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CVS Health Corp. (CVS)

JP Morgan Healthcare Conference

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Lisa C. Gill
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MANAGEMENT DISCUSSION SECTION

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Good morning. My name is Lisa Gill, and I'm a healthcare services analyst with JPMorgan. It is with great pleasure this morning that I introduce CVS Health. With us this morning we have Karen Lynch, incoming CEO; Larry Merlo, outgoing CEO; and CFO, Eva Boratto. Larry and Eva will join us for the Q&A session that we will begin right after Karen makes some opening comments.

So, welcome, Karen. And I'm going to hand it off to you.

Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

Good morning, Lisa. It's nice to see you. Good morning, everyone. Larry, Eva and I are looking forward to today's discussion. But before we begin, I'd like to remind everyone that we're going to make some forward-looking statements today that are subject to risks and uncertainties. And I'll direct you to the full statement that we have included on your screen right now.

At CVS Health, our transformation over the last decade has enabled us to become one of the country's leading diversified health services company. As one of the most trusted brands in America, we have built a company with unmatched scale, breadth of capabilities, consumer-focus, and presence in communities across the countries, with a highly engaged team of nearly 300,000 colleagues. I'm very proud of the CVS Health team and all that we've achieved during this past year for our customers, for our communities and for our investors.

In the first nine months of 2020, our results exceeded our expectations, a testament to our strategy and our diversified business model. Our total revenue increased by approximately 5%. And we generated significant cash flow from operations of $12.3 billion. And we continued to make progress on deleveraging. We benefited from continued growth in our PBM and Government Services business, once again achieving above-market growth in

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Medicare Advantage. We completed acquisitions that enhanced our position and we divested businesses that were not aligned to our strategy. We also advanced a number of our health management programs. And then to improve access to quality and holistic care, we opened up approximately 600 HealthHUB locations in 2020, including many in underserved communities.

It wouldn't be possible to talk about 2020 without highlighting our pandemic response. Our strong local presence and scale in communities across the country enabled us to play an indispensable role in the national response to COVID-19. This led us to accelerate many aspects of our strategy. And while ensuring the health and safety of our employees, our frontline colleagues continued to seamlessly support customers wherever they needed us: in our CVS locations, in their homes, and virtually.

As you all know, we've seen dramatic shift in the environment. The healthcare delivery system is being redefined on how people access care. Consumer behaviors and preferences are increasingly turning to solutions characterized by greater convenience, simplicity, personalization, and on-demand access across a broad range of categories. And we're all witnessing a significant shift towards digitalization. There's been a massive increase in telemedicine use with approximately 40 times more people accessing virtual care compared to pre-COVID levels. Many of these changes will be permanent and establish a new normal. And we're encouraged by these trends as they prove to us that the market is finally ready for healthcare that is driven by and responsive to the needs of consumers.

As we turn to our strategy, our strategy is centered on an orientation around the consumer. We believe that solving their health needs will create future economic value for CVS Health. We're accelerating the pace of progress with our strategic roadmap and prioritizing our actions to meet these emerging consumer needs.

Later this year, you'll hear more about our evolution of our growth and our value creation strategy, with clear objectives and annual milestones. You'll hear more about our new and differentiated products and services that will improve health and lower medical costs, using technology, data and digital assets. And you'll hear more about our capital management strategy with a near-term focus on our continued deleveraging, investments to accelerate growth, maintaining our dividend and closely leveraging an opportunity for enhanced return to shareholders over time.

We're confident about the growth opportunities available for CVS Health and believe that we are well-positioned to support individuals for every meaningful moment of health throughout their lifetime. Being consumer access is truly at the heart of everything that we do and why we are uniquely positioned to exceed customer expectations.

We have one of the strongest, most trusted consumer brands. We have a wide range of clinically-oriented digital products and services. We have an expansive footprint in communities across the countries. We have a subscription service with nearly 4 million members today and the ability to significantly expand that further. And we have a broad set of innovative consumer solutions that meet the holistic needs of individuals. We have the ability to engage with consumers across all digital and in-person touch points in a seamless way. We will create new value with simpler, more convenient and more personalized approaches using data and analytics that support an individual's health journey.

We have more than 100 million existing loyal members across Caremark and Aetna. We will deepen these relationships by increasing the penetration of our health services to become a bigger part of the consumer's every day health. This means that CVS Health will unlock the lifetime value for consumers, and will do this at scale.

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During the last year, we have expanded our customer base as a result of our response to COVID-19. We increased the number of consumers we interact with daily through our testing and soon-to-be our vaccine services. Approximately 40% of our Return Ready clients are new to CVS Health. And over 6 million people who tested for COVID at a CVS location are not currently CVS Pharmacy customers. This provides a tremendous opportunity to expand our customer base as we engage with millions of new customers through testing and vaccinations.

We are using these touch-points to shape the health experience that demonstrates the value of CVS Health and creates the opportunity to capture new loyal customers. And to drive the acceleration of our strategy, we have several experienced executives joining CVS Health. We just announced that Michelle Peluso will be joining CVS Health as our Chief Customer Officer later this month, a newly created leadership role that will focus on accelerating digital transformation and our brand.

We recently welcomed the new Retail President, Neela Montgomery, who has extensive consumer behavior, digital and e-commerce experience to lead our CVS Health locations across the country. Dan Finke, a seasoned managed care executive, will become President of the Health Care segment. Dan has a strong track record of driving growth and bringing consumer-driven innovation to the marketplace. And finally, Laurie Havanec, our new Chief People Officer, will be joining us in February and will be driving changes in culture, diversity and inclusion and the workforce of the future strategies.

As I begin leading CVS Health effective February 1, my priorities include achieving our long-term financial objectives, accelerating our strategy with a focus on digital transformation, integrated value and innovative consumer-oriented solutions, improving our medical cost management strategies, creating connected and seamless experiences across CVS Health assets for every meaningful moment of health in a consumer's lifetime, expanding our health services strategy, and advancing the state of healthcare in the United States. In February, Eva and I will share our 2021 guidance. I'm confident for – in the future and the opportunities ahead of us to reshape healthcare.

Before I hand it over to Lisa, we'd like to show you this short clip on how CVS Health is supporting the national distribution of COVID vaccines. Can you roll the video, please?

[Video Presentation] (00:09:24-00:11:15)

Lisa, I'll kick it back to you.

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QUESTION AND ANSWER SECTION

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Great. Thank you so much. [ph] Allison (00:11:21) did you turn my video – there we go. Hi, everybody. Thank you so much. Karen, no one is more excited for this vaccine than me. I haven't seen my father in over a year. He'll actually go to CVS and have his vaccine next Friday. So, I'm very hopeful that at some point he's in Florida that I'm going to get to see him.

So, let's talk about an update on this rollout. I mean, the news organizations have not been kind to this rollout of the vaccine. They've obviously highlighted a number of people waiting in lines, long lines, people that should have been a part of the first group getting vaccines that haven't been vaccinated. So from your perspective, how has it gone versus your initial expectations?

Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

A

Yes. So, well first of all, just let me acknowledge the tremendous work that was done by Pfizer and Moderna and the other companies that really bought this vaccine [indiscernible] (00:12:18) in this pandemic. We have been – we've been working really closely for the last several months with Operation Warp Speed and the CDC. And we were selected with – or to do vaccination in that long-term care facility. So we were selected by over 40,000 long-term care facilities to do the vaccine.

So, if you think about what we're doing right now, we're actually [ph] this is a (00:12:43) mass distribution. We're in every single long-term facility day in and day out, and sometimes we're actually going into the rooms and vaccinating the most vulnerable population. To date, we have done over 8,000 of these clinics in these facilities and we have administered over 700,000 vaccines. So as of yesterday, it was about 10% of total vaccines that were administered, were administered by CVS.

Now the way the process works, Lisa, is that when they select us, the state actually has to determine where the vaccine is going. So, they actually have to activate the long-term care facility. So some states started activating in late December, some states are still activating now. But we started vaccinating at the end of December. By the end of January, we will have the first round of all of those facilities nearly complete. So we're making really good progress. We've completed it against the plan that we set forth. So, I know that there's been a lot of questions around the data, but we are thought – we are on track to do what we said we're going to do. And we've been now updating our website every night to show the progress that we're making and we're working very closely with the governor to make sure that they are activating so that we can get into those long-term – those long-term care facilities.

The other thing I'd say Lisa, is we are ready. We expect the federal programs to open up shortly, and we are ready in our CVS Pharmacy to administer the vaccine. We have over 90,000 clinicians through our pharmacists, through our [indiscernible] (00:14:34) through our nurses and our nurse practitioners to be able to administer the vaccine. And we do expect that we can administer 20 million to 25 million vaccines per month once the federal program opens up. So, we're ready and we're in a position to support people like your dad at getting the vaccine, and we are ready to go when the overall federal program opens up.

[indiscernible] (00:15:04)

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Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Go ahead, Larry.

Larry J. Merlo
President, Chief Executive Officer & Director, CVS Health Corp.

A

I just like to amplify one of the points that Karen made because I really believe it's underappreciated in the media that the average number of residents in a long-term care facility is 80. And to Karen's point, we're going to that one facility at a time. And Karen talked about where we are at this point. This week, we will do over 10,000 clinics in long-term care facilities, and it will take that to administer about 1 million vaccines. If you think about what Karen was just talking about in terms of when we get into the retail phase, we'll do almost 1 million vaccines a day.

So I think the media is confusing the need that exists in long-term care with being mass vaccination and it's really not. It's one somebody at a time. And to Karen's point, we are absolutely on schedule with the plan that has been put together state by state.

Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

A

And as that...

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

And how...

Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

A

Go ahead, Lisa.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

No, no. Go ahead, Karen. So I was just going to ask about the financial impact.

Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

A

I'll hand it over to Eva in a minute. But I would just remind everyone that when distribution – when we're distributing, it all depends on the availability of supply, the allocation decisions that are being made by the state, the consumer adoption. So we're doing a lot on education to make sure people understand the efficacy of the vaccination. And so people need to be educated around that. And then obviously consumers selecting us, as CVS Health that's the place they want to go. So thank you for your dad coming to CVS.

And with that, I'll turn it over to Eva to talk about the economics of it.

Eva C. Boratto
Chief Financial Officer & Executive Vice President, CVS Health Corp.

A

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Yes. Lisa and Karen, I think that's a great entry point into the financials, right, because there are four of the key variables. But I hope what everyone has taken away is we anticipate playing a key role in this. Our market share where we are to date at 10%, we are bringing new customers into our stores through the COVID testing as well as the vaccination.

So we see the opportunity not only for the vaccinations but beyond as we keep these customers as longer term customers. So it's difficult to pinpoint given the variable factors that Karen outlined. A couple of things I'd just remind folks from a financial perspective. When you think about how this will flow through our financials, we'll get an administrative fee. I would think about that as – on the commercial side, consistent with the fee for the first and second dose that CMS established. We will incur additional costs in administering the vaccine.

Karen articulated on the long-term care, particularly we're going from facility-facility more than one trip. We have storage, we have education, we have elevated clinicians in our retail stores. And the number of vaccinations will also vary not only by the supply availability, but if there is a one-dose vaccine that comes to market that will also impact this but I would say, we're ready and we expect to play a key role.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Eva, one of the ways that we looked at it, I know it's not a one-for-one but to look at the flu vaccination, clearly here you have no COGS, but you talked about the incremental costs that you have. Would that be a fair way to think about it being kind of a one-to-one for a flu vaccination versus COVID on perhaps an EBIT basis?

Eva C. Boratto
Chief Financial Officer & Executive Vice President, CVS Health Corp.

A

So, what I'd say is Lisa, it's similar to what we've seen with vaccinations more of like a health service, so a higher margin. And obviously, the more efficiency we can bring through the stores and throughput, the more improvements we can make there. So I would say the vaccines, the margin [indiscernible] (00:19:14) the EBIT contribution will be above that of a typical script.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

And then...

[indiscernible] (00:19:21)

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

...we – I'm sorry, go ahead, Larry.

Larry J. Merlo
President, Chief Executive Officer & Director, CVS Health Corp.

A

[indiscernible] (00:19:25) think about the fact that you do have some added costs when you compare a COVID vaccine against a flu vaccine okay, in terms of whether it's all of the handling or simply the fact that there's a 15-minute observation period before the individual leaves the premises. So there are additional staffing considerations when you compare COVID versus seasonal flu.

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Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

And then just the last question around the financial impact. You did give some preliminary numbers for 2021 right, some things to think about. Eva, was that included in your thoughts in November or had you not contemplated flu – or I'm sorry, COVID at that point?

Eva C. Boratto
Chief Financial Officer & Executive Vice President, CVS Health Corp.

A

No. Understood, Lisa. And as I said back in November on our earnings call, we took into account all of the information that we had at the time. And obviously we did have some information related to the vaccine, so I would say it was a factor, but I would say it wasn't a dominant factor, right. We – irrespective of the vaccine, there are many other dynamics in our business that gave us the confidence of the mid-single digit growth off of what I called our adjusted baseline of $7.10. And we'll certainly provide more color on our earnings release as well as we progress throughout the vaccination rollout.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Great. So as we think about the enterprise and clearly we were all sitting together physically a year ago, nobody anticipated that we were going to be in a worldwide pandemic throughout 2020. But as you look back and you look at how quickly CVS was able to respond to all the things Karen that you talked about in the presentation that you just did, is there anything you take away from this pandemic that changes your long-term strategy in anyway or even changes your near or long-term investments in the company? I know you had to invest in people, right, so that you'll have the people to be able to administer this vaccine and people that we're doing testing, et cetera. But what does this do to the enterprise strategy longer term in investment from an investment perspective?

Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

A

Yes. So let me just talk about some of the strategic things, and then I'll ask Eva to comment on the investment. So first of all, Lisa, it definitely accelerated parts of our strategy. But more importantly, it demonstrated the value of our company and the value of our strategy. It demonstrated the importance of being local and in the community and reinforced the point that healthcare is local. It demonstrated the point around people will look for alternative sites of care when they're looking for their health needs. And it demonstrated our ability to walk alongside people during their healthcare journey albeit when they needed testing or they – we needed to be in the home with them or they needed a pharmacy script and we delivered it to the home.

So as you think about the components that accelerate our strategy and will continue going forward is really on this digital transformation. We were quickly able to develop digital capabilities for testing. We've actually developed a scheduling digital tool for vaccines where when you log in to schedule your vaccination, we'll have a roundtrip ticket, so to speak, so you'll get your second scheduled appointment. And then we'll follow up with you with tests and things like that and phone calls because I think that's a big thing relative to vaccines, making sure people get their second shot.

We accelerated our home delivery. We changed our stores to make sure that we were bringing scripts to people because they couldn't come to the store. We advanced our Coram nurses to bring them home. A lot of the hospitals were trying to move people patients out to do IV infusion therapy. So, as you can see, the part of our strategy, technology, digital, data and analytics, all will be areas that we continue to invest in as we move forward to meet and service the needs of our consumers. And we talked about the changing demands on virtual care and

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telemedicine. We were able to quickly advance our E-Clinic capabilities. We're working very closely on advancing our strategy around connecting virtual care to our HealthHUBs and to our home. So we've got – those are the places that we will invest and advance our strategy going forward.

And I'll turn it to Eva to talk about investments.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Yes. That'd be great.

Eva C. Boratto
Chief Financial Officer & Executive Vice President, CVS Health Corp.

A

Lisa, were you going to say something or?

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Yes. No. I was just going to ask you to talk about the financial impact. So as you think about the strategy around some of these things, and also when you think about the strategy you recently laid out and the financial targets you set around integration synergies, modernization, transformation, did the pandemic change any of those either priorities or the synergies around that?

Eva C. Boratto
Chief Financial Officer & Executive Vice President, CVS Health Corp.

A

Yes. So let me take that question in a couple of pieces and the investment plays in. First, what I'm really pleased with is we've been able during this pandemic to continue to advance both our efforts on our synergy, our cost initiatives as well as our transformation. As Karen just articulated, underneath that areas we're emphasizing more versus previously have changed. So on the synergy front, we continue to expect to deliver our $9 million in run rate synergy goal and our modernization efforts continue.

I would say on the modernization front, COVID has accelerated some areas and perhaps slowed down others. But net-net, we continue to feel good about where we are. And then on the transformation front, right, aspects of our strategy have accelerated. If you think about diagnostics, if you think about what Karen has talked about with digital and virtual and as you think about our capital portfolio, we'll make sure we align those investments to support the growth.

And Lisa, I apologize, the fact – I want to make sure the synergy run rate that I said $900 million, not $9 million [indiscernible] (00:26:07). So, let me just correct myself there. So, overall, I walk away we're focused on the goals that we outlined back at our Investor Day as well as our key leverage goals of getting to low 3 times in 2022.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

And Karen, you highlighted in your presentation that – 600 HealthHUB locations. I think we get a lot of questions around this. Investors really want to better understand it. So, can you maybe just walk us through the services that are provided today, the types of clients or consumers that you're servicing, and have you seen any benefit to your fully insured, so on your Aetna side of your business, are you starting to see, whether it's MA or commercial lives that come through the HealthHUB?

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Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

A

Yeah. So yes, we – despite the pandemic, we were able to open up those 600 HealthHUBs. I would just comment that HealthHUBs are one part but not the only part of our overall clinical strategy. So, they are key elements, but we also have to think about how we wrap around our clinical care program in the home and digitally. And the HealthHUB is that in-person touch point. Relative to the services that we provide, there obviously are MinuteClinic services, managing chronic conditions. If you think about individuals, they don't just go to their PCP every single month. But we can close gaps in care along the way for individuals when they are in between office visits. So, that's a core part of our strategy. We've been increasing our services through our pharmacy [indiscernible] (00:27:54) we introduced behavioral health support.

So, if you think about our HealthHUB, we're wrapping a clinical team around individuals so that we can help them navigate their care. So, you have a nurse practitioner, you have a pharmacist, you have a care concierge and you have now, we just rolled it out in January, behavioral health support in certain of our hubs.

So, think about that care management strategy in the hub. Now, we'll marry that to any digital strategy that we have, any virtual strategies that we have. But what we all know is that healthcare is human. Healthcare requires at some point in time for you to show up somewhere to have someone physically touch you or do something. And so, we're – those HealthHUBs are in those communities to provide that level of service.

The other thing, Lisa, I would say is that, they provide a lower site of care. And what we've been doing to drive that is we've been initiating new product designs in our fully insured. So, I've talked about in the past having this zero co-pay, no co-pay benefit design. And we now have 6 million people, as of January, that have this no co-pay, low co-pay we put it in our Medicare Advantage products this year.

So, we have increased our reach largely [indiscernible] (00:29:28) 6 million members to support them through our MinuteClinic visits. And we're also – think of – we're also partnering with local providers where local providers are working with us so that we can close gaps in care. We may have overcapacity. They're sending some of their patients to us. So again, that local presence.

The other thing that we're doing in the HealthHUBs is we're creating new services. So, this year, we rolled out our Medicare Resource Centers. We are – throughout open enrollment, we were at a place where people could go and be educated about Medicare Advantage. We were also able to talk to them about the services that they could visit when they came to a MinuteClinic regardless of whether or not they were a Aetna, Caremark member.

And so, it gave us another opportunity to explain to people what the HealthHUBs were and another way of engaging people in products and services. As I said, we rolled out our face-to-face behavioral support. And we're wrapping all these clinical services together. That gives you a pretty good sense of how our HealthHUBs, say, fit in to our overall strategy and the progress that we've made relative to our benefit design.

Oh, and the other thing, too, Lisa, is we rolled out an Aetna Connected product last year that has the benefit designs around the HealthHUBs. But it also is designed to what I always call shop at the company store. And it has all the other assets that we have and we'll be rolling that out throughout 2021.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

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So just as a point of clarification, the 6 million members, are those all Medicare Advantage members that you talked about?

Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

A

Commercial and Medicare.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

And Medicare. Okay, okay. 6 million in total. And when we think about this financially, I can understand the aspect of whether it's Medicare Advantage or Commercial to be able to lower overall costs, to be able to manage these patients better, what are the other financial metrics of these mature locations? I mean, are you seeing incremental scripts? Are you see incremental basket size? What are some of the other metrics that we should be looking at?

Eva C. Boratto
Chief Financial Officer & Executive Vice President, CVS Health Corp.

A

Karen, do you want me to take that?

Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

A

Yeah. Go ahead.

Eva C. Boratto
Chief Financial Officer & Executive Vice President, CVS Health Corp.

A

So, Lisa, I recognize, A, that the investment community is looking for these metrics, right. And during COVID, we've been hesitant given the amount of disruption. But I'll highlight a few things. One, I think what you heard from Karen is, the HealthHUB, we expect to drive value not just inside the four walls but more broadly outside the four walls, as we say, whether it's medical cost, whether it's winning new lives, stronger retention, better connection, stickiness with our customers.

A few things, in terms of the site of care that Karen mentioned, right, through our pharmacy panels, which are part of our HealthHUB strategy, we've seen a 12% reduction in unnecessary ER visits. We also, in our MinuteClinic in the HealthHUB, saw an uptick in the usage for chronic services achieving 16%. And, if you think about it, that demonstrates a willingness of customers to use our clinics differently. Front-end pharmacy performance are outperforming the control group. And I think if you think about medical cost with some of the chronic areas, they're going to take more time to have the proof points and data points as you evaluate that data longitudinally.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

I've heard you talk a couple of times today about the virtual aspect of healthcare and tying that together. We understand that you have a relationship with Teladoc which is none of the largest telehealth providers. Can you talk about that strategy? Two things that I really – I want to understand a little bit better, and that's the progress of the rollout of the virtual care visits, for example, within MinuteClinic locations or tying those two together, and the question I think I've asked before and many investors have asked you around owning your own physicians. Do you feel the need to actually own your own network of physicians? So, the first question just being around the rollout of virtual care and how you see that going forward; and the second round, do you need to own physicians?

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Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

A

Yeah. Lisa, we have a number of relationships with Teladoc. We sell Teladoc through our Aetna program as a buyout for virtual care. We also have a relationship in what we've been building out in our MinuteClinics is a several-pronged strategy. We've created E-Clinic capabilities for our own nurse practitioners so that they can have face-to-face interactions with our customers. And then, when they need a physician and when a physician is necessary, they have the ability to log in and get to a primary care.

In our hubs today and our MinuteClinics today, we have the nurse practitioner that can do about 80% of what a primary care physician can do. And if you think about what I just talked about, we now have the nurse practitioner, we have the pharmacist, we have behavioral health support. So, we do have a clinical team in those HealthHUBs, but we are continually – and we're continually working with our network of providers. We'll continually evaluate whether or not we need providers. That's something we'll look at. Right now, we're in the midst of piloting a virtual PCP relationship with one of our large national account customers where it's all virtual and then they – everything that has to be seen goes to a MinuteClinic or a HealthHUB. And so, that's a pilot that we're exploring. So – but right now, we feel that we've got that coordinated care today, but we'll continually evaluate it and look at it for the future.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Great. I know we only have a few minutes left here. And we haven't really talked about your PBM at all. Obviously, a big ruling with Rutledge versus PCMA, really surprising to someone like myself that's followed the industry for a long time because they're changing the fiduciary responsibility basically, right, with that ruling saying that their fiduciary responsibility is not necessarily to the planned sponsor [indiscernible] (00:36:07) or the health plan.

Can you maybe just take a couple of minutes to talk about what are your customers saying around this? And do they have concerns? Are there changes in contracts that are happening since this announcement? And I know that if the timing is kind of strange, right, and that the court case came down, probably most of your contracts for 2021 were already signed. But I do understand that we are starting to think about the selling season for 2022. So, I just want to understand what clients are saying and any anticipated changes you would expect. But also any expected changes that you would see on the retail side of the business, right, now that they're saying this was really brought up by the independent pharmacies that were looking to be reimbursed fairly far out from the PBM industry.

Larry J. Merlo
President, Chief Executive Officer & Director, CVS Health Corp.

A

You want me to take that, Karen?

Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

A

Yeah. Go ahead, yeah.

Larry J. Merlo
President, Chief Executive Officer & Director, CVS Health Corp.

A

So, Lisa, to your – to your point, Lisa, it is early and I'll just emphasize. It's a very narrow decision by the court around mandating a particular pricing methodology when reimbursing pharmacy. So, if – think of it as cost

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regulation. And that decision does not impact or restrict the ability to offer different a benefit design. So, on an apples-to-apples basis, Lisa, I think where you were going, it will increase, has the potential to increase costs for employers, as one can speculate, independent pharmacies would be paid more. So, I mean, I can see, as this moves forward, if we're sitting across the table from each other and you're the decision maker for the JPMorgan benefit design, we're going to be talking about potential cost increases and you're going to come back and say, well, how do we mitigate that. And one of the mitigation elements would likely result in further restriction of the network construct.

Lisa C. Gill
Analyst, JPMorgan Securities LLC
Q

Right.

Larry J. Merlo
President, Chief Executive Officer & Director, CVS Health Corp.
A

So, I could see that happening as a by-product of this because, today, less on mitigated, it would end up being a pass through to the planned sponsor.

Lisa C. Gill
Analyst, JPMorgan Securities LLC
Q

Great. And so, would that finally push us towards more narrow networks for pharmacy? I mean, we see that in Medicare, but we've never seen that in Commercial. So, could this potentially be the impetus and could it end up hurting the independent pharmacies, at the end of the day, where they thought that they're looking for better reimbursement around this and only to be cut out from a network because the cost is a passed through to the planned sponsor.

Larry J. Merlo
President, Chief Executive Officer & Director, CVS Health Corp.
A

Lisa, I do believe it has the potential for that as the ultimate outcome.

Lisa C. Gill
Analyst, JPMorgan Securities LLC
Q

So, we have only one minute left. And, Karen, as incoming CEO, I ask this question every year. And, Larry, I remember that, absolutely, we should have just thrown it out the window last year with the pandemic because no one would have predicted that we were going to have a pandemic in 2020. But, Karen, hopefully we'll be sitting all together in San Francisco in January of 2022. What are the few things that investors will really truly appreciate about CVS 12 months from now that they don't appreciate today?

Karen S. Lynch
Executive Vice President & President-Aetna Business Unit, CVS Health Corp.
A

I think three things. The first is, our path to continued growth is strong and solid; that we built the company with unparalleled power of our reach and responsibility and our relationships to meet the American health needs; and that they'll understand that we have unmatched scale and breadth of capabilities and presence in the communities that create a unique opportunity for growth and differentiate CVS Health.

Lisa C. Gill
Analyst, JPMorgan Securities LLC
Q

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Well, I am looking forward to that over the next 12 months. Congratulations, again, on being named CEO. Larry, congratulations on your retirement, and for fostering these amazing women that are part of this leadership team. I think that you are on the forefront of doing away with tobacco. You're on the forefront of really fostering women in a large organization. So, thank you for all that you've done. And I hope to keep in touch in your retirement.

Larry J. Merlo

President, Chief Executive Officer & Director, CVS Health Corp.

A

Lisa, you bet. And let me emphasize, I couldn't be happier with the board selection of Karen and the company is in great hands with Karen and Eva at the helm.

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Great. So, with that, thanks very much, everybody.

Karen S. Lynch

Executive Vice President & President-Aetna Business Unit, CVS Health Corp.

Thank you.

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