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# EDITED TRANSCRIPT

CVS.N - CVS Health Corp at Morgan Stanley Global Healthcare Conference (Virtual)

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## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

Good morning. Welcome to Morgan Stanley's Global Healthcare Conference day 2, and thank you for joining us today. I'm Ricky Goldwasser, Morgan Stanley's healthcare services analyst. And before we get started today, please note that this webcast is for Morgan Stanley's clients and appropriate Morgan Stanley employees only. This webcast is not for members of the press, and if you are a member of the press, please disconnect and reach out separately. And for important disclosures, please see the Morgan Stanley research is closer website at www.morganstanley.com. If you have any questions, please reach out to the Morgan Stanley's sales representative.

And with that out of the way, I'm very pleased to have CVS CEO, Larry Merlo; and CFO, Eva Boratto, here with us today. I mean, Larry, Eva, good morning, and welcome to our conference. 2020 has been obviously a roller coaster year as you've worked in the COVID impact and have played such a critical role in testing nationwide and then just building and strengthening and the stark relationship that you have with the community.

So Larry, maybe I turn it over to you to provide some opening remarks and discuss how you've been working through COVID as the enterprise, and then we can dive into questions.

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

Great. Thanks, Ricky, and good morning, everyone, and even I are certainly pleased to have the opportunity to speak with all of you today to provide an update on our business. And we've also posted slides to the Investor Relations portion of our website this morning. And as always, I'd like to remind you that we're going to make some forward-looking statements today, which are subject to risks and uncertainties, and actual results may differ from our projections. So please refer to our SEC filings, including the Risk Factors section of our most recent 10-K and 10-Q for some of those risks and uncertainties.

So in our core, CVS Health's mission is helping people on their path to better health, and we're committed to making care more affordable, simple and local while driving better health outcomes. And we are, Ricky, as you mentioned, in a very unique position to do that with a trusted health care brand, clinical expertise and certainly our unmatched local community touch points that together can fundamentally improve the way health care is delivered in our country.

And we brought together these diverse assets that enable a more holistic health care experience across what we call this triad of care. And we define it as in their community, in their home or in the palm of their hand. And we see enormous opportunity for our offerings as we look at the underlying trends in health care, whether it's an aging population, the ongoing growth of the incidence of chronic disease as well as a focus on wellness and healthy living. And with our broad and differentiated assets across our integrated platform, we are already having a meaningful impact in the lives of those we serve.

And Ricky, as you mentioned, with the COVID-19 pandemic, we have been called upon to deliver essential health services, create new solutions and make them accessible in nontraditional settings. And as a result, we've accelerated elements of our strategy to meet those demands, whether through home delivery, diagnostic testing, virtual care and in-home health care services. In the community, we've expanded our diagnostic testing capabilities, and we've created the largest COVID-19 testing program in the country. We've now administered more than 3 million tests to date.



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And we're also developing capabilities to assist with clinical trials and, when available, administer COVID-19 vaccines, whether in our community locations or on-site with our client-facing return-ready and long-term care solutions in nursing homes and skilled facilities.

To serve our customers in their homes and in their hands, we've expanded Coram home infusion services. We've conducted more than 160,000 visits through the second quarter, freeing up important hospital capacity. And we also accelerated our virtual care offerings through our new E-Clinic offering. We now have more than 7,500 visits conducted through the end of August, and that's up over 40% since just since the end of June. And while we quickly pivoted our business to meet these emerging consumer needs, we also continue to advance our long-term strategy. At the end of August, we have completed the conversion of 275 of our retail locations, the HealthHUBs across 26 states. And we remain on track to reach approximately 1,500 locations by the end of 2021. So all of this points to the fact that CVS Health is much more than just a drugstore. COVID-19 has driven us to bend our innovation curve markedly and accelerate solutions that will have long-term sustainability. And this really underscores the fact that our strategy is right and more important that it is working.

Now just a few comments on our recent performance, and we have been providing more frequent updates in light of the pandemic, and our solid second quarter performance demonstrates the underlying strength of our diversified and integrated business model. We delivered total revenue growth of 3% and strong adjusted EPS growth of 40% year-over-year. Importantly, through 6 months, our enterprise performance is in line with our initial expectations, excluding COVID-19. Following significant impacts of COVID in the quarter, we continue to see metrics normalizing across the enterprise through August. And again, we provided more details on preliminary August performance in the presentation posted on our website this morning.

And finally, on the balance sheet front, we recently completed a debt tender and issuance reducing our outstanding debt by $2 billion and improving our maturity towers, while simultaneously lowering interest payments in 2020 and beyond. And we provided an update on the impact of this transaction to our full year GAAP EPS outlook in the materials we published this morning.

Our adjusted EPS for the full year remains unchanged in the range of $7.14 to $7.27, and we remain committed to our long-term goals, including delivering on our EPS growth targets, executing on the integration synergies, our cost savings initiatives and our deleveraging plans.

So with that, Ricky, let me turn it back to you, and let's jump into the questions.

## QUESTIONS AND ANSWERS

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

Great. Thank you, Larry. There's a lot there to unpack in the next 25 minutes. So starting with the strategy. To your point, the COVID pandemic really underscored the strength of the strategy. But when we think about the last 6 months, how did these last 6 months shape your view on the timing of the different components of the strategy?

And then especially, I think we had a lot of questions on the digital footprint. And how do you balance physical format with digital ones in a world where consumers now feel more comfortable in doing things remotely?

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

Yes. Ricky, it's a great question. And as I mentioned in the prepared remarks, the last 6 months has really validated our strategy to deliver care across this -- I keep -- we keep calling it triad of care. Some may describe it as, "Larry, aren't you really defining omnichannel for health?" And that's another way of describing it in the community, in the home and in the palm of our hand. And we are seeing an accelerated shift towards this multichannel integrated health care delivery approach. And look, I talked about what we've done with testing in the community, but it doesn't stop there. There are going to be broader opportunities as we move forward as it relates to a broader diagnostics, certainly vaccines, immunizations. And we are very well positioned to be a leading provider across all of these.



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We talked about in the hand, and Ricky, I'll share just one example that creates an intersection of in the hand and in the community because what we were able to do with testing, we actually leveraged our digital capabilities, became very easy for the consumer to go online, fill out a questionnaire, put any of their medical information and for billing purposes, actually schedule an appointment and head off to their near CVS. And as a result, it was a very seamless experience for our consumers. We didn't have lines of cars at our drive-throughs like you saw in the news and other places. So it's a great example of how those 2 need to come together. And the fact that there are many elements of health care that, eventually, you have to -- face-to-face, you actually have to touch someone with which to finish what may have been started digitally.

So it's this -- Ricky, it's this balance between the physical asset and the digital properties. And again, we're very well positioned in that regard. And Ricky, to your point, it did change some of our priorities and allowed us to accelerate some things that may have been further down the road. But what I mentioned this morning around our E-Clinic offering is another great example that regulations were waxed. We've got pharmacists and nurse practitioners now being able to practice to a higher level of their license, when you think about telemedicine for nurse practitioners, immunizations for pharmacists. And we stood up our E-Clinic offering, which is staffed by our nurse practitioners, and as I mentioned, without a lot of fanfare is over -- now over 7,000 visits. So again, a lot of this leverages the CVS brand that exists in the marketplace as well as the accessibility of being in the community.

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

So Larry, we're actually getting a number of questions on the webcast around your telehealth and digital strategy. So if we can dig a little deeper on that one. I think one of the questions is that also in the slide that you published today, you talked about HealthHUBs and enhancing telehealth and digital capabilities. So when you think about that, you currently have relationship with the telehealth provider. The question here is, does CVS utilize -- can you utilize your own nurse practitioner, your own pharmacist, your own platform and assets? You do telemedicine yourself. Isn't that complementary to your HealthHUB strategy?

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

Yes. Ricky, your comment is really spot on. It is very complementary to our strategy for the reasons with which we started the conversation, that as we think about this triad of care or omnichannel for health, there's an intersection between the digital experience, the virtual experience as well as the physical asset. And there are going to be many, many use cases where it's important that they come together to create an end-to-end experience.

And yes, Ricky, it's -- I mentioned a few minutes ago that we have seen regulations relaxed in terms of responding to the consumer needs in the pandemic. And much like everyone has been talking about, will we ever go back to everything that we were doing in January, I think we -- everyone answers that question, no. And there are many, many positives that are coming out of what pharmacists and nurse practitioners have been able to do with relaxed regulations in terms of making health care more accessible and as you think about site of care more affordable.

So yes, what we have been able to stand up in a relatively short period of time with a nurse practitioner telehealth model, the team has done a terrific job there. It's very relevant. And we believe that we can add on to that in those used cases where it is important that, that patient, that customer, nurse practitioner starts, but there's a referral on to a physician. And we'll be looking to utilize our network as a way with which to execute that strategy.

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

And just one follow-up question on that. Do you envision with -- because if we think about health care, we're thinking about access, we're thinking about relationships. So do you envision a world where I can go into a HealthHUB and have a conversation with a nurse practitioner, but then when I'm at home, I can connect through telehealth to that same nurse practitioner for continuity of care?

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

Absolutely, Ricky. It's all part of that triad of care and that seamless experience. And the connectivity that can exist electronically with the health record and the investments that we have made leading up to this is serving us well in terms of being able to create that seamless experience across dimensions of care to include -- including the member, the customer, the patients primary care physician when appropriate.

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

Ricky, that word, connectivity, is one embedded in everything we're doing, how we bring that consumer experience in a more connected way through digital, through the example you just gave and other services we'll provide.

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

And then one more to ask because we're getting a lot of questions on the HealthHUBs. Obviously, Larry, you're talking about, I think, 275 retail HealthHUB retail locations already open as of the end of August, on track with your goals by the end of 2021. When will you have the data points? And I think a lot of investors in the market have been looking for in terms of the efficacy, the proof points related to the HealthHUBs.

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

Yes. Ricky, I'll start. Larry, you can jump in, right? As you know, Ricky, the performance, right, has been affected as you look at COVID and volatility in the data. So what we want to make sure we'll provide those proof points as soon as we have the critical mass and stability coming out of COVID. We recognize the importance of that from investors and the desire for that, and it's certainly top of mind.

As we look at how they've performed qualitatively, I'll say, they continue to outperform the control group, right? One of the proof points that we highlighted last quarter was around chronic care visits, an outsized increase relative in chronic care visits in the HealthHUBs, which is part of our strategy, right? How are those hubs supporting chronic care, not just acute care. And more pointed is Aetna's performance was outsized relative to its market share in that area. So we feel good about -- very good about the direction we're headed in, and we'll continue to report out as things stabilize.

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

Ricky, the only thing I would add to what Eva mentioned is, yes, we did shut off all of our marketing that we had scheduled. And as shelter-in-place orders took effect, we thought that, that would certainly be kind of productive. And it'll be later this month where we will reinitiate the plans that we had back in the April time frame. So we have that to look forward to as well.

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

And then, Larry, in your prepared remarks, you talked about your role in the future in administrating the vaccine. Can you just talk a little bit about what do you -- how do you think about the vaccine revenue opportunity? And what do you think the timing of a vaccine would be for the general population, which I kind of like think about the pharmacy setting is ideal to administer to the general population? Scott Gottlieb talked at conference yesterday, he kicked off the conference, and he was thinking sometime later in 2021 before we reach a general population. So your thoughts there.

And then -- and I'm going to sneak in a question that we've got from the audience is also, what are your expectations for the relative strength or weaknesses of the flu season this year? Is there -- there are a number of different opinions out there, whether it's going to be a stronger or weak flu season.

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

Yes. So Ricky, I'll start, and I know Eva will jump in as well because there's a lot in that question. Ricky, let me start with the seasonal flu because that's upon us now. And we're certainly playing an active role in that. We did some -- Ricky, if you look at the public information, less than 40% of those that should get a seasonal flu shot. We went out and surveyed some customers in the early summer time frame, and more than 60% said they would get a flu shot this year. And we kicked off our seasonal program a few weeks back, and there has been a heightened demand as you look year-over-year. We purchased 18 million seasonal flu doses, which would be about double the number that we administered last year. So we're off to a very good start from an awareness and demand perspective in that regard.

Ricky, your question in terms of what do we think the severity level of the seasonal flu will look like. Yes, that's a hard question to answer. I mean, you go down to the Southern Hemisphere, and you're seeing reports coming out that it was a relatively mild flu season, and you're seeing reports that acknowledge better behaviors in terms of the equivalent of social distancing and mask wearing that have kept people healthier. And look, if we see a higher level of seasonal flu vaccinations this year, then you would think that there will be some prophylactic benefit from that, in addition to people just being more careful in terms of I'll call it, good social hygiene.

If we jump, Ricky, to the COVID vaccine, look, I'll leave it up to the scientists and the clinicians in terms of the timing from that. I'd just be reiterating what we've seen Dr. Gottlieb and Dr. Fauci and others talk about on the morning news shows. I will acknowledge that we have to be mindful of the fact that there's going to be a longitudinal period to get more than 300 million people vaccinated. And the reality that at least what we're seeing with the 6 vaccines that are getting the most attention, 5 of the 6 are going to require a second dose, either 21 or 28 days after the initial dose. So I do think that there's going to be a prolonged period of time that will be defined by months to get everyone vaccinated. And obviously, I think everyone believes that there'll be a protocol in a hierarchy in terms of starting with those that are most vulnerable in terms of the vaccine need.

Maybe the last point, Ricky, that I would make is, we absolutely see playing an important role in the administration of the vaccine for the reasons that we had talked about earlier. And look, what we've been able to do and demonstrate in terms of what we've done in making testing broadly available in communities across the country as well as going into the underserved areas in the country where we've seen positivity rates that are 2x, what you see in terms of state reported rates. So that's going to be an important part of how do we get to those underserved communities as well. So we see ourselves playing an important surround sound access point in that. And we have members of the CVS -- of our CVS team that have been actively engaged in the various task forces that are doing the planning around both the distribution and the administration of the vaccine when it's available.

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

And then, Larry, you filed today an 8-K, and you updated as with July and August trends. So a couple of questions on what you see there. On the health plan side, it seems that utilization was flat year-over-year in July and August. And some of the managed care peers are still running low pre-COVID levels. Some of it might be definitional. But can you provide maybe some more detail around any particular areas where you've seen the turn back from utilization?

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

Yes, Ricky, I'll take that one. As you look at what we're seeing and being at normal-ish levels, right, we've seen the commercial line of business come back faster than the Medicare space. As you look at where utilization is perhaps above historical trends, I would point to what we're seeing is in the primary care and the lab area. Other areas in patient ambulatory are still a couple of examples running below there.

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

And then on the front store sales, they're appearing to hold up really well in Q3. As you think about what's the main factor driving that. And also, how do we think about tying it with our prior conversation on the online offering, how much of that contributed to growth?



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

Yes. So in August, Ricky, we'd obviously provided the July data back on our earnings call this morning provided to August. I'll start with the front store sales, up about 1.5%. We continue to see a larger basket size and lower foot traffic. I'd acknowledge in that comp, there was some impact of the hurricane that we experienced, maybe about 40-ish basis points. Earlier in the month, you saw some benefit as people were stocking up in the Sun Belt area. So a lot of moving pieces, but we're pleased where that front store comp is coming out.

On the pharmacy volume side, you see 3.1% increases. I would say your maintenance medications are showing growth back to normal-ish levels, could be above in some areas where we're still -- they're a bit light versus historic levels would be on the acute side. And that affects our brand generic mix. Those acute drugs tend to have a higher generic rate.

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

And just one on 2020 earnings power. I know it's early, and there are so many moving parts. But how should we think about kind of like the jumping off point as we think about 2021 earnings power?

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

So Ricky, as you think about 2021 earnings power, right, what I would reiterate is, as we've stated, if you go back to when we initially set our guidance, excluding COVID, our enterprise is performing in line with that initial guidance. And as we look at driving our goal of mid- single-digit growth off of that, right, I would think about the building blocks, our modernization and our cost reduction initiatives, right, accelerating next year; continued growth in MA, right, as Karen has stated, outpacing industry levels; and continued momentum in the PBM with specialty leading the way.

We continue to expect reimbursement pressures, right, and some headwind from elevated unemployment. And obviously, that will -- we'll learn more as time goes on. And I would say, Ricky, not a meaningful impact as we look at 2021. But as we look beyond '21, our health services capabilities developed through our HealthHUBs, yielding improved customer experience, yielding higher-margin revenues in our stores, creating competitive advantages with our customers that we serve, we see that as we look beyond 2021.

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

So we are -- we're almost out of time, so Larry, before we end the session, obviously, a lot this year, COVID, the elections are in front of us, and you haven't even kind of like touched about that and potential for coverage expansion. But when we sit here a year from now with hopefully a lot of this behind us in the rearview mirror, what do you think investors will focus most on in the conversations?

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

Yes, Ricky, it's a great question. Look, I think it picks up where Eva left off, progress against our financial metrics, EPS growth, synergies, cost reduction, certainly deleveraging, continuing to drive growth against that strategic agenda. And when you look within the businesses, as Eva pointed out, above-market growth in the government programs and specialty pharmacy become 2 important growth drivers. And then pivoting to what we have been working on for the last 15 or so months in terms of our transformation programs and how they're proceeding, the rate of adoption by clients and customers and how those programs will continue to differentiate CVS in the market.

And as Eva pointed out earlier, we'll be able to provide more quantitative metrics around the performance of those products and services to include the HealthHUBs. And I'm sure that there'll be a lot of discussion around capital deployment post deleveraging once -- because once that's achieved, that offers a significant opportunity to increase cash flow directed to shareholder returns. So we look forward to those discussions. And look, we're very excited about our transformation progress and continue to believe that we are very well positioned to capitalize on the ever-changing health care landscape, given the robust portfolio of our assets and in many of the things that we touched on, Ricky, this morning.



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

Great. Well, Larry, Eva, thank you very much for your time this morning and for everybody on the webcast. This concludes our morning session. Thank you.

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

Thanks, Ricky.

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

Thanks.

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