Next Best Action pilots in our HealthHUBs and MinuteClinics aimed at closing gaps in care and improving chronic condition management.

Additionally, we have enhanced our ExtraCare program system architecture. We are now live with machine learning tools that will further improve the reach and relevance of our customer engagement. Also, we announced earlier this week the nationwide expansion of our CarePass subscription program, which is delivering on our expectations to drive increased trips and spending levels from enrolled members, and customer feedback on the program has been very positive.

And finally, we are focused on becoming a more innovative and efficient operator by executing on our integration strategy and modernizing our enterprise functions. On the integration front, we are making excellent progress and are ahead of where we expected to be at this point in the year. We now expect to deliver approximately $400 million of synergy value this year with the largest contributor to our outperformance being formulary optimization. We have also fully integrated our mail operations ahead of our initial targeted integration date. Our expectation of approximately $800 million in synergies for next year remains on track.

Our enterprise modernization efforts are also under way, and we are still in the early stages of execution on the program with meaningful savings expected to begin accruing next year. So we're encouraged by the early work to identify savings opportunities. And the leadership structure and cross-functional teams required to support these activities has been built out. And through these opportunities, we expect to generate net savings of between $1.5 billion and $2 billion in 2022.

So as you can see in our results as well as our future plans, we are successfully executing on the priorities that we laid out at our Investor Day. Through these priorities, we firmly believe that we will be able to accelerate enterprise growth and position CVS Health to deliver on our operational and financial objectives, creating significant shareholder value in the process.

Now before I pass the call over to Eva, let me briefly comment on the current legislative and policy environment along with our ongoing efforts to drive solutions that save patients money and reduce overall health care costs.

First, the administration's withdrawal of the rebate rule provides perhaps the most significant recognition to date of the importance and the value of the PBM and the significant cost increases that would have resulted in eliminating the power of formularies to drive price discounts and lower premiums for Medicare Part D beneficiaries. Additionally, the administration's extension of our real-time benefit capability to allow Medicare Part D beneficiaries and their physicians and pharmacists the ability to find lower-cost therapeutic alternatives will result in real savings for members and the Medicare Part D program. And our data shows that beneficiaries are saving about $90 per fill when prescribers are utilizing the tool. But beyond the PBM, we continue to advocate for policies that lower out-of-pocket costs for consumers and demonstrate the innovation and cost savings solutions the private sector can deliver as the broader questions of access, cost and quality are debated nationally.

So with that, here's Eva to walk through our financial results for the quarter as well as our updated expectations for the balance of the year.

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

Thanks, Larry, and good morning, everyone. As Larry said, Q2's performance exceeded our expectations with broad-based strength across the enterprise. And as such, we're raising our outlook for the full year to reflect this outperformance.

Adjusted earnings per share of $1.89 was above the high end of our guidance range by $0.17. The quarter benefited by approximately $0.06 from nonrecurring items, including realized investment portfolio gain and prior year's development. Health Care Benefits performed in line with expectations, and Pharmacy Services, or PBM, and Retail/Long-Term Care outperformed our expectation. The quarter also benefited from a lower effective income tax rate due to timing and lower interest expense primarily due to the early repayments of the outstanding term loan.

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Consolidated adjusted revenue grew 35.8% in Q2 '19, also exceeding our expectation. The year-over-year increase was largely driven by the addition of Aetna as well as higher volume in both the PBM and Retail/Long-Term Care segments. Health Care Benefits, which includes our SilverScript Medicare Part D business, contributed $17.4 billion of revenue for the quarter.

Adjusted consolidated operating income grew 55.1%, primarily due to the addition of the Aetna business and growth in the PBM, partially offset by a decline in Retail/Long-Term Care. The Health Care Benefits segment contributed $1.4 billion to adjusted operating income.

Now let me run through the results of our segments. In our PBM, revenue increased 4.2% with adjusted claim volume up 4% versus Q2 2018. The increase was driven by net new business and the continued adoption of our Maintenance Choice offerings.

PBM adjusted operating income increased 9.7% as operating margins expanded by about 20 basis points due to increased claims volume and favorable purchasing economics. Drug price inflation remains consistent with our expectation.

Our Retail/Long-Term Care segment also performed better than expected with revenue up 3.7% driven by higher prescription volume. We delivered strong adjusted script growth of 5.9% with comp scripts up 7.2%. This was driven by the continued adoption of our Patient Care Program, collaborations with other PBMs and our preferred status in a number of Medicare Part D networks as well as a prolonged allergy season. As a result of our strong script growth, our market share in Q2 increased 120 basis points to 26.5% versus Q2 of '18. Additionally, front store comp sales increased 2.9% driven by continued growth in health and beauty, a longer cough and cold season and an approximate 80 basis point benefit from the shift of Easter shopping season to Q2.

Second quarter Retail/Long-Term Care adjusted operating income declined 8.3% year-over-year. This represents an improvement from our expectation due to increased pharmacy volume and front store performance. The drivers of the year-over-year decline are consistent with what we have discussed previously.

And finally, Health Care Benefits continued to perform well. Revenue exceeded our expectations in the quarter driven by strong growth in Medicare products. As a reminder, year-over-year results for the Health Care Benefits segment are not comparable to either legacy CVS or legacy Aetna results due to a variety of factors, including the acquisition of Aetna, inclusion of SilverScript in our 2019 Health Care Benefits results and the temporary suspension of the health insurance fee in 2019.

Our total health MBR was 84% for the quarter, a result that benefited from favorable prior period reserve development across all of our core products. Our MBR reflects overall moderate medical cost trend. However, we did experience modest pressure in a specific portion of our middle-market Commercial book. We have taken appropriate actions to mitigate the impact. Despite this modest pressure, we continue to expect our MBR for the full year to be within our initial guidance range with a bias towards the upper half.

Our days claims payable was 48 days for Q2. Compared to Q1, days claims payable increased by 3 days due to the seasonality that is typical of our PDP business. We remain confident in the adequacy of our reserves and our reserving process.

As I mentioned earlier, the Corporate segment benefited from $57 million of realized investment portfolio gain, which contributed to the outperformance in the quarter.

Turning to cash flow and our use of capital. This quarter, we generated strong cash from operations of $5.3 billion due to improved working capital and earnings performance. We also returned more than $600 million to shareholders through dividends. We repaid $1 billion of long-term debt in May, representing a portion of the term loan outstanding. And in July, we repaid the balance of the term loan of $1.5 billion. Taking all of this into account, since the close of the Aetna transaction, we have repaid approximately $6.6 billion of debt, and we are focused on continuing to delever and remain on track with the plans we outlined at our Investor Day in June.

With that, let me turn to an update of our guidance for the remainder of the year. As Larry said, we are raising and narrowing our 2019 guidance range to reflect the favorable performance. We now expect our consolidated full year adjusted earnings per share to be $6.89 to $7. We now expect

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consolidated full year 2019 revenue in a range of $251.4 billion to $254.2 billion and adjusted operating income between $15.2 billion and $15.4 billion.

For the segments, we expect full year 2019 adjusted operating income in the Pharmacy Services segment to be in a range of $5.06 billion to $5.12 billion, the Retail/Long-Term Care segment to be in a range of $6.68 billion to $6.76 billion and the Health Care Benefits segment to be in a range of $5.18 billion to $5.24 billion. The increase in guidance reflects the outperformance in the segments, including the acceleration of synergies primarily benefiting Pharmacy Services. It also reflects the investment portfolio gain and prior period development within HCB in our Q2 results.

Our full year 2019 GAAP EPS guidance is now in a range of $4.93 to $5.04. This reflects the improvements across our business, partially offset by a loss of approximately $200 million on the sale of our Brazilian subsidiary, Onofre. This loss primarily reflects the elimination of the cumulative foreign currency translation losses from shareholders' equity. The transaction closed in the third quarter and is consistent with our strategy of optimizing our portfolio assets.

We are also raising our cash flow guidance and now expect to deliver strong cash from operation between $10.1 billion and $10.6 billion, of which $4.5 billion to $4.9 billion will be available for debt paydown this year. Our strong cash projection includes the improvement to our underlying business performance as well as early benefits from our initiative to reduce pharmacy inventory in our retail stores by $1.5 billion. We continue to expect capital spending of $2.3 billion to $2.6 billion.

Our earnings progression for the year is expected to be consistent with the cadence discussed on our May earnings call. The first 3 quarters will have the highest year-over-year growth as we wrap the addition of Aetna, and we expect Health Care Benefits adjusted operating income to be the lowest in Q4 due to the cyclical nature of that business.

For the third quarter, we expect adjusted earnings per share to be in a range of $1.75 to $1.79.

In summary, we delivered a strong quarter of performance exceeding our expectation. We remain confident we will be able to achieve our financial and operating goals for the full year and over the longer term.

With that, we would like to open it up for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Robert Jones from Goldman Sachs.

Robert Patrick Jones - *Goldman Sachs Group Inc., Research Division - VP*

I guess maybe just on synergies and the execution there. Clearly, things seem to be going well with the expectation now for $400 million, Eva, if I heard you correctly, versus the previous communication of $300 million to $350 million. It sounds like the $800 million is still intact for next year. So I was wondering if maybe you could just share a little bit on where you're realizing synergies ahead of the previous expectation on a segment level. And then any sense you can give us on what those synergies might have contributed to the quarter would be helpful.

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

Yes, Bob. It's Larry. I'll start then I think Eva will jump in, in terms of your second question. But to your point, we're really pleased with how the integration is going. The over-delivery to our initial guidance is largely in 2 areas. One is the formulary optimization, and the second one is we're

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just being able to transition functions a bit faster than we had modeled, and probably the biggest example is the consolidation of our mail operations in pharmacy.

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

And Bob, the only thing I would add is you're exactly right, our $800 million for next year remains intact, $400 million for this year with the largest benefit accruing to the PBM. I would say the other impacts are pretty consistent with what we had previously, and it was a contributor to the PBM outperformance.

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

And Bob, just going back to Analyst Day, recall we said $800 million in 2020 with a goal now of $900 million in 2021.

Robert Patrick Jones - *Goldman Sachs Group Inc., Research Division - VP*

Got it. No. No, thanks for that clarification, Larry. And then I guess just one quick follow-up on the Rx comp. Really strong in the quarter, better than we expected, probably better than we had seen for a few quarters. Could you maybe just talk about where you're seeing growth there? Is it really coming more from a share shift from the other large retail players? Or is this more maybe share gains from some of the smaller independent players out there? Because I don't necessarily think there's been an increase in just overall script volume. And yet obviously, you guys saw a nice pickup in the quarter. So just any clarity there will be really helpful.

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

This is Kevin. I'll answer that question. So we're really pleased with our top line script growth. We're growing at 2x the market. The vast majority of our script growth is coming from our clinical programs, which are intended to increase medication adherence for the patients that we serve. So those are existing customers of ours. And if we can keep them more adherent on taking their medications, it keeps them healthier and it also drives our business. As Eva mentioned, we also have strong strategic partnerships with third-party payers, and we're seeing growth with the major payers being able to shift share throughout based on our preferred relationships. Those are the 2 primary drivers.

Operator

Our next question comes from the line of Justin Lake from Wolfe Research.

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

You talked about the PBM seeing a benefit in the quarter from increased synergies. But even beyond that, it looks like a pretty dramatic improvement versus the trends you saw in the first quarter. So Eva, walk us through the drivers of this improvement. And talk about sustainability. It doesn't look like you're projecting similar year-over-year performance in the back half of the year within the updated guidance range.

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

Yes. Thanks, Justin. It's Eva. I'll start, and then Derica will jump in. And so as we look at the beat on the PBM, I would say it came from a couple of key areas. First, we had strong performance on overall script and continued growth in mail choice with Maintenance Choice being a contributor as well as what we just spoke about around the acceleration of synergies. We also had higher rebates earned in the quarter, and this is a function of our procurement activities with pharma that we do on an ongoing basis as well as improvements in formulary compliance, which helps us

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mitigate some of the liability issues that we spoke about earlier in the year. So overall, we're pleased with the performance here. Specialty continues to perform well. And I'll hand it over to Derica.

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

This is Derica. I think Eva captured it very well. The team has done a good job of driving formulary compliance with our clients, and that's allowed us to improve our earned rebates and cover that rebate exposure. So we're tracking very well to mitigating the headwind that we talked about at the beginning of the year. And we fully do expect that it will peak this year in terms of our rebate exposure, and you should absolutely expect the dissipation of that exposure as we look forward to 2020 and 2021.

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

All right. And just a quick follow-up. Eva, you talked about modest pressure in the middle-market Commercial book. As you might imagine, the managed care side of the world piques their interest when you start talking about pressure on the Commercial side. Can you give us some more color whether it was price or cost and as much detail as you can behind the drivers of that and what you're doing to mitigate it?

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

It's Karen. I'll take that one. What I would say is I think it's -- that it's a very specific portion at the low end of our middle market, and we are seeing pressure in very specific regions. We are seeing a little bit of pressure in utilization across the medical cost categories. But what I would emphasize, that it's not across our entire Commercial book. It is a very specific part. It's in our 51 to 100, and it is in very select geographies. And what we're doing about it is we've put very specific actions. We're intensifying our medical management in those geographies.

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

And can you tell us the magnitude? The 10 -- 25 bps or 200 bps?

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

Yes. Justin, we're not going to call that out exactly, but what I would say to you look at our overall MBRs, what we're expecting overall. We're still well within our guidance range, and the other areas are performing well.

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

One of the things that I would point out to keep in the back of your mind as we go forward, that we are building natural hedges in our business now when you look at this business model. So to the extent that we see utilization trends -- and you can go beyond what Karen was talking about and just look at something like a flu season that it's easy to get your head around that. To the extent we have an extreme flu season that is a headwind for our insurance business, it becomes a tailwind for our retail and PBM business. So we will have some elements of those natural hedges as we move forward.

Operator

Our next question comes from the line of Lisa Gill from JPMorgan.

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

Larry, you talked a little bit about the HealthHUBs and talked about the trends in traffic, Rx, MinuteClinics, front end, et cetera. I know you're going to say it's probably early on, but is there any way to put numbers around this? So as we start to think about the story of over the next several years and we start to think about 1,500 HealthHUBs, what this could look like for the company?

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

Yes, Lisa, it's a great question. And Lisa, as we go forward, we want to -- we do want to get more stores under our belt to move from qualitative definition to more quantitative definition. We have talked about the fact that we are really pleased with the feedback that we're seeing from customers from a service performance point of view. Net Promoter Score is up 900 basis points over the chain average. And we are seeing additional traffic, and we're seeing that translate into sales momentum, additional sales in the front store, in the pharmacy as well as MinuteClinic business.

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

And Lisa, if we were to just contextualize where the value is going to come from, I'd highlight 3 areas: as Larry said, first, the store traffic, just the underlying dimensionality of our retail stores; second, the value we can bring to Aetna and the health insurance business around medical cost savings; and third, opportunities in the PBM, in our open-source model to deliver value there.

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

Okay. Great. And then just as a follow-up to that, you talked about 9,900 stores today, 1,500 ultimately having HealthHUBs in them. Any updated thoughts post the Analyst Day on what the right number of stores is? Is it the 9,900? Or do you think that it will be a lesser number as we think about the next several years?

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

It's Kevin. I'll take that one. So we don't have a targeted store count. But what I'll do is I'll come back to our Investor Day presentation where we talked about the fact that we continuously evaluate our real estate portfolio. A couple of key points I'd like to highlight on today's call. First is our portfolio of stores is robust and highly productive. We view it as a competitive strength. It's important to note that we've reduced the number of new store openings per year. So if you go back a few years ago, that would have been 300 per year. This year, 2019, we'll open 100 new stores. So obviously a reduction. 2020, I would project that we will open approximately 50 new stores, so that does telegraph we're reducing the number of new stores that we're opening.

Our focus currently, as Larry mentioned, is in our HealthHUB expansion in order to increase the productivity of our retail stores through the new services and the traffic that we can drive to our stores through those services and to enable Karen and Derica's business to a lower medical cost through being in that local community setting and providing improved care.

Our new store openings will focus in the future on markets like the Pacific Northwest where we're under-stored; in high-growth areas like New York City and places like Texas where we can definitely fill in. Lastly, we will continue to aggressively evaluate our store portfolio to ensure we're delivering the highest level of financial returns.

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

And Lisa, probably it's -- maybe just a couple other quick points. I think underlying Kevin's comments are we have extreme flexibility in our portfolio and -- with the number of leases that come up on an annual basis. And we review the productivity of the entire fleet and have flexibility for probably, on average, about 500 locations every year.

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The other point also to keep in mind, Lisa, your question started with the HealthHUBs, and we are continuing with our thought process around a hub-and-spoke model. So we are in the process of finalizing what that spoke -- how that supports the hub concept and the fact that there will be more subtle changes in spokes across a geographic area.

Operator

Our next question comes from the line of Ricky Goldwasser from Morgan Stanley.

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

Larry, in the prepared remarks, you talked a little bit about the MA strategy for next year. Can you expand on that? It sounds like -- and how you're -- you talked a little bit about kind of like potential decline in sales of script, which could benefit the deal business. If you can help quantify kind of like the potential opportunity there.

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

It's Karen. Let me comment on the Part D. What I would say is as a result of the combined company and some of the successes that we both had relative to our Part D market, what we've done is we've modified our product designs to better -- to reposition our portfolio to support a broader consumer appeal and in continuity for MAPD conversion. And so the report that -- what we're doing with the portfolio this year is it's a multiyear strategy, and we're ensuring that our consumers will have choices that will better meet their specific needs. And what we're really very happy about where our preliminary benchmarks came in, as Larry said, we're at 31. We qualified 31 out of 34 regions, so we feel good about how where we're positioned relative to Part D next year.

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

Okay. And a follow-up on the selling season. Obviously, the -- you've won some business since Analyst Day. Can you give us a little bit more detail on what parts of the markets you were winning? And also, where are we in the selling season? So how much of the book is left at this point?

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

Sure. This is Derica. I'll take that question. We're about 90%, 91% of our way through the selling season. So we are off -- we're close in the end, and we're actually beginning to get bids for 2021, if you can imagine. But in terms of the update since our Analyst Day discussion, as you heard from Eva earlier this morning, we were able to improve our gross new business by about $600 million, and we improved on a net basis about $1.4 billion total. And that was driven both, one, we've been able to retain some business at a higher level than we thought, business that we initially lost both in the collectives and at the state level. And then secondly, we've also seen a further delay in the Centene migration. And so that's helping us a bit as well in terms of contributing to that number. And operationally, we continue to have very, very high service levels. So those gross new wins I highlighted earlier, a majority of those were taking place in the employer segment and on the government side.

Operator

Our next question comes from the line of Steven Valiquette from Barclays.

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

So with the large EPS beat in 2Q relative to guidance by almost $0.20 and then 3Q '19 also coming in well above The Street by almost $0.15, it does seem that the full year 2019 EPS guide could have been raised by maybe even more than the $0.10 to $0.14 that you're raising it by. Maybe it's just

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conservatism, but the question really is just regarding the implied 4Q guidance. And you mentioned Aetna or the HCB segment having seasonally lower profits in 4Q versus the rest of the year. I was just curious if there's anything else worth calling out regarding different seasonality [probably] at the retail segment or the PBM for 4Q that's different this year. Or did The Street just mismodel the back half of the year from your view?

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

It's Eva. Overall, what I'll say is we're really pleased with how we're executing and the results in the quarter and the raise to our guidance. I think as you think about quarter in, quarter out some of the headwinds that we spoke about, how generics can affect the rebate guarantees, you can have some seasonality of that one quarter to another. You called out the lower profitability of Aetna in the fourth quarter with their typical seasonality. You can get some lumpiness with the PDP between Q3 and Q4. That's always been something that, depending on where you are on the curve there, that, that can change. So they're the key items I would call out. And overall, we're pleased with our performance thus far relative to our expectations.

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

Steven, it's Larry. Well, I'd just emphasize or underscore a couple of Eva's points and remind everyone that we did move the SilverScript business out of the gate over to the Aetna business. And we're really happy that we made that move out of the gate because I think it gives us the flexibility that Karen had alluded to earlier, and I'm confident that, that will pay dividends next year. Keep in mind that when you look at the quarterly cadence of the PDP business, it doesn't follow the quarterly cadence of the Health Care Benefits business broadly. It's kind of backwards in terms of the role that Q1, Q4 plays. So that -- we're doing our best to provide that level of transparency in terms of the moving parts from a comparison point of view. But certainly, the IR team would be happy to follow up with you on that.

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

Okay. No, appreciate the color and congrats on the results.

Operator

Our next question comes from the line of Ross Muken from Evercore.

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

Congrats. In the beginning, Larry, you highlighted a couple of kind of interesting, new endeavors for the business that sort of built off the Analyst Day. You talked about home hemodialysis and some of what you're doing in oncology and then the Hospital-to-Home. I guess as you think about a number of these new programs that Alan and others are sort of working on across the business, what's sort of the customer response in terms of the consumer as well as sort of other plans? And then what other types of entities are now also coming to you looking to sort of partner or -- because obviously, you have a very unique sort of footprint across sort of the health care landscape and now with sort of a lot of these new efforts and endeavors that may attract kind of others to want to work more closely with you to bring their sort of technology, et cetera, to your member base. So just give us a feel for kind of how that's all developing and the inbounds that are coming into you.

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

Yes. Ross, thanks for the question because it is a great question, and it really does speak to the opportunities in front of us. From a customer point of view, and I'll define the customer as the user now, the feedback has been very good. And quite frankly, it's validating our beliefs and our strategy that there's a growing emergence of the retail health consumer. And it's also giving us the confidence to move forward, as we outlined, where

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we're going with the products and services not just in pilot but the broader rollout of things that we've discussed. The flip side of that is there's also a growing interest from our health plan partners in terms of how we can partner. Eva alluded a bit to that in terms of one of the potential value drivers. And certainly, those inbounds are -- there are robust discussions with Derica and his team in terms of the opportunities there.

And then the third bucket of opportunity is just the inbounds coming from other potential partners in terms of how we can work together to be part of the solution that leads to additional innovation. So Ross, I would say that, that is probably something that we underestimated in terms of the potential for those opportunities and what that can mean. And we've certainly got a team exploring those, and we'll talk more about that as they come to fruition.

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

And Ross, this is Eva, if I could just add one thing to Larry, you wrapped it all up. It just speaks to the power of our ability to touch the consumer through our retail footprint and bring all of this together and just the complementary nature of our business to others who are in the health care system.

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

And maybe just on retail. I mean, I think a previous question sort of touched on front end, but it feels like it's actually -- even excluding the Easter shift, it's sort of gotten a bit better or at least you're executing well there. I know you also recently sort of rolled out kind of the CarePass subscription more nationwide. I guess how are you feeling in general just about sort of the comp trajectory there and some of the things that you're changing and shifting in terms of being able to sustain not just gross profits in that part of the business but actually continue to comp?

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

This is Kevin. Thanks for the question. And we're really pleased with our front store business. And the Easter shift did contribute positively, but that was a reasonably small percentage. And the growth in our business is coming from our health and beauty strategies that are taking share from the market and growing share of wallet with the customers that we continue to serve. So it comes from a couple of key components: our store remodels are increasing comp store sales in the locations where we've remodeled; our renewed focus on improving the customer experience within our stores, which is increasing NPS; and if you know, the retail equation improving customer service does pay forward improved sales in the future; and we're improving our ExtraCare program through targeted personalization, which is increasing the reach and relevance of the offers to our customers; and we're seeing dividend from those investments in technology that are fueling those capabilities.

I'll just touch on the CarePass question that you asked at the end. Yes, we did announce earlier this week the expansion of CarePass nationwide. Obviously, a couple of points on that.

CarePass starts with the customer. Our customers increasingly are looking for time-saving activities or time starved, and they're looking for increased value. We view CarePass as extending the convenience advantage of CVS by offering free delivery, 24 access to a pharmacist and a 20% everyday discount. We're seeing very positive results from the enrolled members that we have in our pilot markets. The $10 promotional reward in particular is what's increasing trips to our stores and to our digital properties. And that increased visit frequency is what's driving the return positive for CVS. So therefore, we're confident to roll it out nationwide, and now it's a matter of how many members we can enroll and in what pace we can enroll them.

Operator

Our next question comes from the line of A.J. Rice from Crédit Suisse.

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

Just first, your Medicare Advantage enrollment. Obviously, this year has been a big bright spot for you. I wondered, now we got 2 quarters of claims under your belt. You haven't called that out, so I'm assuming your claims experience with those new lives has been about expectations. And I know your bids for 2020 have already been submitted. You've got some changing landscape there. I think the opportunity for expansions maybe is mitigated a little bit in the HIF coming back. Any early commentary on how you think about the opportunity for 2020 in MA?

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

It's Karen. So yes, we're very pleased with our Medicare growth. And I'll just remind you that as we grow substantial amount of members both in our individual and group membership, our growth in individual came from -- through their expansion. That was about 25% of our growth, and then the remainder came from the existing footprint. Our claims and our first-year business, as you would expect, is performing exactly where we thought it would be, so we feel good about the performance of the Medicare business as it stands today. As you know, halfway through the year, so the claims are still maturing. But everything -- all the metrics, everything, looks in line with where we would have expected.

Relative to our 2020 bids, we took a very balanced approach to 2020. Our go-to-market strategy included a broad portfolio remaining at 0 premium PPO and HMO plans. We feel good of our ability to preserve those plans. We also were able to offer new supplemental benefits, and we were also able to leverage the enterprise MinuteClinics by offering 0 copay or lower copays at MinuteClinics. And we also were able to use some -- incorporate some of our new, differentiated capabilities within CVS. So we'll be offering the HealthHUBs in Houston. We are offering -- as you might recall at Investor Day, I talked about the Hospital-to-Home benefit. We're offering that across the portfolio. We're now calling that Healing Better. We also are offering over-the-counter and durable medical equipment benefit through our retail store and then leveraging the pharmacist through Pharmacy panels.

So we are -- we'll look forward to telling you more about Medicare in the fall when more of the information is -- are publicly available.

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

Okay. If I could just quickly pivot. Obviously, public press is talking a lot about the situation with China. You guys haven't talked much about that. I don't know whether the front end, you source much from China. But I'd be interested -- I know some in the Retail Pharmacy segment do. I'd be interested to know how you're dealing with it, if it's an issue at all for you and maybe you source better than others and maybe even -- could be an opportunity for market share gains. Any comment on that?

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

Yes. A.J., it's Larry. As you think about our overall portfolio, we do not have any sizable business that would go outside domestic. So the impact in terms of the current trade issues, we haven't seen materialize in our business. It's something that we continue to monitor as you think about our suppliers, but it's not something that is commanding a lot of our attention at this point.

Operator

Our next question comes from the line of Lance Wilkes from Bernstein.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Could you talk a little bit about performance in the Medicaid line? And in particular, are you seeing any sort of cost pressures in how our claims are progressing? And then what steps are under way to kind of work on the pipeline and conversion of that pipeline going forward?

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

Lance, it's Karen again. So I just want to remind everyone that we manage a Medicaid book of business with -- through a diversified set of contracts, whose performance, as you know, varies state by state and program by program, and we're currently in 16 states serving various programs. Right now, what I would say is our Medicaid MBR is performing in line with expectations and performing where we thought it would perform. As you would imagine, we are working through pulling various plans to operate at different levels of performance, and we feel that we've got the right actions across the board. So I feel good about -- relative to Medicaid.

I would also comment, Lance, that -- I'd remind you that we have a new contract in Kansas that is performing where we thought it would be. We've had some operational challenges out of the gate, but we feel that we've got those covered through operational execution and remediation plans.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Great. And just related to your comment earlier on SilverScript-to-MA opportunities for conversion, can you talk a little bit about what's your Aetna experience? What have you seen historically as far as conversion rates from PDP to an MA product? And then what do you see as an outlook for that now that you've got the bigger and more sizable SilverScript pool there?

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

Lance, we were having very good success in the conversions prior to the acquisition, and we obviously had to put it on halt when we divested the business. So I view, given that we have the largest PDP now, there's a -- and given some of the repositioning of the portfolio that we'll be doing, I view this as a good opportunity, as I mentioned at Investor Day, for continued growth in our Medicare business. And we'll be actively working on those conversions, and our product positioning with the PDP will help assist that. And we're very excited about the possibilities for growth there.

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

And Lance, just to remind you Karen had shared at our Investor Day that Aetna as a stand-alone company between the years 2015 and 2019 was able to convert more than 82,000. I think to the point Karen made, that was skewed to the earlier years in that range given the transactions going on and the focus of the business.

Operator

Our next question comes from the line of Michael Cherny from Bank of America.

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

I want to dive a little bit back into some of the cost trend comments. You kind of talked, Karen, about the very narrow book of business within middle-market Commercial. You gave some color on Medicare and Medicaid. Just more broadly across your business, just give a little more clarity on some of the moving pieces, whether it's the elongated flu season, the cap in retail, just like how to think about what you've seen so far from an overall broader perspective in some of the Commercial markets or some other areas.

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

Yes. Well, what I would say is generally, medical cost trends are performing where -- in line across the board. What I mentioned earlier with the small end of the middle market, that's very specific in geographies. We're seeing -- we're not seeing significant inpatient. We're seeing more broadly cost trends more in the specialty pharmacy area than most, but that's trending in line with prior year at the same level. So there's nothing in medical

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cost trends that are really outperforming and (sic) [than] what we've seen in the past. So we feel we're -- like every year, we're doing the things that we need to do relative medical cost management. But nothing stands out in medical cost performance to really speak of other than those 4 markets that I talked about earlier.

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

Yes. And Mike, I just want to reiterate we're still comfortably within the range of the initial guidance we had provided albeit at the upper half at this juncture.

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

That's definitely helpful. And then Eva, just a question for you. If we look at the new high end of the guidance range, you're essentially at where you thought about for the, at least, number for 2020. How should we think about the new guidance relative to the base level heading into 2020 and beyond relative to the Analyst Day targets?

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

Yes. Thanks for that, Mike. Overall, obviously, we feel really good about the momentum of our business and our execution here as we've continued to progress through '19. And what I'd say at this point is we remain confident in the low single-digit growth that we provided at our Investor Day. That said, I just want to go back to a couple of the comments that I made in my prepared remarks to contextualize some of the nature of the beat as well as the range. I'd remind you that about $0.06 of that was distinctly 2019 items such as capital gains and prior year's development, and they're things that I wouldn't think about as the run rate or annualizing, if you will.

Operator

Our next question comes from the line of Charles Rhyee from Cowen.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

I wanted to ask about -- if we think about the HealthHUB strategy here and sort of -- we're basically trying to sort of redesign sort of the health care delivery experience for consumers here in this case. But that's a trend that we're seeing elsewhere in -- out there. We have a number of private companies that have redesigned the primary care experience for employers and their members and their employees basically. And when we think about the CVS strategy here, is this something where we're going to have to invest more heavily in terms of the internal sort of infrastructure basically to make it a higher-end experience? Or do you think in the future as we think about different types of people who will be going to the HealthHUBs are -- we'll be stratifying sort of population types that will want to go to a CVS versus who want to have a different experience? I'm trying to think about how we should think about the market sizing and the opportunity here.

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

Yes. Charles, it's Larry. And I guess a couple of points around that. First, from a CapEx point of view in terms of the build-out, it's -- as we've said in the past, we're able to repurpose, I'll call it, retail real estate capital that we've used in the past to the growth of the HealthHUB concept. So that is not of a concern in terms of an additional cost point of view.

The second point embedded in your question is if you think about the assets that we have assimilated, we're going to be able to create a more seamless experience than what may exist out in the marketplace when you think about the role that our Health Care Benefits plays from a plan design and the role that PBM plays. And then obviously, that all comes together as a community. So we think that, that will create an advantage

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for us against potential stand-alone competitors. And it goes back to the earlier point where I think that's where there is growing interest in terms of how we can work together in terms of the inbounds that are coming in from other potential partners.

I think your third point is look, as we think about the economics of that model beyond the build-out, obviously we'll do that with the same financial discipline that we've done with anything else, acknowledging that, as Eva pointed out, you have 3 value drivers in there: you have the value of the HealthHUB as a stand-alone business entity; you have the value that's created in terms of reducing medical costs that accrues to Health Care Benefits; and then the value that's created in an open platform, I'll call it, reseller model where we can partner broadly with others.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

That's helpful. And if I could just ask one follow-up. I'm not sure if you touched on it. But obviously, the Senate Finance Committee passed a -- Audit Committee, their version of a bill with some -- purportedly some significant changes in the Part D program. Just wanted to get your thoughts on how you view those changes. Do you think that, that will create savings for seniors who are struggling with out-of-pocket costs? And sort of the impact for you guys as you think about the plan -- the program design change.

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

Yes, Charles. Look, there are a lot of proposals across both chambers of Congress, if you will, at this point. And first of all, we share the goals and objectives of reducing health care costs, reducing drug costs further, okay, and reducing consumers' out-of-pocket costs, and we certainly advocate for those that we believe will, in fact, enable that.

To your point, there absolutely are tools that have been used in the private sector, in the Commercial business as well as Medicare Part D that can be applied more broadly in the market. And I would say that as it relates to drug pricing, it validates the role of the PBM and actually expands the tools that have been demonstrated to reduce drug costs. So I would say on balance, we're encouraged by the proposals that we're seeing in terms of helping us do more about that.

Operator

Our next question comes from the line of Kevin Caliendo from UBS.

Kevin Caliendo - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare IT and Distribution*

Are you -- do you have any expectations for -- or what are your expectations for pharmacy reimbursement in the second half of the year? Or do you expect it to remain sort of stagnant or flat? Are you expecting any changes to that?

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

This is Eva. I would say we expect no changes from what we've communicated previously that we've been trending through the year.

Kevin Caliendo - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare IT and Distribution*

And there's a question earlier about flu, and I was thinking about this. In terms of -- if we were to have a very severe flu season, when we think about the entire enterprise of CVS, would it be a positive or a negative given maybe the increased costs but, at the same time, potentially increased sales through the pharmacy, PBM, whatever? But how would you -- when you think about that, how would you think about it in terms of the enterprise?

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

Yes, thanks. Kevin, I think it becomes -- there become degrees of relativity in that question. And I would say that it could end up falling both ways depending on where you put that on the relative scale. My point earlier is perhaps different than stand-alone competitors, we've got a natural hedge in our enterprise, recognizing that we could have a headwind in one area and it's a tailwind in another area. And that provides a point of differentiation.

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

Yes. The other way to think about it, too, is that it would depend on hospitalizations because if there are significant hospitalizations, then it would tend to be higher medical costs, which would outweigh the pharmacy scripts. But I think if it wasn't hospitalizations, it might be -- could be, like Larry said, net neutral.

Operator

Our next question comes from the line of Matt Borsch from BMO Capital Markets.

Matthew Richard Borsch - *BMO Capital Markets Equity Research - Research Analyst*

I was hoping you could -- look, I realize it's way too early for guidance for 2020. But when we think directionally about script volumes and the strength that you've been able to generate over the -- at least the last couple of years, do you think you can continue that in 2020? I mean you've tapped a number of wells, in particular getting on more networks, and you billed as a -- a lot from that and also medication adherence. Do you have further to go that you think you can continue at this sort of rate?

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

Matt, this is Eva. I'll start. I'll go back to the comments that we made at our Investor Day. And we do continue to see script growth as a key driver of our expected performance. And with our clinical services, we've been gaining market share with our rollout of the HealthHUBs. We continue to expect to see that as an overall tailwind.

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

And I'll -- this is Kevin. I'll just add one piece of color. Just the adherence opportunity is still very large for us and for the industry. Reports are that up to half of people who begin a maintenance medication will not actually be on that medication a year later due to a host of reasons, forgetfulness, costs for some and we're doing a lot to help save money for our customers to address the cost barrier and helping them with the forgetfulness piece through programs like home delivery and our ScriptPath program. So we see continued strength in here.

Matthew Richard Borsch - *BMO Capital Markets Equity Research - Research Analyst*

And if I could ask one sub-question. I think your largest competitor is closing 200 stores in the U.S. Do you know those locations? Is that something that you could benefit from sort of in any material way?

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

Yes, Ralph (sic) [Matt], well, we saw the announcement this morning, and we saw as part of that announcement the locations were not disclosed.

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Operator

And our final question today comes from the line of Ralph Giacobbe from Citi.

Ralph Giacobbe - *Citigroup Inc, Research Division - Director*

I guess the enrollment numbers specifically on kind of the commercial risk market have been under pressure for a little while. As we head into and maybe get more clarity on sort of the selling season on the medical side for 2020, can you just give us any color on whether or not you expect that trend to sort of stabilize or maybe improve? And then how much of a value prop of the combined entity is sort of resonating? Or is it just too early to tell at this point?

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

So I'll talk -- Ralph, I'll talk to the 2020 selling season in the national accounts space. It's been a long season this year. We still, interestingly enough, have -- we're in active discussions with some very large customers on new business. We still have some large renewals. So it's really hard to predict what national accounts will look like for 2020 at this point.

I would say the same thing about our Group Medicare business. Our pipeline is still active. It's a very late season. We have had some wins in our Group Medicare business. And we also were able to successfully retain one of our largest out-to-bid retiree medical accounts, and we were able to do a full replacement there, so we feel good about that. And we don't anticipate any significant terminations in our Group Medicare business. So that's what I'd comment on the 2020 season right now.

Ralph Giacobbe - *Citigroup Inc, Research Division - Director*

Okay. And just one more quick one. Could you give us just more of a sense of how the long-term care business performed in the quarter? And any detail on sort of underlying earnings power you get through that business at this point? And just how you're thinking about that segment relative to the broader strategy.

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

So this is Jon. I'll take the question. So we continue to make progress with Omnicare. As Eva said, we are ahead of plan. Our service is improving. That was a big opportunity. And our clients see it and are pleased with our progress. As we are out competing for new business in the marketplace, I would say we are winning more than we have historically won over the last few years. And our retention of our existing business is improving, and that's primarily due to our improved service. But it's not where we want it to be, and we're continuing to work on that. And we're also finally making good progress on managing our costs. So we have more work to do. We continue to see opportunity to grow in independent and assisted living, and our differentiated offerings in that space are helping us win in that part of the market.

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

Okay. So thanks, Jon. And look, just as a recap, we're at the midpoint of 2019. And first, we're very pleased with the strong financial results we've delivered in the first half of the year. They are demonstrating our ability to successfully execute on the priorities that we established in response to industry headwinds. Second, it's still very early in our transformational journey, but I think you can see we're working quickly in the development of new products and services that will transform the consumer health experience, and you're seeing tangible signs of those efforts. We talked about that this morning and summarized in our slides. And finally, all of this provides and gives us the confidence that we will be able to realize the potential of our innovative and powerful new business model, delivering enhanced value to our clients, the consumers we serve and certainly our shareholders. And we look forward to talking more about that in the quarters to come.

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So with that, thanks again for joining us today and have a great rest of the summer.

Operator

This concludes today's conference call. You may now disconnect.

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