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CVS Health Corp. (CVS)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Larry McGrath

Senior Vice President-Business Development & Investor Relations, CVS Health Corp.

All right. Good morning. Thank you all for joining us for the CVS Health 2023 Investor Day. My name is Larry McGrath. On behalf of the entire CVS Health team, I'd like to extend a warm welcome to you all joining us here in person in Boston or online through the webcast.

So, before we jump in, please note that the usual cautionary statements and Safe Harbors apply, displayed here on screen, during the presentations. I would also encourage you to consult our risk factors on file with the SEC and in our latest reports on file, Form 10-K, 10-Q and 8-K.

All right, for the agenda. So, Karen's going to start the day, providing a strategic update and also giving some important updates on each of our businesses. Thomas is then going to follow with our financial strategy and outlook. We're then going to give you guys a break. And then, after the break, we'll dig deeper into each of our core businesses, sharing our outlook, demonstrating how we are creating economic flywheels across CVS Health, and we're also going to show you how we're measuring success. Then, we'll give you another break. And then after that, we'll conclude with a Q&A session with the entire CVS management team.

So, with that, it's my distinct pleasure to invite on stage our President and Chief Executive Officer, Karen Lynch.

Karen S. Lynch

President & Chief Executive Officer, CVS Health Corp.

Good morning. Thank you all for joining us today. We are so excited about the opportunity to share our strategy with you and give you an update on our performance since the last time we spoke, which was actually two years ago. And it is incredibly hard to believe that it's been two years. Since that time, we have made significant progress on becoming the leading health solutions company.

Our mission remains the same, to build a world of health around the consumer. As a company, we are dedicated to unlocking the value in healthcare by delivering superior experiences, improving health and lowering the total cost of care. And we will do this by engaging people, to manage their health more conveniently and with the care and coverage that they need, to make healthier lives happen. We're doing this at a time when there are significant macro trends affecting healthcare. You all know consumer health is worsening.

The operating environment in which healthcare is existing today is becoming way more complex. Government spending is shifting towards value-based care and healthcare costs are continuing to climb. It's our time now to drive fundamental restructuring in how healthcare is delivered, how, by whom and where. It's needed and it's necessary. Addressing these challenges means that we successfully need to engage people in their overall health and involvements that matter, and that could make a critical difference. As a company, we're building a world of health around the consumer to do just that.

Achieving our vision requires the right set of capabilities to serve a broader patient, to serve a broader consumer, and to serve a broader community, while at the same time unlocking sustainable shareholder value with our integrated solutions. At the center of our vision is a value-based care platform, successfully engaging consumers to lower their total cost of care and creating longer, more durable relationships, and improving health outcomes. Yes, all of that all at the same time.

Today, we'll share with you the progress that we're making to build convenient, connected, personal and integrated solutions and how we're focusing on the lifetime value of a consumer and how we're driving steadily increasing earnings growth. And we'll also provide you with an update on our financial performance and our long-term outlook, including how you should think about our guidance for 2024 and beyond. We are so excited about the incredible opportunity in front of us and how CVS Health is uniquely positioned to create greater value for our customers, our consumers, and you, our shareholders.

Our passion, our purpose and our commitment to improving overall health, it starts at the top. We have a seasoned team of leaders with deep healthcare and technology expertise and a proven track record of building, scaling and growing profitable businesses. Each member of my leadership team is here today to answer questions that you may have throughout the day, but you'll hear specifically during the presentations from Tom Cowhey, Brian Kane, Prem Shah, David Joyner, Mike Pykosz, and Kyle Armbrester.

As we stand here today, we have made real, meaningful progress executing our strategy and advancing our vision for healthcare. We have broadened, deepened and diversified our growth portfolio under CVS Healthspire assets, including care delivery and our new business, Cordavis. As we said we would, we advanced our multi-payor capabilities, our value-based care capabilities with two strategic transactions: Signify Health and Oak Street Health, two premier assets that serve older adults.

We've also grown our physician enablement business, CVS Accountable Care, which has over $10 billion of managed spend in 2023 and will grow to 1 million patients in 2024. We said we'd divest our non-core strategic assets, and we did. We delivered our cost and operating efficiency goals and have taken further action to improve our cost structure in 2024. And as promised, we optimized our retail portfolio and are on track to meet our commitment of reducing our stores by 900 over three years.

Importantly, we have done this while exceeding both our script and our colleague retention goals. We've increased our digital base and now have over 55 million unique digital customers. That's an impressive increase of 20 million unique customers since the last time we saw you.

We often highlight our cash flow generation. Over 2022 and 2023, we have generated nearly $30 billion of operating cash flow. The strength of our cash flow generation has enabled us to deploy capital strategically, as well as return more than $11 billion to shareholders over the last 24 months. We will continue to execute and deliver on our strategy, and the commitments that we make.

I want to spend a few minutes talking about CVS Health as a company. We are a trusted brand in healthcare. Our customers know us, they like us and they trust us. We operate with a broad reach with the most important verticals in healthcare. We have over 300,000 purpose-driven colleagues who execute on our vision every single day. We are a diversified company with a strong portfolio of businesses. For 2023, we're estimating that we will achieve 300 – over $350 billion of annual revenue, we will generate over $17 billion of adjusted operating income, and we'll generate nearly $13.5 billion of operating cash flow.

We have incredible breadth of health products and services from providing coverage and financing consumers' health through our insurance products, to providing assets of – to quality care and access to quality care for total health needs, and engaging individuals at our CVS locations, in their homes and digitally, and we deliver quality care with more than 50,000 clinicians. We're bringing these assets together to engage consumers in their health. Wherever they turn, however they turn, CVS Health is there.

Put bluntly, this is unmatched in the industry. When all of our assets work together, we're able to lower the total cost of care, improve health outcomes, increase loyalty, and improve quality and affordability. We have powerful assets that work together to integrate on the moments of care that matter. We're able to provide panoramic care for all of our 100 million members. And quite frankly, we're just getting started.

When an Aetna member engages with CVS Pharmacy, Caremark and our and our care delivery capabilities, we generate 3 to 4 times higher enterprise lifetime value through persistency. The enterprise lifetime value that we yield is through our fully integrated members, and can be expanded to a broader addressable market beyond just Aetna with our multi-payor capabilities and our consumer reach. This feeds the economic flywheel for the overall company. And as we continue to work with our payor partners, we'll help them unlock value for their members.

I thought it was important to illustrate for you an example by walking through a member's journey. I want to take an Aetna Medicare Advantage member, who has diabetes. I'm going to call her [ph] Kate (00:10:57). This population is one of the most vulnerable, as you know. [ph] Kate (00:11:08) has diabetes and what's interesting, she's using a variety of services beyond what you would think of as traditional healthcare.

In her welcome kit, [ph] Kate (00:11:21) learns about our new CVS Health app, and she enrolls and she has convenient access to information about her Aetna benefits and prescriptions. She has the ability to schedule an appointment with MinuteClinic. She also can shop online for health and wellness products that she may need. Through the app, she refills her diabetes maintenance medication and then visits one of our CVS Pharmacies to pick it up.

When she's speaking with a pharmacist, we learn that [ph] Kate (00:11:55) is experiencing joint pain. And our pharmacist educates her on the availability of in-home evaluations through her health plan. [ph] Kate (00:12:06) is easily able to schedule a visit with a Signify nurse. And during her in-home evaluation, the nurse identifies complications with arthritis and learns that the member hasn't seen her rheumatologist in many years, and doesn't have a primary care doctor who she sees regularly.

The Signify Health nurse provides a list of quality, value-based care physicians. Interestingly enough, [ph] Kate (00:12:35) selects Oak Street Health. The nurse helps schedule a wellness visit with an Oak Street Health physician. At [ph] Kate's (00:12:44) first visit, one of our doctors performs a thorough physical exam, and then the doctor builds a comprehensive care plan that addresses [ph] Kate's (00:12:54) current health challenges and also recommends proactive health strategies.

He then connects with [ph] Kate's (00:13:01) rheumatologist. The doctor sets up regularly scheduled checkups, and [ph] Kate (00:13:06) begins her care plan in order to achieve overall adherence and success. The rheumatologist prescribed Humira for her arthritis and through her Caremark benefits and through Cordavis, [ph] Kate (00:13:21) can access a low-cost biosimilar option, which she fills at CVS Specialty Pharmacy and has delivered to her home. Keep in mind, this is just one of many examples of the ways that our end-to-end capabilities enable us to engage in a consumer's health and generate higher lifetime enterprise value for the company.

In addition to improving the connections to healthcare for our patients, these effects will show up on our financial results in a number of ways. You should expect to see enrollment growth, improvement in margin as we manage medical expense, improvement in our medical cost ratios as we partner with value-based care providers. We should see improved Star Ratings and those were just a few examples. This is the power of how all of our assets work together and how our capabilities work together to drive value for our company.

Each of our core businesses are industry leaders in their own right. As standalone businesses, they are formidable. Together, they are unmatched. Let me talk a little bit about our health benefit segment, or Aetna, which serves more than 35 million members. It delivers a broad range of insurance products to effectively manage risk and coordinate benefits and ensures customers have access to high-quality provider networks and specialty products such as dental and behavioral.

Aetna's diversified book of business is built to deliver high-single digit adjusted operating income growth over the long term. This growth is driven by a number of factors: Aging demographics, which are driving continued enrollment in Medicare Advantage, the funding dynamics that are shifting health benefits and driving growth in both Individual Exchange and Medicaid, and an increased focus on innovation and quality product offerings that are driving growth in our commercial portfolio. We are positioned to benefit from these growth opportunities and determined to drive target margins in both our Medicare Advantage and our Individual Exchange business.

Let me comment now on our Health Services segment, or CVS Healthspire, which includes our pharmacy benefits management, our care delivery assets and other innovative services such as Cordavis. The assets of the Health Services segment will generate growth of over 7% in the long term, accelerating as the contribution from healthcare delivery grows, starting with our Pharmacy Services businesses. Our scale and capabilities provide a clear benefit for our clients by driving down the cost of drugs and delivering critical specialty pharmacy services to patients in need. It is the leading PBM in the industry and serves nearly 90 million members.

In the next few years, this market will experience significant opportunities to drive growth, particularly with the introduction of the biosimilar market and increasing prevalence of specialty therapies. The growth will allow us to deliver meaningful savings for our clients, while also providing opportunities for innovative offering and transparent economics. Caremark plays an important role in the healthcare delivery system, and we will continue our history of innovation and how we deliver value to our customers.

Next up, our multi-payor care delivery business, which includes Oak Street, Signify and MinuteClinic. We provide health services to millions of patients annually through all these channels. We've entered into one of the fastest growing health sectors and expanded our total addressable market by more than $1 trillion. Our ability to scale and expand these capabilities will enable us to deliver accelerating growth over time.

We are launching new clinical formats that will take Oak Street's full suite of pharmacy services for Medicare members and combine them with CVS Pharmacy. We're also advancing our technology capabilities to improve patient experience and clinical operations, while also enhancing our provider enablement capabilities to support the transition to full risk-based contracts. We've had great success in our ACO Reach business in a very short period of time. We now have all the necessary building blocks to enable providers to take risk without risking quality care.

We will continue to evaluate new multi-payor capabilities to meeting broader set of consumer needs and change the long-term trajectory for CVS Health. And finally, our Pharmacy and Consumer Wellness segment. We are the leading retail pharmacy chain in the country. Number one, equal, period. We have approximately 27% market share and serve over 120 million customers across more than 9,000 stores nationally. Our 30,000 trusted pharmacists represent the most frequent, personal and durable interaction in healthcare.

We have nearly 5 million interactions with our customers every day and we continue to deliver pharmacy script growth, improve our cost structure, and provide better experiences for our consumers. However, the reimbursement dynamics in this business have been a persistent industry challenge, and as a result, will drive mid-single digit declines in this business.

Today, you will hear how we are proactively addressing this industry reimbursement pressure with an entire new model. This new model will ensure pharmacy reimbursement is aligned to the underlying costs of our business, while still providing our clients and customers the benefits of our purchasing economics and we'll offer upside to our long-term growth expectations.

These businesses combine to deliver sustainable, accelerating growth, and significant operating cash flow. Our biggest opportunity and why we are so excited about the future is our ability to engage consumers at multiple touchpoints across our entire portfolio of businesses. This is a key differentiator for CVS Health, and this amplifier effect will drive significantly higher consumer lifetime value for our enterprise.

As I said before, we've made significant progress advancing our strategy. We're also evolving our business to deliver long-term sustainable and accelerating earnings growth. So, here's what's next. We're driving deeper engagement with consumers and leveraging technology. We're bringing excellence in our hyper-local convenience. We're innovating and evolving our PBM model, and we're creating greater transparency at the retail pharmacy counter.

As a company, we have incredible reach and the ability to engage people in their health. Trust in CVS Health extends well beyond our physical locations, and the trust is critical as we expand the use of our digital assets and deepen the engagement with our 55 million customers. With our new CVS Health app, consumers will have a fully integrated personal and engaging digital experience. It will offer health and wellness services across all of our channels. Our new app will be customizable and will have white labeling capabilities for our clients. We will set the standard in digital engagement and utility.

Beyond engaging consumers, we believe that AI and generative AI will transform healthcare. We're applying technology, data and analytics to every single aspect of our business. The effects will be positive and profound, and we're already seeing significant value, while continuing to preserve the importance of the human connection in healthcare.

In Caremark, we expect these new capabilities to have significant impact on underwriting automation and client contracting. In Aetna, we're using AI to increase the efficiency of our operations, and in CVS Pharmacy, we're using AI to help automate pharmacist workflows and improve safety and experiences. In our new care delivery assets, our digital health dashboard utilizes GenAI enabled capabilities to summarize cases, which creates a much more convenient and better patient onboarding experience. At the same time, we are committed to responsible AI. We are ensuring that we're doing what's right for our customers, our colleagues, and our patients.

You've heard me say this before, but people want healthcare with the same convenience and digital options that they have in every other aspect of their life. Many others are offering point solutions that only address some pain points in the healthcare system. No one is bringing them together in a coordinated way. We will be the leader in hyper-local convenience. We're scaling our capabilities to be a national care delivery provider while delivering care locally. The result, delivering integrated care, especially for complex patients, has been shown to reduce the total cost of care, while also improving patient engagement. The economics are compelling. The outcomes are even better.

Signify Health has demonstrated tremendous value to its payor partners when they send clinicians to the home to deliver an in-home evaluation. The important benefit starts when a patient actually picks up the phone and when [ph] Signa's (00:25:11) calling to schedule a visit. By utilizing CVS Health's, trusted brand and the deep relationship we have with our pharmacies, Signify has already seen marked improvement in their ability to reach patients.

For example, we have surpassed our initial conversion goals with hard-to-reach Aetna members. We have been successful in connecting more than 65% of these hard-to-reach members when using our brand and our pharmacy relationships. We're also seeing the power of these connections to drive Oak Street patient growth. We're utilizing Signify's in-home touch points to educate individuals about Oak Street and encouraging them to reconnect to care. While it's still early in this initiative of the members that Signify has connected to Oak Street, more than half have scheduled appointments. That's significant.

I want to set the record straight on the PBM business model. Contrary to all the misinformation, we have been able to consistently innovate and evolve our business in a very dynamic marketplace. We have done this while continuing to increase the value we deliver to customers by driving down lower net cost. We are the only participant in the drug supply chain that lowers the cost for our customers and our clients. And we have continued to grow over time as our model has undergone fundamental shifts. Caremark has made its mark with a long history of driving consumer innovation and choice. And an important recent iteration of this innovative approach can be seen in the biosimilar market. The pipeline for the biosimilar market will grow over the next few years, and represents a key growth opportunity for Caremark. It also offers the opportunity to deliver savings to our clients. We anticipate this market to reach over $100 billion by 2029.

With the creation of Cordavis, we are well positioned to help Caremark capitalize on this opportunity for their customers. Cordavis' innovative approach will create a robust and sustainable biosimilar marketplace and will help the market flourish and will deliver significant savings to our Caremark clients. But, CVS isn't done yet. More innovation is still needed. That's why we're introducing a new PBM model today that strives for continued transparency that reflects the true cost of drugs and simplifies the model while aligning incentives across all of our stakeholders. Clients that choose this model will continue to get the advantages of our best-in-class drug purchasing. Our pharmacy service business is an attractive, durable and cash flow-generating business.

I often get asked about the value of our Pharmacy and Consumer Wellness segment in the enterprise. I will tell you that it lies in the importance of our community presence, and the power of the consumer relationships that we maintain in that business. It's a bond, and it's an important one. Pharmacy, as I said before, is the most frequently used benefit in healthcare and trust is essential component of the pharmacist/patient relationship. It should come as no surprise to you that customers maintain a relationship with the pharmacist for over 10 years. And our community locations represent one of the first places that people – that customers come when they need care. I've said this before and I'll say it again. CVS is the best run retail pharmacy in the country, operating nationally with an unmatched level of engagement in an omnichannel way.

In spite of all of these strengths, this business has been challenged. The change in the reimbursement levels for the services that we provide do not align with the underlying cost of this business. The status quo is what is reflected currently in our long-term guidance framework. However, we do believe that we have reached the floor on reimbursement rate erosion, and now is the right time to change it. We're doing our part by simplifying drug pricing, moving to a transparent reimbursement model with PBMs and payors, starting with commercial business in 2025. We will transparently pass through the improvements that we get in our drug acquisition costs, continuing to use our scale and our efficiency to drive savings for our clients for many more years to come. This model will remove all cross-subsidization, and it will start with the approximately 750 million commercial prescriptions that we fill annually. This change will make it easier for you, our shareholders, to understand how this business grows over time. It will be linked to our ability to grow scripts and expand our value-added services. The new reimbursement model will bring increased transparency, accountability and quality to the retail pharmacy experience and create – and will create more opportunities for outperformance in this segment.

We're creating value by bringing altogether these powerful assets to engage consumers and health across multiple channels. The value generation that we will create is for all of our stakeholders, our clients, our customers, our providers and our shareholders. Our segments individually each are profitable. However, when combined, they mutually reinforce growth and are more successful together than they are alone.

Here are some examples of that. In October, we delivered some really exciting news, and I couldn't have been more proud of our team. We talked about the recovery of our Medicare Advantage Star Ratings in just one year. In that short amount of time, we were able to accomplish this by leveraging the power of our cross-company assets. And for 2025 plan year, 87% of our members will be in a 4 Star rated plan, a remarkable recovery in just one year.

In addition to these improvements, Aetna was the top performer in Part D patient safety and HEDIS domains. This was in no small part due to the work between Aetna, CVS Caremark and CVS Pharmacy. We are incredibly proud of this exceptional execution, which shows how quickly we can unite our businesses to achieve common goals.

A second example is our Exchange business. 2023 marked an important year for our Individual Exchange business. We have rapidly scaled this business and now expect to have 1.4 million members by utilizing cross-company capabilities. You might recall this offering was the very first co-branded Aetna CVS product and offered integrated unique solutions. Interestingly, nearly 50% of these member scripts were filled at a CVS Pharmacy. And members who had a low-cost, no-cost MinuteClinic were twice as likely to use this setting as other Aetna members. We're delivering broad addressable member, consumer and client touchpoints and we are creating integrated solutions and enhancing consumer engagement across all of our channels.

You can expect to see more integrated touchpoints with consumers and patients, and we'll be presenting more opportunities to drive down the lower – drive down to low – to lower cost of care with better outcomes and better experiences. Simply put, we'll make what's already good even better. And we'll track our progress and success by measuring against the key metrics shown here. Practically, as we deliver on our commitments, you'll see the following: Enrollment growth. Improvement in margins, as we manage medical spend and leverage our fixed cost. You'll see an acceleration of operating income in our CVS Healthspire businesses. You'll see stability in our medical benefit ratio as we partner with provider value – with value-based providers, and you'll continue to see stability in our Star Ratings. All of this will enable us to meet or exceed our financial commitments to our shareholders.

I want to now shift and talk about our long-term financial guidance and lay out our approach. Our long-term financial guidance is intentionally established to create a reliable commitment while providing opportunities to outperform. As we thought about how we want to guide for 2024 and beyond, we had a number of goals that we were trying to achieve. First, we're establishing the guidance for each business anchored in their market growth rates that will allow us to consistently beat our commitments with clear, identifiable opportunities for outperformance, while also providing room for disciplined strategic investments in our business and opportunities to use our strong cash flow generation to repurchase shares and drive total shareholder return, including increasing our dividend, as evidenced by the announcement that we made this morning.

We expect the combination of all these forces to contribute to a net total of at least 6% of adjusted EPS growth annually. We expect this baseline growth to accelerate over time the contribution of our CVS Healthspire businesses. And finally, as we look across our portfolio to outperform, we will make progress in achieving our target margins on our $60 billion of revenue in Medicare Advantage. So, you should expect 3% to 4% to adjusted EPS growth in 2025. These factors together will position us to deliver 9% to 10% growth to adjusted EPS in 2025. And throughout the day, you will hear our confidence in our ability to achieve these long-term goals for each of our businesses.

Before I turn this over to Tom, I want to leave you with a few closing thoughts. We have incredible opportunity in front of us and we have many points of differentiation for CVS Health to win. As a management team, we are aligned and focused to execute on the strategy, to achieve our growth goals and our financial commitments. So, here's what you can expect from us: strong sustainable growth, accelerating growth in the contributions of CVS Healthspire, powerful cash flow generation, and a balanced and disciplined capital deployment strategy, including a growing dividend, a commitment to sustainable business practices and employee development, and accelerating EPS growth over time. Our biggest differentiator is not just the collection of our assets, but how we can and will bring them together to deliver integrated solutions. Our strategy ensures that we have a realistic and achievable path to sustainable, accelerating, profitable growth. CVS Health is at the heart of transforming the future of healthcare in this country.

I want to thank you for your time, and now I'm going to turn it over to Tom Cowhey. He'll give you a review of our financial performance and our outlook. Thank you.

Thomas F. Cowhey

Interim Chief Financial Officer, CVS Health Corp.

Good morning, everyone. It is great to see so many of you here and thanks to everyone that joined us in TV Land. I just want to say how excited I am to be here. And one of the things that I get asked a lot is why did you come back to CVS. And I'll tell you, it's two things. First, this is just an astonishing team, and I really love working with them. Second is I believe in the mission. CVS Health has the best platform in the healthcare industry to facilitate change. And I'm going to walk you through why we believe that's a fact.

Driving accelerated performance. That's the title of my presentation, and I think it's fitting because that's what we expect to deliver. We are more convinced than ever that we have the right strategy. It's built on years of execution, but importantly, it's built now on acquisitions that are the building blocks of future growth. So, today, I'm going to share a couple of things. We're going to close out 2023 with our final guidance for the year, then talk about 2024. I'm going to walk you through the long-term guidance framework and then I'm going to talk about cash flow. It's a powerful cash flow generation machine that we have. And then, we're going to talk about how we drive enterprise value creation.

So, let's first quickly talk about 2023. We gave our initial guidance for 2023 on our fourth quarter call in February. When we gave that guidance, I want to remind investors, we announced the Signify and Oak Street transactions, but they were not included in our guidance range. Since that time, 2023 had some surprises for us: unexpected headwinds in our 340B business, and utilization in Medicare Advantage that we and the rest of the industry saw increased quite meaningfully.

Despite those headwinds, which pressured our business by over $1 billion of adjusted operating earnings, if you strip away the acquisitions, which is mostly the financing impact, we prevailed and actually exceeded our guidance for our core businesses. That's the power of our diversified business.

We expect to close out this year consistent with our guidance on the third quarter call. Medical cost trends remain elevated, but at levels consistent with our guidance range. Performance in our vaccine franchise also remains quite strong. Cash flow from operations will also be at the upper end of our $12.5 billion to $13.5 billion range for the year.

So what about 2024? We'll start with Health Care Benefits. Revenues are going to grow an impressive 15%, led by strong growth in our Medicare franchise. We will grow Medicare Advantage membership by approximately 600,000 members in 2024. Over 500,000 of those members will come from individual Medicare, with roughly 25% to 30% of them coming from dually eligible.

We were very clear that we were going to maintain benefits as we thought about 2024. We were clear that we would make selected strategic investments and deliberate investments in growth. And as we look at our results, which Brian is going to talk about in more detail, we believe that we will see revenue growth from this cohort, but that this cohort will be breakeven. And that's what's included in our guidance.

As we look at MBR, the MBR will be up roughly 120 basis points. It's a function of a variety of things. As is our convention, there is no prior year development inside our guidance. That's worth about 15 basis points. We have a Stars headwind next year. That's a revenue headwind. And so it works out to be about 65 basis points of pressure on the medical benefit ratio.

We'll also see roughly 20 basis points of pressure from new Medicare Advantage members as those members come in at a higher MBR than the rest of our book, a mix impact. The remainder is a provision for enhanced Medicare utilization that we've been discussing since the second quarter with some other puts and takes, continued Medicaid redeterminations, we've got some improvement from our individual and family plans book in there as well.

We expect that adjusted operating income in this segment will grow slightly. Cost management is an important driver of this. We've talked about an $800 million program for 2024. And what we will see in Health Care Benefits is that they will represent over half of where those savings will manifest themselves on the income statement.

Individual exchanges will be an $8 billion revenue block. That will move from a loss position in 2023 to a profit position inside 2024. Net investment income will also be a positive tailwind as we think about 2024 relative to 2023. Partially offsetting these things are some of the things that I already talked about relative to the pressures on the medical benefit ratio, lower star readings, elevated Medicare utilization, Medicaid redeterminations and the absence of PYD, prior year development.

As we think about Pharmacy and Consumer Wellness, we're the leading national pharmacy chain. Accordingly, we're projecting script growth next year of roughly 3% and revenue growth of at least 6% next year. We believe our teams are the best in the industry, but they're operating in a challenging environment. So we're projecting operating income – adjusted operating income of at least $5.5 billion. That represents continued cost of goods improvements, pharmacy script gains and front store improvements that are unfortunately offset by reimbursement pressure, lower COVID contributions, particularly in OTC test kits, which were much more robust in the early part of 2023 under the public health emergency and the prospect for a weakening consumer environment.

Embedded in the fourth quarter run rate and also in our 2024 outlook, there are additional investments in [ph] colleague hours (00:46:25). I would remind investors that we have spent over $1 billion in wage investment since 2021, and we're committed to improving experiences in retail and the communities we serve.

Moving to Health Services. Revenues will decline here due to the loss of the Centene contract. Absent that change, revenues would actually be up about 9%, partially driven by the acquisitions. Health Services adjusted operating income will grow 3% to at least $7.5 billion. Pharmacy services, our PBM, Caremark had a very, very strong 2023. The model demonstrated its ability to deliver value.

As we think about the outlook for 2024, we've included the loss of the Centene contract, the annualization of 340Beach (sic) [340B] program changes, which impacted us on a rolling basis in the back half of 2023 will then annualize in 2024. We also have a de minimis contribution in there from [ph] Carelon (00:47:39) that is consistent with their expectations of specialty migration of scripts in 2024, and growth in our leading specialty franchise.

Health Care Delivery will also be a growth driver in here. We expect incremental contributions from Oak and Signify, gains in other businesses and we expect growth in Health Care Delivery of over $200 million of adjusted operating income, offset by about $75 million of incremental pressure from our clinic investments as we accelerate growth in Oak Street clinics from 35 or so at the time of acquisition to 50 to 60 next year. Cordavis will also contribute to earnings as we unlock biosimilar value. In the aggregate, we're projecting 3% growth across these businesses.

So the total 2024 guidance is here on this page. Total revenues of at least $366 billion, adjusted operating income of – in excess of $17 billion. And this represents the sum of the parts from the segments I just walked through, less corporate, where there'll be a little bit of pressure on net investment income because we were holding a lot of cash for acquisitions of the early part of the year and a slightly higher tax rate.

As we think about what's happening with share count, we have said consistently that interest expense will annualize in 2024 because of the timing of the closing of our acquisitions and that we would offset that annualization through repurchases. So we would expect to do $3.5 billion to $4 billion worth of repurchases in 2024.

Cash flow from operations of at least $12.5 billion would make 2024 yet another in a series of years of very strong cash flow. As we think about earnings progression for 2024, we think it's probably going to be a little bit more weighted towards the back half. And the reason for that is that we're expecting that Medicare Advantage cost trends, which really accelerated starting into the second quarter, will annualize a little bit into the first half of the year, pressuring that seasonality.

If that's 2024, what are we going to do after that? With the foundational acquisitions for Health Care Delivery now complete and tangible rather than theoretical, we took a very fresh look at our long-term growth formula. As we stand here today, we've shifted our model slightly. We have established market-based growth expectations that are reliable and durable for each of our segments. We also wanted to leave room for disciplined strategic investments to enable stability and growth.

There are several things that we didn't do when we set out this framework. We didn't incorporate growth above those market rates. We didn't include the upside from returns from our investments. And we did not include any accelerated synergy capture. Let me be clear, while we did not include those things in our long-term growth algorithm, we wake up every day looking for ways to make them happen.

So let's look at the numbers. Total segment contribution of at least 4% of adjusted EPS growth, with capital adding at least 2%. That means we have a floor growth rate of at least 6%, and accelerates over time. There were also near-term identifiable opportunities to exceed this baseline growth rate in 2025. I'm going to walk you through those in a minute.

So let's walk through each of the individual segment drivers to get to the 4%. Health Care Benefits is expected to grow at least 7% in this model, very consistent with the outlook that we provided in 2021. Growth is driven by industry growth or better across all Medicare products, particularly dual eligibles, where we have relatively small market share. Medicare is now over half our revenues, and Medicare eligibles are roughly 50% of the market. We think that penetration will continue to increase and will go up into the 60s. Americans recognize the value that Medicare Advantage provides, and we expect to continue to be there to provide that value for them.

Individual Exchange will also continue to grow. And we have an opportunity to drive that business to a margin that's more consistent with industry targets. We think about that as being 3% to 4%. We're going to be pursuing targeted growth in Medicaid. Brian is going to talk a little bit about Oklahoma, which is a great win for our teams. And commercial revenue growth at competitive margins continues to be a driver. Over half of the Fortune 100 continue to use Aetna. It is a strong and durable franchise. It's the heart of what a lot happen – a lot of what happens at the Aetna business is based on that commercial book of business and legacy. And Brian is going to walk you through that in some more specific detail.

Pharmacy and Consumer Wellness is projected to decline 5%. That's a recognition of industry forces even in the face of superior execution. Our stores are the cornerstone of our brand and our identity. They're also an important engagement engine and a driver of cash flow. Prem is going to discuss this outlook in more detail, but it is clear and it should be clear that we are not satisfied with the status quo. Today, we announced an exciting new model to stem this decline and that represents upside to our current outlook. Transitioning to the new model does not need to be successful for us to achieve this guidance, but it could stabilize this business over time.

Health Services will grow at least 7%. That's pharmacy services, delivering mid-single-digit growth, continued top line and script growth, market-leading specialty and strong purchasing economics. Karen highlighted innovation in a dynamic market, and our long-term guidance reflects our ability to continue to adapt. David is going to provide you some more detail on that.

Our fast-growing Health Care Delivery business will also contribute to earnings growth. It will increase over time as assets grow, and we unlock deal synergies. In five years, Health Care Delivery assets could represent 3% to 5% of adjusted operating income for the enterprise. That contribution is after a provision for continued accelerated growth and those early losses at new Oak Street Health clinics. Kyle and Mike are going to walk you through that in more detail. Finally, Cordavis is also an exciting opportunity to unlock the durable and robust biosimilar marketplace.

So we said the floor is going to grow. Why? It's about the investments we made. It's the reason we embarked on the Health Care Delivery strategy. If you look at the left bar, it's your kind of 80/20 split between our declining businesses, Pharmacy and Consumer Wellness and also our corporate expense buckets and our other businesses, which are growing. But with time, this mix actually changes. PCW could become smaller and Health Care Delivery becomes an increasingly important part of the portfolio. Growth businesses moved from that 80/20 split to where the growth businesses are 85% to 90% of the portfolio. And that mix impact adds 1.5% to that floor growth rate over the next three years from that 2025 outlook. That brings your growth floor to 7.5% by 2028.

So the floor accelerates, but I've spent enough time with the folks in this room to know that you're all going to wonder, well, how can you do better sooner. First, margin recovery in Medicare Advantage, beginning in 2025. Medicare will be over a $60 billion revenue business in 2024, and it will be earning a low single-digit margin versus a 4% to 5% target. We are committed to improving margins in 2025. Our Stars improvement will help power that recovery. We have a new pricing model in pharmacy. We are going to begin to transition clients to that commercial clients in 2025. That has the potential to drive Pharmacy and Consumer Wellness towards flat results rather than down 5% per annum.

Mike is also going to walk you through some really exciting opportunities to accelerate patient growth in Oak Street. Kyle is going to talk about his expanded portfolio of offerings, including in our individual business and in Medicaid, and there are further opportunities for investments to unlock incremental value.

Consumer-facing investments, [ph] next-gen (00:58:42) AI. None of that's in our expectation. So as we sit here today, we project that the opportunities that we know about will add at least 3% to 4% to our adjusted EPS growth rate in 2025. That would bring our 2025 expected growth to 9% to 10% of our at least $8.50 projection.

One of the most underappreciated strength of this business is the ability to generate cash. Over the next three years, we expect we're going to generate $40 billion to $50 billion of deployable cash. So what will we do with it? First, we always invest in organic growth. That includes risk-based capital on our regulated insurance entities.

We've steadily increased the dividend. Our target payout ratio is now approximately 30%. And with the dividend raised today, we have increased the dividend by 33% over the course of the last couple of years. What's left allows us to be flexible in deploying cash to repurchase shares. We'll do that to offset equity dilution and drive at least 2% of adjusted EPS growth.

And there's also opportunities over time for opportunistic deployment. That will include things like accretive mergers and acquisitions, and additional ways to create shareholder value. I'd note that we are very committed to our current investment-grade ratings, and we believe that this profile is consistent with that.

So where does all this cash come from? Let me get one obvious question out of the way first. What's corporate? Corporate is mostly interest payments. It's some unallocated expenses. And then there are things like our opioid settlement payments that are included in that bucket as we think about a forward outlook. Almost more importantly, net of taxes, net of more than $1 billion of annual CapEx, our retail business, our Pharmacy and Consumer Wellness segment is a third of pre-corporate cash flows. So it's not only the cornerstone of our brand, it's not only in an engagement engine, it is a significant and reliable source of free cash flow.

Let's spend a few minutes on value creation across the enterprise. We currently serve more than a quarter of the US population. You've heard these stats before, but they bear repeating. 85% of the US population lives within 10 miles of the CVS store. Nearly 5 million interactions with our customers happen in our stores every day. We have over 35 million covered members at Aetna, including all of our products.

Our recent acquisitions and our new strategy with Health Care Delivery presents new opportunities for us to interact with these consumers. We can meet them in their homes. We can reduce barriers to care. And we can drive superior outcomes. It's a tremendous opportunity. I want to walk you through how we think about what a new incremental value – incremental member can do through a lifetime value lens.

So what's this lifetime value concept? Simply put, enterprise lifetime value is the net present value from a new incremental member inside a cohort, which is primarily a function of the cash flows from that member and the duration they stay with us.

So how many members do we have and what are those values? The bars on this chart show the lifetime value we generate in each business. Again, it's a function of the cash flows and the average duration. So for CVS Caremark, that duration is about 12 years. That relationship is highly durable. It speaks to our capabilities, particularly in specialty pharmacy.

In Aetna, duration is lower, call it, seven years. But dollar incremental profits and fixed cost leverage is high, yielding higher lifetime value. That last bar on the right, that's our new Health Care Delivery business. It's where we can provide better care to patients. We can create substantial incremental value. But these are only standalone values. When integrating our members, we can unlock more value for every new member by surrounding them with services. So not only can we provide exceptional care to those members, but we see increased medical cost savings for Aetna and Caremark members. We see improved medication adherence for CVS versus non-CVS members.

Oak Street's gross savings rate in the ACO REACH program was 21%, putting it as one of the top participants in that program in their ability to drive quality and savings. Beyond those benefits, when a member uses more than one of our services, they stay with us longer. A great example is Aetna Medicare Adventure – Advantage members who fill the majority of their scripts with CVS Pharmacy. Those members stay with Aetna longer than those that use other pharmacies. We see these benefits across our enterprise. And the power of our ecosystem, mostly through enhanced persistency, but also through lower medical costs, enhances lifetime value by up to 10% versus the standalone values.

So what's the opportunity on increasing penetration? How do I get more of that? We've proven that we can do this. 70% of Aetna members today use Caremark. 40% of Aetna members use CVS Pharmacy. But on our individual population, on our co-branded Aetna CVS product, that penetration is closer to 50%. Less than 1% today of Aetna members use Oak Street Health. It's a lot less than 1%. Caremark members use CVS Pharmacy about one-third of the time. That's better than our market share, but still a great opportunity. If we were to increase all of our penetration rates by 1% across the board, we can generate up to an additional $0.5 billion of net present value across the enterprise. That's the power of our diversified model.

Once you understand how that flywheel works, understanding how we unlock value is pretty straightforward. We have to increase the number of interactions, the number of people we serve. Once they're in our ecosystem, we have to engage them. We have to make them help them play an active role in managing their health. We got to expand those interactions. We have to surround them with integrated services. And if we do that, we'll see enhanced persistency [ph] and we'll enhance (01:07:09) the value of those customers. If we do that, how does it show up in the financials, enrollment growth, margin improvement, accelerated Health Care Delivery earnings, increases in value-based membership, more stable Stars performance. And if we do all those things, we'll naturally deliver on our financial commitments.

So why CVS? And for many of you, importantly, why now? We are a highly integrated high-touch enterprise. We have a reliable, diversified and accelerating earnings growth rate. We have significant cash flow, attractive returns and near-term opportunities for upside. Transforming healthcare requires engagement and scale. And no one is better positioned to engage, deliver clinical services and simplify healthcare. That's why I'm here. That's why we're all here. That's why we show up every day, to transform healthcare, and we hope that you're going to join us.

Thank you. We're going to take a quick break before Brian is going to walk through Aetna.

Brian A. Kane

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

All right. Welcome back. It's great to be here with you guys today. It's been a while, but I love, love being back. And I am really excited about being part of CVS Health and being part of Aetna. I'm going to talk to you about our diversified portfolio and our products and how powerful that is, that we're strong in all four major product lines, but also really want to emphasize the power of the CVS brand and the opportunity we have to truly transform the healthcare ecosystem. And it's very, very exciting.

So I'm going talk today about our company and our strategy. We'll do a deep dive into each one of our products. We're going to talk about how we're integrated with CVS and how we're driving the CVS Enterprise and vice versa. And then I'm going to talk a lot about our growth and margin commitments.

So let's talk about the healthcare ecosystem and our strategy. Obviously, you guys are as familiar with anyone, with all the trends and changes that are happening in healthcare, and they're significant. We've government funding challenges. We've an aging population, a lot of focus on payor-provider relationships and payment models. But I believe we have an opportunity that's really unmatched in healthcare today.

Because we're in all four product areas, we can manage the members throughout their entire lifecycle, which is really, really powerful, and we can engage with them in a unique way that no one else can do. And so as we think about our strategy, it's really predicated on four elements. One, we're going to grow our core business at or above the market at our target margins, which is very, very important. Two, our value-based opportunity, I believe, is unmatched. And that today's a little bit behind our competition, but we actually have an opportunity to leapfrog our peers. Not only because of the strength of our diversified portfolio, but importantly because of the strength of the CVS assets, both Oak Street and Signify. All the touchpoints in the pharmacies, our PBM. This gives us unmatched opportunity to fundamentally change the way payors and providers interact with one another and the experiences that they provide for their members and patients. And we're very focused there. Third, we're going to drive clinical excellence by creating personalized experiences by embracing digital. And importantly, leveraging the local access that only the CVS footprint can provide. And it's that constant interaction that fundamentally we believe can alter the way a member's disease progresses, their healthcare outlook more generally and the way they engage with us and the way they engage with the healthcare system.

And finally and related, we are very focused on driving the enterprise assets, working with Oak Street and Signify to put our members in their systems, leveraging the PBM and working closely with them to ensure that our members on the medical and pharmacy side have an integrated experience and driving the local touchpoints in the stores. So, it's very, very exciting.

So let me just give you a little bit of a snapshot on the company. Our results have been impressive. We grew Medicare Advantage 10% over the last four years. We grew our revenue double-digits. Our customers and many of you are in this room, I hope, I imagine you are, because we serve more than 50% of the Fortune 100, our customers really like us. Our customers engage with us. Our customers really appreciate our brand and it's that brand that we believe we can use to grow in all of our product lines. And I just don't think that can be underestimated. And importantly, today, we serve 35 million members across all our product lines, again, very, very powerful.

We create significant value through all these interactions. I'll talk about the Stars more. But 87% of our members will be in 4 Star plans for the 2025 funding year. A massive change and a massive recovery and a record period of time. Over 800,000 Aetna members have had Signify home visits. We've doubled our membership in Oak Street and we're just beginning. There's a ton of opportunity here and we're really, really excited about it.

So as we think about the breakdown of our businesses, again, four major product lines, a lot of the growth that double-digit growth not surprisingly has come from the government segment, which has been a very powerful growth driver. But we've also grown our individual business. We entered the market in 2022. And in 2023, we're going to grow north of 1 million members to end the year at about 1.4 million members. That's an extraordinary growth rate. Part of it was aided by the exit of certain plans from the market. But much of it was a deliberate, product expansion and market expansion opportunity because we see not only the standalone opportunity in individual exchanges, but also the significant enterprise value that we believe is real and meaningful.

And then finally, our commercial business. Our commercial business is a steady grower There's multiple elements of that business from the national accounts, all the way down to the smaller market, which I'll talk about in a minute. But it's a great business and it serves as the foundation of our franchise.

So what are our commitments? On the Medicare Advantage side, we're going to grow at or above the market at a 4% to 5% margin. Our IFP business, we're going to selectively expand into new states and to new counties and over time achieve our target margin of 3% to 4%. In Medicaid, we're going to be very thoughtful about the RFPs that we participate in. But we believe there are opportunities not only to drive the Medicaid franchise through those RFPs, but also significantly enhance our D-SNP opportunity, as more and more states link and CMS links Medicare to Medicaid. And, again, our compelling commercial offering cannot be understated, how powerful this franchise is, the opportunity for growth and margin is meaningful, all of which will be enhanced by and we will in turn enhance the enterprise assets.

So let's talk about each one of our businesses in turn, starting with Medicare. Individual MA is a tremendous opportunity. As Tom mentioned, we're going to grow at least 600,000 members this year on the Medicare product that includes individual, D-SNP and Group. The large majority of which north of $500,000 (sic) [500,000] is on the individual and D-SNP side. We believe that the general enrollment market in Medicare Advantage on the individual side still has a significant room to grow. And at least for the next few years, we expect high-single-digit growth to continue.

As we move to the D-SNP opportunity, the Dual Special Needs Plans, we believe that the opportunity is really limitless for us. We have major opportunity for expansion into new counties, which we did this year and we will continue to do next year. And the penetration, which is around 50% today, we believe, has no natural limit, given how significant the benefit opportunity is and the experience opportunity is for dual eligible member and so we expect that market to continue to grow very rapidly. It's a very attractive place where we will participate and it's an opportunity where we can leverage our enterprise assets in a major way.

Our Group MA business, it's one we don't talk about a lot, but it's a very attractive franchise and there are different elements of the Group business. There's the large end of the market, which is very competitive, high profile. The margins tend to be less, but nonetheless has very important implications for our business when we win and lose those contracts and we're very thoughtful there about how we participate. As you go down market in the Group MA side, mid-group and small group side, the margins are higher. There's real opportunity to create value for our customers, and importantly, we believe we can continue to leverage our commercial footprint to offer the Group MA product to those same accounts. And so, we're very focused on growing that business.

And then finally, our PDP and Med Supp businesses, both these businesses, we believe provide a major source for conversion into Medicare Advantage. We believe that our customers will benefit significantly if they move from a PDP or Med Supp product into Medicare Advantage. Now, interestingly, in 2025, due to the IRA, the catastrophic risk sharing changes dramatically. It goes from 15% next year to 60%, which means plans are on the hook for 60% of the catastrophic costs. We believe that's going to have material implications for the PDP market and provide even more opportunity for conversion. Similarly for this year, coming up for 2024, we expect that PDP will decline not immaterially, which was a deliberate strategy we pursued because we believe the economics didn't make sense. But nonetheless, we still have many, many millions of members to convert to a Medicare Advantage product.

So what makes a strong Medicare Advantage franchise? Clearly our Star ratings. Something we're very proud of that we were able to recover so quickly. And, again, I can't think of another time in this industry where a company has recovered so dramatically, so quickly and led the pack in HEDIS and patient safety measures with major improvements in the CAHPS customer service measures. How do we do this? Stars at Aetna and CVS is not about what the Stars Department can deliver to the enterprise. It's not a vertical silo. It's very much an enterprise pursuit.

Everyone at CVS is integrally involved in our clinical outcomes and driving that for our membership and creating a better member experience. And so whether that's in Aetna directly, whether that's in the PBM, whether that's in the pharmacies, whether it's in all of our other assets, everyone across the board is focused on Stars. And that mindset is how we create sustainable competitive advantage in our Stars scores.

D-SNP, Special Needs. Again, a very, very exciting opportunity. We're growing that dramatically this year. And I'll come back and talk about that in a minute. But the opportunity to serve these members who tend to have more clinical challenges, more multi-chronic conditions is very, very significant. So, again, not only do you have a great opportunity for Aetna. Because these members generate significant profitability both on a revenue and dollar profit basis, but also on a percentage basis from a margin perspective. But they also need to be managed in a much more intensive way. And we have the assets more than anyone to be able to manage that population.

Value-based care. Value-based care is probably after Stars, our number one priority as an Aetna business and as an enterprise. And we are very, very focused on fundamentally changing that dynamic between payor and provider. And what does that mean? That means investments in technology. That means embracing interoperability. Meaning the sharing of information between payor and provider in a bi-directional way. That means getting in provider's workflow, so that when a member or patient comes in, they benefit from all the data that Aetna and CVS has and all the analytics that we can run, so they know what the next best action is. And it means engaging with our providers in a very different way, in a very constructive way, in a very collaborative way and in a very creative way. And so, we're going to be very focused on driving our VBC capabilities.

And then finally, our product design. We believe there's opportunities to continue to innovate around products. And what does that mean? That means getting very granular about understanding our customer, not pricing to the average, not looking at broad populations, but understanding specific customer need, creating curated customer experiences, utilizing our enterprise assets, and capitalizing on the CVS brand to drive an innovative product and experience for our membership. And we believe those elements will allow us to grow at or above the market from a revenue perspective, and at our target margins of 4% to 5%, which we're absolutely committed to delivering.

So let me talk about margins. I know this is near and dear to your heart. So I'm going to give you a perspective on our pathway on margins and a little color on AEP. So obviously 2023, from a margin perspective in MA, has not only been difficult for us, but has been difficult for the industry. Utilization came back faster than anyone anticipated. And our business is being impacted by it, as you can imagine.

As we move to 2024, we've captured a portion of that utilization challenge, but not all of it. And so that margin impact does trail forward into 2024. We also have the stars impact, which we sized at $800 million for 2024. And so that's going to be a material impact on our business. And so the margins for 2024 will be low-single-digits, way below where we need to be.

However, there's a lot of exciting elements of 2024, specifically around AEP. So, we're going to grow the 600,000 members, predominantly individual and D-SNP. But really interestingly, three-quarters of the members to-date have been switchers. And everyone here understands the power of that, which means we capture the documentation codes that the prior carrier had. We get that right away as opposed to someone new to Medicare, where it takes a year or two to catch up.

75% is a high percentage. It's typically more around 50/50. And so that's a material difference. The other major impact is around D-SNP. About a third of our growth will be in the dual special needs area. As I mentioned, these members come in at higher dollar margin and higher percentage margin than the general enrollment product. And importantly, we don't have the Stars challenge in D-SNP that we do on general enrollment because most of our D-SNP book is on an HMO chassis and they didn't suffer from the Stars change for 2024. And so, I think that's a very powerful statement that allows us to capture this growth not in a profitable way. We don't expect to earn margin on these members, and rarely you do in the first years, those of you who know that.

But over time, into 2025 and beyond, the opportunity is very, very significant because as these members age, as we capture the rest of their conditions through appropriate documentation and as the cost of the distribution of an initial sale wear off, there's a big tailwind into 2025. And so, that's very powerful. And of course, we expect to get our Stars back in 2025 – not expect – we will get our Stars back in 2025, which is a material talent. And so, for 2025, we expect to take significant ground against our margin targets, although we won't get all the way there. And it's going to take several years to get to the 4% to 5%.

One more comment about 2024 and 2025 and v28. There's been some questions around v28, the impact, did we price for it. The answer is yes, we did price for it, we feel good about how we priced for it. And I would just say that the mix of your business is material in terms of the impact it's going to have on your portfolio. Bigger portion of D-SNPs and in particular those in full risk relationships with value-based providers are going to be more impacted than those who are underpenetrated on the value-based side, which Aetna is today, although we're going to change that over time. And the reason is, is that the value-based providers tended to do a better job of capturing those codes that have been significantly curtailed. So I think that's an important distinction. But, again, the takeaway here is that we're going to make material progress in 2025, we're going to get to a long-term target margins over time and we feel good about the 2024 growth. In fact, I would say feel more than good, we're very excited about it, because of the significant lifetime value that those members generate, as we've discussed.

So let's talk about our Individual Exchange business. Today we're in 17 states. We selectively expanded in 2024. You'll see us selectively expand again in 2025. We want to be very thoughtful about how we grow this business. We don't expect the same types of growth we saw in 2023 and 2024, though we do expect to grow modestly. Importantly, 2024 for us is a margin recovery year. In 2023, we are losing a little bit of money. In 2024, we expect to make money and in 2025, we expect meaningful margin improvement as we march towards our target margins of 3% to 4%.

I think it's important to recognize that the way the growth came in this year in the individual business is that a lot of it was back half-weighted and so we were unable to properly document those members and get the revenue this year, but we will get it next year and unlike Medicare, individual is a concurrent year, whereas Medicare is one year in advance. In other words, use the prior year to get revenue for the following year, individual is in the same year. So when we capture the revenue for 2024 and we start engaging with these members, we can have a material impact on our profits.

So what does it take to be successful? We need to be very thoughtful about the products we offer, and they need to be integrated. So as we discussed, our individual members use CVS Pharmacies at a very high rate, close to 50%, which is a market share of 27%, just to give you a sense of how meaningful that is, because we've been very thoughtful about marrying the Aetna brand and the CVS brand as we design products for our members. And you'll see us continue to do that.

Distribution and marketing. Who we use as our channels, how we engage our members, what messages we send are very important. Similar in many ways to Medicare and that it's a retail sale. You're going directly to the consumer as opposed to selling through a group. And so, understanding that, working with your broker channels, making it easy to engage with us is a very important element of our value prop.

We talked about our clinical programs. We believe that value-based care is not just for Medicare. It's also for the commercial business. In fact, we're working with Oak Street now on how we manage some of our most acute individual and commercial patients, because we think the model applies. The payment model is going to be different when you think through the incentives. But fundamentally, Oak Street has the ability to manage these patients, which we think is differentiating. And that allows us to create thoughtful networks that engages our members in a cost effective way, which is so critical in this business.

Let me talk about our commercial business. Our priority is to continue to grow thoughtfully in this business, but not think about it as a monolith. Commercial has multiple subsegments. So you think about the national account business, self-funded, very large, tends to be competitive. And it's where our brand and legacy and our network position in multiple markets allows us to do quite well in this area. And we believe over time, when we utilize all of our CVS assets and bring them to bear on our commercial clients, it's going to be very, very powerful. Already the integration with our PBM is a very, very powerful and it's a unique value prop that we can provide that we're very proud of. But you also have to think about the commercial business in several other subsegments.

So, for example, the public and labor side, it's an area where we've done very well. We just won the North Carolina contract not too long ago, which will be, if we get it through the courts, will be a very powerful 2025 win for us. But I think it's emblematic of the type of prioritization and customization and segmentation of the market that we're pursuing. And so, our Public and Labor team has been very successful and we have other reasonably sized RFPs out, that we feel good about, where we can get business from one of our competitors.

Similarly, the small group side. It's a business our AFA product, which is effectively a level funded premium product has grown close to 12% over the last two years. We call it Small Group Nation at Aetna. They're very excited. They're very passionate about what they do. Again, not something we talk a lot about, but it's an exciting opportunity to grow the commercial book, as is our specialty franchise, dental, vision, and voluntary. These are high margin products, low volatility, lot of customer use. And, again, using our enterprise assets, we can drive growth in those areas.

And finally, we're going to be very focused on the digital capabilities. That is an absolute critical differentiator for us. Not only making it easy to engage with us as their health insurer, making it easy for HR departments to engage with us, helping our members navigate care, helping them get the care they need, embracing virtual care. There's a host of initiatives we're working on that we think are very exciting that will differentiate us in the commercial market.

Our fourth product line is Medicaid. Medicaid is an area, again, that we feel very excited about and that we can leverage our enterprise assets to grow effectively. We're very thoughtful and targeted about our Medicaid expansion. Again, we believe there's a significant linkage between Medicaid participation and D-SNP. And we think CMS is focused there. We think the states are focused there. So as we think about our RFP strategy, both in terms of defending states that we're in, we're in 16 today. As well as going into new states and competing there, we're very mindful of the overall environment. And we think there's a lot of opportunity there.

On a stand-alone basis too Medicaid's attractive. The margins are a little bit lower. But the opportunity to engage with our members who are very needy from a clinical perspective, particularly in states, albeit slowly, more and more outsource their age, body, and disabled, their long-term support services businesses. Those opportunities are real and we want to be there to serve those members and then use our CVS assets and particularly our access points, our local access points in Medicaid is so important. And frankly, is one of the impediments to the successful healthcare of these members because they don't get the care that they need and they don't have the access that they need. And so, as we think about our RFP design, which is a very important skill set in Medicaid to be successful and thoughtful about how you write those RFPs, incorporating things like MinuteClinic, for example, into those RFPs, where we can give access to members that others can't provide and we can we can guarantee that access is incredibly powerful.

And then finally, I would not discount the impact of value-based care and Medicaid as well. We are thinking about value-based care at the enterprise level across all of our business lines. Medicaid is another area where we can be successful. Similarly to the commercial side, and as I mentioned, there are very acute members who need clinical management; Oak Street is an example, where they can provide that care. Believe it or not, maybe you may not be aware, but there's actually risk adjustment in Medicaid. And so, we're engaging the Signify teams to do in-home assessments, not only for the documentation but also for the clinical opportunities.

And so, again, the virtuous circle that we talk about, the integration between payor, provider and CVS assets are incredibly powerful. So we're committed to this enterprise growth. Again, we believe our assets are differentiating. You could see on this page, we believe that the enterprise assets yields better outcomes both for our members and financially for us. We believe that Aetna can be a major driver of enterprise success, given that we're at the top of the funnel and the members come through us. But that also we benefit significantly from the enterprise themselves.

So, how should you hold us to account? Four major elements. Not surprisingly, at or above enrollment growth at or above market. That is our goal. It's going to vary from year-to-year, depending on the external environment. But over time, we want to grow our market share and we are committed to that. And given our enterprise capabilities, we think we can.

But growth without profitability is not good growth. We have to grow at our target margins and we're very focused on that, we talk about it all the time internally, I assure you. And we are going to take back margin in 2025 and beyond and in 2024 on the IFP side.

Continuing to maintain our 4 Stars, we're 87% in the most recent Star period. We hope to maintain that or even improve it. There's going to be variations from year-to-year. It's always close. But I truly believe that how we've leverage the enterprise, how we think our cross-business silos is truly differentiating. And it's something that I think is a sustainable competitive advantage.

And then finally, and again, using CVS assets and driving growth through them and they driving our success at Aetna is something we're going to be very focused on. So we're going to talk to you about how many Signify in-home assessments we're doing, how many members in our Oak Street footprint, what's the overlap between our PBM and Aetna. And so, you'll continue to hear us talk about that and it's very powerful.

And so I'll end where I started. This is a very exciting opportunity. I'm thrilled to be back with you. It's been a long time. 27 months. So here I am. I'm excited. I think the opportunity is enormous and we have an opportunity to transform the healthcare ecosystem.

So with that, I will hand it over to my friend, Prem, to talk about the pharmacies.

Prem S. Shah

Executive Vice President, Chief Pharmacy Officer & President-Pharmacy and Consumer Wellness, CVS Health Corp.

Thanks, Brian. Really appreciate you being part of a CVS Health Management team. Really excited to have you here. It's a privilege to be on stage today to represent the amazing care we provide every single day to all the folks and patients we serve. I'm a pharmacist by training. Spent 20 years of my career in the retail and specialty pharmacy industries, and I personally believe today I have one of the best jobs in pharmacy, leading our Pharmacy and Consumer Wellness segment.

I'm excited today to share our strategy and how we're going to bring overall greater transparency to our retail pharmacy business and to the marketplace. So I'll spend a few minutes talking about the retail pharmacy industry.

Retail pharmacy has been around for a long time. And it will continue to be around. It's a critical component of healthcare delivery in this country. Our retail stores are the cornerstone of our brand and of our consumer engagement. Has one of the most frequent interactions in all of healthcare. It's especially important as you think about the things that Brian just mentioned, the aging population. And the resulting ongoing incremental demand for clinical services that are going to be needed in our local communities. And as we've said all day today, healthcare is local. Pharmacy is local and CVS has a proud, long legacy of serving our local communities.

It's not changing. It's not changing because we're here. We're here to engage every consumer and gain their trust before and during their healthcare journeys. We're here and available when patients are sick and need to feel better. Even if that means it's on nights and weekends, when it may be challenging to find other healthcare service delivery assets open. More than 55% of our prescriptions that are acute are dispensed on the very same day that they're prescribed. We have over 60% of our front store sales that are driven for health and wellness items.

We were here and we will continue to be here through natural disasters, public health emergencies. We played an absolutely instrumental role in our local communities during the COVID-19 pandemic as a convenient and necessary access point for testing and vaccinations. We're also here to deliver incremental clinical services. Last year alone, we delivered over 45 million immunizations in our stores. CVS Health is here for our communities. And being local is absolutely critical.

But now when you think about our performance, it's critical, it's very clear that we are the best run retail pharmacy in the industry. Our scale, our engagement, our expertise, the trust the consumers have, have enabled us to deliver industry-leading performance across every domain. We continue to grow our consumer base, continue to grow our scripts, we continue to grow share and our front store continues to grow our drug share. And as Tom mentioned earlier, we continue to have strong financials. Our Pharmacy and Consumer Wellness segment delivers strong cash flow generation that enables our enterprise growth.

We serve over 14 million patients and have interactions with them every single week. We have 73 million patients enrolled in our ExtraCare loyalty programs. And we dispense 1.6 billion prescriptions every single year. CVS Pharmacy operates at a scale and with a level of expertise and has a trusted engagement with our consumers like no one else. And we know consumer trust is something critical if you want to change healthcare and consumer trust is extremely high with our pharmacist. Recent surveys show that greater than 90% of consumers trust their local pharmacist. The second piece you need is satisfaction. The satisfaction levels in our pharmacy and our front store businesses are at all-time highs since 2021.

Lastly, we have to demonstrate results, demonstrate proven outcomes. Our clinical adherence measures are best-in-class in the marketplace. All of this is amplified by the fact that we have to be local. Remember, 85% of the US population, of all Americans live within 10 miles of CVS Pharmacy. We also have to deploy easier ways to engage with them. And we're helping consumers through our self-service omni-channel capabilities. And we now have greater than 40% of our patients interacting into those channels.

We have an incredibly tenured, talented leadership team leading our retail pharmacy business. And as these results demonstrate, we have the right strategy. We're executing against the right strategy to help impact one of our biggest headwinds and to differentiate us as a pharmacy and consumer of choice.

One key component of our strategy is evolving how we work and how we support our colleagues and consumers. Let me tell you a little bit more about how we are doing this. We're transforming quality and safety. For example, we have launched a clinical decision support tool. We call it [ph] Smart DOR (02:03:09), that generates patient-specific alerts to support our pharmacist clinical conversations at the counter with their patients, making it easier for them to engage them.

We leverage AI and we've augmented our capabilities and our pharmacists to support key tasks such as the ability to perform prescription verification virtually or through eRx consolidation. We're deploying an unparalleled, scalable, industry leading pharmacy operating platform in Rx Connect and we're not settling with the way it is today. We continue to invest in it. And this year, we'll roll – we're rolling out a dynamic workload model that shares work across stores, across our more than 9,000 stores, enabling us to operate as one fleet rather than managing workload individually at each store.

We're delivering on our digital and omnichannel innovation. Visits to CVS.com are up 11% and our sales and digital sales are up 15%. And we're launching the same day delivery options nationwide in our front store that we complement our pharmacy offerings.

Another example where we're innovating is did you know our pharmacies received hundreds of millions of phone calls every single year. We're testing an approach using AI that pulls out the calls to the pharmacy, helps callers serve self-serve digitally and where possible we're funneling messages to our pharmacist that need to help patients with their clinical support. And this is all directly into our workflow for follow up.

Since the launch of this, it's resulted in a 50% reduction in calls requiring calling action. It's also resulted in higher digital adoption, better colleague NPS and better customer satisfaction. Together, these innovations will unlock capacity for our store teams, enabling them to spend more time with our consumers and for our pharmacists to engage in more clinical care needed in our local settings.

We also know that our ability to engage patients in a simple way, in a local way, drives better outcomes and ultimately lowers healthcare costs. CVS Pharmacy is an anchor for our consumers, and we are a trusted constant in their healthcare journey. As Karen mentioned, the average tenure of a CVS Health pharmacy patient is around 10 years.

Let me give you some examples how we bring engagement to life and how we're making healthcare across our enterprise more seamless and omnichannel. We start with the consumer. We've expanded and really improved our over-the-counter supplemental benefit programs and accessibility with Aetna and other large payors and network partners. Our OTC benefit sales in our front stores are up more than 50% year-over-year.

We're making healthcare more connected and convenient. We're addressing gaps in care and supporting our care delivery assets and we're seeing early success. For example, with Signify, we started a pilot immediately after the acquisition to engage in members on behalf of their health plans to schedule their Signify in-home health evaluation. We've seen a 66% reach rate and an incredibly strong conversion of those members.

And we're seeing these results even in populations where Signify just would not contact the members anymore, because they couldn't reach them and that's because the patients trust the CVS brand and they trust that relationship in the local setting. We're also connecting our patients when they need it the most. We spent a lot of time coordinating care between our assets and the rest of the healthcare system. Let me try to bring that to life for you.

If you're a mother or a father with a sick kid, you go to the doctor's office, you get a prescription for an antibiotic. In the old model, 10 years ago, you would have got a physical prescription. You would came to the store. You would have waited. Over the course the last 10 years, now 90% of prescriptions are electronic, eRxes is what we call them.

When that prescription comes to the store, where you typically do in today's model is you call the store to find out when your prescription will be ready, because obviously your child needs it. But in the new world, the second we get the eRx, when patients are engaged, we send them a message. We send them a really simple message. Would you like your prescription later today, sooner than that in an expedite fashion, or you don't need it till tomorrow? It's a very simple dynamic, but it creates incredible service and it creates an incredible, what I would say is healthcare delivery that doesn't exist today.

This isn't just in pilot. We launched this earlier this year and we've replicated this very example a 150 million times, a 150 million times since we've launched this. And it's a great example of how we can make healthcare more connected and convenient. We're also making it easier to navigate. We spent a lot of time with our Caremark teams. We're bringing the prior authorization statuses into our digital assets to make it easier to share with members and consumers so they know where their prescription is and they know the prescription status and the prior authorization status.

And lastly, we're making healthcare more local and accessible. Right after the Oak Street Health acquisition, we immediately worked with that team and we used our CVS retail locations to increase the awareness of Oak Street Health and we're seeing a reduction in the acquisition cost of an Oak Street Health member, demonstrating the power of our engagement and the potential of our retail footprint.

Moving forward, our retail pharmacy business will continue to engage in health for our consumers. We're going to do that every single day. We're going to engage more consumers in the matter – in the moments that matter in their health, where and how they want to engage us in the local setting. We're going to harness the power and engagement and trust to build connections across the full breadth of our enterprise and care delivery assets. And ultimately, our trusted local presence will enable us to make a meaningful impact on healthcare trends in this country.

Now, despite all of the things I just talked about, our market-leading growth, our unmatched scale, expertise and purchasing economics, a script in front store growth, the expansion of our clinical services and how we have driven efficiencies in our business and how we continue to drive efficiencies in our business through the operating model innovations that we bring and by continuing to optimize our footprint, despite all of this and as Karen and Tom alluded to earlier, this is a really challenging industry.

And as a leader, it is our responsibility to chart a different course. But I want to take a moment to talk about the challenges and the changes that we face. The current pharmacy reimbursement model has been effective over the last decade. We grew prescription volume, we've improved our operating efficiency, we've lowered the cost of generic drugs and we've drove adoption of generics and all of these things have partially offset reimbursement pressure.

We accomplished all of this while continuously elevating the levels of safety, quality and service to our patients. But this model has reached a point, it's reached an inflection point that is just ripe for change, because if you look forward, the adoption of generic drugs in our retail pharmacy business is now around 90%. That limits the capacity or the amount of value remaining through the higher levels of generic dispensing.

Second, branded drugs, branded drugs consistently rise due to inflation and the rising costs of new drug prices, further widening the cost difference from generics and brands. Since 2019 alone, branded drugs have risen more than 40%. And what does this lead to? It leads to higher costs for patients and our customers' plans and PBM plan sponsors.

The third piece that's happened over the course of the last couple of years is new branded market entrants, call then GLP-1s, have further contributed to increased pharmacy costs. Historically, we would manage contracting with PBM and plan sponsors in a way in which we would price our products across brands and generics. But as Karen mentioned earlier, we now find ourselves in a place where cross-subsidization is no longer sustainable.

Further, if you think about what that cross-subsidization has done in the last decade, when high deductible health plans has risen, they've created an even more complexity and frustration for the people that walk into our pharmacies every single day. I know PBMs and payors want, need and require a local vibrant network to serve their members and the reality is we're going to be there for them.

Today, as you've seen, we're taking a leadership position. We're changing this outdated reimbursement model that made sense for the last decade, but no longer works today or in the future. We're introducing a new, simple model that provides value for all stakeholders across the supply chain in a much more simple, transparent and comprehensive way.

The new model shifts the way we're getting paid for products and services we provide, to being more closely aligned to the value we create as a local community pharmacy for the tens of millions of patients we serve every single year.

We're introducing what we call CVS CostVantage, it's our new pharmacy reimbursement model. Let me be really clear. We will continue to lower the cost of drugs, it is part of our scale, size and expertise, by creating competition. And we're going to continue to pass through our cost of goods improvements in our new model to PBMs and payors in a very transparent fashion. So how will this work? [indiscernible] (02:14:05) based on a very transparent formula built on the cost of drug plus a clearly defined markup and a patient management fee. And it's tied to the care and value provided by our pharmacy care teams in their local communities.

We're launching this with our commercial payors first, the 750 million prescriptions that Karen mentioned, beginning on 1/1/2025. We're going to work together with our PBM and payor partners over the early part of 2024 to facilitate this change.

Second, we're going to continue to monitor our positioning in the current third-party cash discount space. And starting in Q2 2024, we're going to extend this model, the reimbursement model, to certain third party cash discount card administrators as well.

So why is CVS CostVantage better? It's better because we're using our expertise to build a more durable and transparent model that allows for competition and compensation for our services. It enables us to deliver the value for all of our stakeholders. It's also better because we believe CVS CostVantage should reset the financial outlook of the retail business, with potential upside to our long term guidance versus expectations with the impact of this strategic shift.

So why is CVS CostVantage better for PBMs and health plans? As noted, we're going to continue to lower the cost of drug – cost of goods and the cost of drugs in our model. We're going to leverage our scale, our size, our expertise in the supply chain. We're going to pass on these improvements in much more real-time fashion. We're going to provide greater transparency to PBMs and payors.

And I firmly believe that this is a crucial building block for PBMs to create a more transparent model downstream for their clients so they can pass this value on to their members. And what I know for sure is our PBM partners also want to drive more transparency for their clients as we move forward.

Why is this model better for consumers? This is a really foundational step towards a transparent model for consumers, and it sets the stage for payors also to create more predictable pricing at the pharmacy counter. CVS CostVantage makes and will make pharmacy pricing much, much simpler. Personally, I spent the last 20 years in the pharmacy PBM, specialty pharmacy businesses. I've been doing this for a long time. The time now is for change and we're setting the stage, we're taking our leadership position and we're going to make this happen.

Lastly, as I mentioned at the beginning, our consumers and our patients in every local community need their local pharmacy. It's a critical access point and it's a critical component of healthcare delivery. And driving a more healthy, vibrant retail pharmacy industry ensures ongoing access to local care, while our ability to continue to invest in improving service and the quality of health for our consumers. And we know engaged consumers are healthier consumers, and we know ultimately that will lower the cost of care.

Finally, let me tell you why this model's better for CVS Pharmacy. First, it's transparent. It directly ties the reimbursement to the quality of pharmacy services we provide and the products we dispense in our local communities. It's also sustainable and durable. It ensures the sustainability of retail economics, removing the reliance on problematic things, problematic things like cross-subsidization and drug mix risk that we're exposed to today. And it will enable us to further invest, as I said earlier, in our stores and colleagues.

And lastly, it's predictable. It makes it easier for all of you to understand how our business performs in a much simpler fashion. Given our scale, our local community presence, expertise and strong consumer engagement and the ability to make a meaningful difference to cost, quality and healthcare outcomes, CVS Health is best positioned to continue to being the pharmacy and employer of choice.

By tying reimbursement directly to the underlying cost of our business and the actual cost of drugs, imagine that, a model that makes sense and continuing to execute against our strategy, we will be able to create a more sustainable future for our retail pharmacy business. That's going to drive down costs, while continuing to support our PBMs and our payors with our industry-leading acquisition costs and we're going to pass that through in a much more transparent and real-time fashion. Model also enables us to reinvest in our business to maintain and improve the quality of service that we provide every single day.

Lastly, we have to also continue to deliver those best-in-class adherence rates, the clinical innovations that we have in our store to support the quality of safety of the members that we serve. And it will be easier for our investors to model. Moving forward, you can hold us accountable to the metrics that you see on this page and we will continue to be focused on those.

So in summary, we're committed to delivering strong continued results. We are now, and we're going to continue to be the best retail pharmacy in the industry. I ask my team this question a lot. Can we be better? And the answer is absolutely. Can we drive better outcomes? You better believe it. On retail presence and engagement, no one, and I mean no one is better positioned than CVS Health to interact with patients at a local level and transform their healthcare. And make no mistake, we're going to do it.

With our retail pharmacy business as a front door to our enterprise, we're going to make our enterprise flywheel spin faster, engaging our consumers in their everyday health, driving improved health outcomes, and lowering the cost of care and helping our enterprise businesses grow above market. And now with CVS CostVantage, we're changing the way that we are paid for our products and services. We're taking our leadership position to create a more transparent, simple, high-quality and sustainable business for the marketplace overall.

I'll end where I started. I have one of the absolute best jobs in the pharmacy industry. I'm powered by incredibly strong, tenured leadership team. But more importantly, empowered by the 200,000 pharmacy and consumer wellness colleagues. And we will not stop. All of us will not stop until we take the power of pharmacy and the pharmacist to drive better outcomes and to lower the cost of healthcare.

Thank you so much for your time this morning, and now I'm pleased to introduce David Joyner to the stage.

J. David Joyner

Executive Vice President & President-CVS Caremark, CVS Health Corp.

All right. Thank you. Thank you, Prem. So, one, thank you for your leadership and thank you also in a really difficult operating environment in the retail industry, I really want to thank you for your persistence in investing in a critical part of our healthcare delivery system. I really believe that Prem is, at this point, the right leader at the right time and in the right place in this company. So thank you for that.

So for many of you that have known me, I've spent 30 years with CVS Caremark, seven years before that with Aetna. So I feel like, I'm sharing just not because I want to share how old I am, but more importantly, the fact that I've been able to have a front row seat with how this company has evolved and is how – is continues to compete and serve customers.

So that front row seat has allowed me to kind of look back in terms of where we've been and more importantly, where I believe that we're going. And so I know many of you have several questions as it relates to what is the future role of the PBM, what's happening specifically with the regulatory and/or legislative environment, what's the impact going to be on your business? And then equally as important is where is the growth and the path going forward?

So I'm hoping to spend this morning session addressing those questions and then giving you at least hopefully some confidence in the fact that we are an adaptable, resilient business that has continued to deliver in the past and believe equally as important delivering in the future. There's really two things our customers focus on. One is they want us to reduce their cost and/or manage the underlying pharmacy costs. And then secondly, they want us to deliver best-in-class service. For many of the customers that we're serving, remember, this is a pharmacy benefit. It's an investment in their employees. And so there is a really significant focus on making sure that we're delivering best-in-class service while also managing the underlying cost.

So now let me spend just a few minutes as it relates to our business today. When you look at our customer base, we have an incredibly strong multi-payor platform that basically presents leadership positions in the employer markets, labor, government and/or health plans space. So incredibly proud of the diversity and the stability of the customers that we serve. If you exclude Centene, we're back to the same type of retention rates that we've seen in the past, 98-plus-percent, again, reinforcing the fact that these are customers that we've been able to serve and be able to renew and invest for future growth.

This year, in particular, we had an exceptional success rate in the employer segment. So if you look at the large national account and I've mentioned this on the earnings call during the last call, we've actually won 60% of all the employers, national account employers that changed PBMs last year. That's a really, really powerful outcome and result and, again, a focus on the franchise that we serve in that national account marketplace. It also now puts us beyond 50% of all the Fortune 100 companies served in the country.

So why do we have this success? It's in large part focusing on the two big drivers that our customers believe, our most important and most pressing today. Specialty growth, we delivered more than a $1 billion worth of savings within the specialty category and then the last one, which is obviously the theme of the day, which is the GLP-1s. And if you combine both the purchasing and formulary services that we provide on top of the utilization management, we've been able to take 70% of the cost out for this GLP-1 category. So critically important in terms of delivering, in meeting the needs of our customers, at the same time recognizing that our work is not done.

But it's that retention and the investment in our customers, the delivery of value that we bring to those customers enables us to deliver value back to you as the investor. So we've had, again, really, really solid growth, a 13.4% growth in adjusted operating income in the last four years, and we've also continued to outgrow the market in the specialty area.

So now let me take just a second to talk specifically about what I see as the role of the PBM going forward. So it's a – there's been either customers that have chosen to unbundle and/or bundle, again, ultimately, the customers choose how to contract with us. There's really three main parts of the PBM that we are contract with customers on.

The first is the broader PBM services. So it's essentially the administration, the adjudication and the facilitation of the pharmacy benefit. We've invested heavily in this area in terms of delivering a cloud-based digital platform to help us facilitate the underlying administration and the benefit configuration and coding. So this is a huge step forward in modernizing the systems that we support and it's all powered through automation and augmentation.

Again, a big theme that you've heard from the other division leaders. So it's this piece that I believe is kind of the basics of the services that we deliver, is how – is what powers everything else across the business model and Tilak continues to remind us that this is where you have to be brilliant at the basics. Is the hidden part of the – but it's a critically important part of the PBM.

The second part is where size and scale matters. The purchasing economics allows you to leverage the size and strength of a large company like CVS Caremark and deliver savings in the area of generics and also in the area of branded pharmaceuticals. So it's a combination of our purchasing groups, creating that competition that allows us then to extend that value to our customers, of which we believe we're continuing to be a leader in the space.

And then lastly is the dispensing assets. So we're unique in that we have truly an omnichannel pharmacy distribution market. So we combine the strength of our retail business that Prem just shared, our home delivery or mail service and ultimately the specialty pharmacy. But it's again this combination of distribution assets that allows us to uniquely position our ability to serve the members where they choose to be met. And we compete again on the dispensing assets as a standalone specialty pharmacy, or we compete as an integrated provider, but ultimately it's the customer's choice.

So there's a lot of discussion, a lot of debate about whether or not this is all going to break apart or whether or not it's going to be integrated. And ultimately, we believe that there's value in integration. We believe that when you combine all three of these underneath our umbrella, that we deliver significant value, both in terms of savings and the member experience. But again, it's important to note that we compete in each one of these individually and/or on an integrated basis. But again, the outcome and the proof point is that when it is integrated, we have a 12% lift in net promoter scores for the members that we serve.

So it's that combination of being able to administer, facilitate the benefit, leveraging the strength of the purchasing economics that we have in our business and then ultimately being able to dispense and/or meet the member where they choose to access the benefit, allows us to create a much more simplified, seamless experience that we believe delivers value. And then there's also a cost element to this when used in tandem or in concert, we believe that there is a significant value.

So if you turn from kind of the role of the PBM, where we play, how we compete, there's also a significant question about the broader regulatory environment. Karen mentioned this in her opening comments. We're trying to set the record straight in terms of how the operating income works within the PBM today. It's really important to understand clients design their benefits and they choose how to pay us. So there are customers today that choose to have us retain a portion of the rebates to offset the administration of the benefit. There are some that allow us and/or look for us to retain the retail pharmacy network economics in order to buy down the cost and actually lower the administration of the benefit.

So as you look at how this market has changed, this has been, again, a fairly transformational change over the last decade. There was a much larger percentage of rebates and retail network retention a decade ago. That is continue to decline. In fact, if you look today, we've talked repeatedly about the 98-plus-percent rebate retention, but we haven't really talked a lot about the network piece.

So 75% of our adjudicated claims are on a fully transparent basis, which essentially means that 25% are those customers that have chosen to create a spread for simplicity and economic benefit. But ultimately, all of this actually generates, again, less than 20% of the operating income for the business, a significant change to what I would say a decade ago and I would expect as we continue to evolve and adapt our model, it will be different again in the next decade.

So if I – I've addressed kind of the broader role of the PBM, the regulatory, I'd like to turn our focus towards how we're going to grow and how we're going to compete going forward. So specialty, again, has been a growth engine for our business. We're a leader in this space. And if you look at kind of the tailwinds of this industry, it's really still very powerful today, just like it was, again, 5, even 10 years ago.

It represents more than 50% of the spend. It's a growing marketplace. In fact, doubling the actual spend within our customers over the last 7, 8 years. And then there's competition. So you actually have biosimilars entering the space. So it's a perfect recipe for the value and the role of the PBM.

And if you look specifically at the role of CVS Caremark, as I mentioned earlier, our growth rate has actually exceeded the market. So we are at a 14% growth rate compared to the industry average of 9%. And I think it's because in large part, we're competing in all markets and we actually have an incredibly strong franchise in the specialty space.

So now let me tell you why I believe we're best positioned to compete and to grow in specialty. So we continue again as the leading specialty pharmacy provider. I believe expertise matters. I joined the company, as I said, 30-plus years ago. What we had at 30 years ago was a mail service business and a specialty pharmacy. So when you look at what we've built over the last 30 and/or 40 years, it is deep, deep clinical expertise that has allowed us to understand the patients, the drug therapies, the prescribing community, the broader manufacturer role. So it's allowed us again to extend our reach and to becoming the largest provider of limited distribution drugs, a huge presence in terms of just understanding and the knowledge within that space and that actually is continuing to build on the strength of – actually being just beyond the dispensing of medications.

The second thing, which is really a continued evolution and an investment in our business is in the area of technology. So we focus on the dispensing, but equally as important is moving upstream and into the actual prescriber workflow so that we actually begin to simplify and streamline the actual process of both diagnosing, prescribing and dispensing the medications.

So you have 80-plus-percent access to the electronic medical records within our business today. And if you look at where the pain points are, it's generally in the area of utilization management, prior authorization, all of the various things we need to track and measure specific to that therapy in concert with the manufacturer, the prescriber and the patient. So, again, a really, really important investment that is allowing us, again, to differentiate and separate ourselves from where the marketplace is, especially for those that are just simply focusing on the dispensing of medications.

And then lastly, this is consistent with where Prem was going on the retail side of the business, we have to continue to be a low cost operator. So we are focusing specifically on becoming more efficient, leveraging technology to allow us to make sure that we're lowering the cost of dispense within our pharmacy, creating efficiencies in terms of how we both adjudicate and/or manage the therapies that we serve. So, again, a strong position, expect that this will continue to be the strength of the enterprise that we serve.

So we talk about the specialty business, and then if you look at our business and this is keep repeating the fact that this business has a history of repeating itself. It's a – when you look back, there is, what I would call, cycles and/or waves of drug introductions that forces the PBM to look and manage it differently, but at the same core, at the foundation of managing these therapies.

There's really three things that we do consistently. One is we – when new products come to market and new therapeutic classes, we introduce competition through the use of formularies and/or manage the broader utilization with the UM programs. Secondly, we actually look at the total cost of care. So if you're looking at diabetes, cardiovascular care, et cetera, we are looking at managing the total cost of the care that patient is receiving, and it's a role that the PBM, specifically CVS Caremark, has played an exceptional role.

And then, lastly, when the wave and the patent expirations occur, we are incredibly quick and efficient at moving to the low cost product through the use of generics and/or biosimilar. So those are kind of at the foundation of what a PBM does. We've talked about – this has been a proven expertise within specifically CVS Caremark and I'll talk about it in terms of kind of the three waves that we see.

So if you look at a decade ago, it was the blockbuster brands. It was the statins, the proton pump inhibitors, and in some cases, even talking about insulin. So in that category, what do we do? We introduced much more aggressive formulary processes. We chose to exclude certain medications from the therapeutic category, drove enormous value for the customers that we serve. We wrapped around that same patient population a set of activities around managing the diabetes care. And then lastly, we drove and significantly delivered value with the generic wave that occurred.

So this category, this wave was – if you remember back 15 years ago, there were clients who were saying, how can I afford all these high cost drugs? Well, you manage it through competition. You look specifically at the total cost of care for the patients that you're serving and then ultimately making sure that you capitalize and execute against the generic introductions. And it was that generic introduction and that now what I would call a 90% shift that occurred during the cycle that actually helped fund the next wave.

So the next wave is specialty pharmacy. What did our customers say? I can't afford specialty medications, is going to break the budget. They're going to – I need to figure out new and innovative ways in which to manage this broader category. So what did we do? We introduced formulary. We have the leading franchise in managing these broader, rare and chronic conditions with Accordant, so again, focusing on the total cost of care and now we're in that next wave of participating in the biosimilars that are coming to market. So it's a cycle that repeats itself.

And if you look at now, what's the headline, customers saying how do I afford the new GLP-1s, how do I afford the new cell and gene therapies. And when you look at the GLP-1s, they're priced more like a specialty drug. So there's a lot of debate, a lot of questions about the actual list price of these products. But again, we're going to repeat the same cycle that we've done in the last two. We're introducing aggressive formularies and utilization management controls. We're introducing broader programs to manage not just the diabetes, but also a weight loss program. So a combination of these broader care management. And then we make sure we're prepared for when lower cost generics and/or biosimilars come to market.

So it's, again, a critically important kind of look back, the cycle that we're in today and more importantly, if you look at the tailwinds of this industry, how do we participate and continue to deliver the exact same value to our customers and play a significant role that we will hopefully continue to be. So, one of the things I didn't talk about was the pricing model, and the pricing that works.

So if you look at today's pricing, it actually serve that blockbuster brand category and it was predated, high deductible health plans, there was not at that point a lot of consumer and/or patient engagement in the cost of the drug, obviously that's changed. So you have now 90% dispensing rates on the generics, you have a good part of the customers now being exposed to the cost of the drug through co-insurance and/or high deductible plans and quite frankly it's time to change.

The model quite frankly was built on pricing to a basket of drugs. It was an average price. That worked really well as long as the basket stayed intact. But when that changes and you begin now to have to straddle two different pricing models, we want to be the leaders of change. So, Prem talked about what's happening at the retail counter. The same issues are happening within the PBM. We feel now is the time to bring a new pricing model to market.

So CVS Caremark TrueCost is the name of our new pricing model. It was going to do a handful of things. One is, it's going to simplify the pricing for the consumer. So the goal is, is to make sure that you move to an acquisition cost index that actually allows the member to be able to get the low cost product based off how the pharmacies are buying the medication.

Secondly, we are actively promoting and encouraging our customers to also extend the discounts and rebates they receive from the manufacturer down to the true net cost of their product so that the actual member and/or patient gets access to that true net cost. And then there's a question about why do we think now is the time or why do we believe that we're best positioned. Prem mentioned just the broader stability within the pharmacy network today.

With the rise of GLP-1s and the pressure that you're seeing within the retail business, we believe this model resets the pricing and allows us to invest in what I believe is a critically important part of the healthcare delivery system, which is the retail pharmacy. So you will see us focusing on those that actually can buy it well, like CVS, and making sure that we're actually continuing to preserve access in underserved markets and the rural areas where, again, there may be limited availability. So it is an investment to support, stabilize the marketplace.

So our clients, again, will have choice. So this notion that we are – only can do it one way, PBM model doesn't work that way. So we are going to be building a set of, what I consider, strong value propositions for our customers to migrate to this new model. Leaders in the CVS retail side is going to be pushing obviously for a different model. So our job is to complement what retail is doing and ultimately be a part of change, to focus on transparency for the consumer, just like the transparency that our customers receive today.

So now the question and this is the theme that you've heard specifically around the economic flywheel, and I do think it's important for us to, again, look back. When CVS and Caremark came together, we delivered what I believe is a best-in-class and a unique product portfolio that allows to serve both our customers in lowering cost and ultimately creating a better consumer experience.

So when you look at maintenance choice, although it may be yesterday's news, the most important part of this thing is we changed the marketplace. We changed it from a pricing model, so 90-day and/or home delivery prescriptions are priced differently today than they were pre-CVS and Caremark coming together. At that time, we probably saw 50% of the patients choose mail service or home delivery and 50% choose a retail pick up and think about how the marketplace has changed. In our model, what we're seeing now is eight of 10 prescriptions are picked up at retail versus home delivery. So the market is changing. The consumer behavior and expectations are changing.

At the same time, you would expect that there would be a broader expansion into the home delivery. So the same thing is happening in specialty. We're organizing and focusing on a specialty connect experience so that the member can actually have the product shipped to the home and/or picked up at retail. But we changed through integration and through the enterprise combination of assets, we were able to deliver a very different experience.

Now you go back to 2018. CVS and Aetna came together. And if you look at where those companies were, although they were a customer, we still lagged what I would call an integration between medical and pharmacy. So we spent the last five years actively building an experience that is focused differently on that consumer, that member that then extends value to how the customers that we serve sees the integration.

So we're now at a 70% integration between the national account employer business between Aetna and CVS Caremark, which again is a huge growth from where it was in 2018. And again, what I believe will be the continued investment in showing, improving and demonstrating that there is power in the integration of this enterprise.

And now you look forward and it's equally as important in terms of where does pharmacy fit within the value based care model. If you look at experiences in the home, I ended up having a in-home assessment with the Signify physician. And the very first thing that ends up happening is they dump their medications on the kitchen counter and you spend 15 minutes trying to sort through. The complexity of what happens for those members that have – that are on many medications and confused about how to manage it.

So pharmacy, again, is a critical part of value-based care. It's our role now is to figure out how we continue to insert ourselves both in the home and or in the primary care to again manage the overall value and the overall care for the population. So how are we going to measure our success? It's quite frankly, the same as it's been for the last many years.

We've got to grow our business and obviously that is the focus, it's what my obviously, experience has been here. I believe that we will continue and return our path to growth within the PBM. And we're going to do that because we're going to continue to focus on delivering industry-leading purchasing economics.

As Prem said, the price model is not about making more money. It's about continuing to change and reset the price to allow us again, pass through those economics. And this is going to be a really important part of the model that we're delivering. We talked about the flywheel of enterprise assets. And then lastly, we've got to be best-in-class and continue our leadership position through speciality, through the ability to pull-through the biosimilar opportunities.

And then lastly, in closing, let me just finish how I started. This is a business that has historically always performed exceptionally well. It's durable, resilient; adaptable and I believe the strength in our business will continue going forward with the tailwinds that I mentioned earlier. So it is about the specialty, the biosimilar. It's about the continued evolution of the way in which we price and position our products in the market. And then lastly is making sure that we become and maintain our leadership position in the technology space.

So again, I could not be more proud to have the opportunity to lead this business. We have an incredibly strong tenured operating team that, again, I've worked with for 20-plus years. And I believe we really are best-in-class and will continue to operate in and continue to compete going forward.

So with that, let me now turn it over to my new value-based care partner, Mike Pykosz, which he is going to talk about the broader Health Services business.

Michael T. Pykosz

Executive Vice President & Interim President-Health Care Delivery, CVS Health Corp.

All right, it's great to be here. I'm Mike Pykosz. And I'm the Interim President of Health Services here at CVS. I've met a lot of you before in my role of CEO of Oak Street Health when we were still a public company prior to the acquisition by CVS. I was actually one of the Co-founders of Oak Street Health. So I joined Oak Street – we started Oak Street, I guess, 11 years ago, and I could not be more proud of what we have accomplished at Oak Street. We have improved the quality of care. We've improved patient experience for older adults.

That said, we are just scratching the surface of what patients need and there's so much more to accomplish. And I became really excited when the CVS acquisition came about. When I realized that CVS is uniquely positioned to improve the quality of care, the cost and the patient experience for patients across this country. And that's why I'm here today in front of you. And I'm really excited to share with you our vision and our progress to date on that journey.

So I want to cover three things along with Kyle Armbrester, the CEO of Signify Health. First, we're going to talk about with the acquisition of Signify and Oak Street, how we are already one of the largest healthcare delivery organizations in the country. And most importantly, we have proven results on improving the quality of care and improving patient experience. Second, we're going to talk about a word you've heard a lot about the flywheel.

And we're going to talk about how we are already seeing a huge impact from the broader CVS organization on our Health Care Delivery organizations, including Oak Street and Signify and vice versa we're able to impact the performance of those organizations as well. And last we're talking about how the combination of our Health Care Delivery platform, combined with this flywheel effect, is creating a differentiated platform that is poised for rapid future growth and impact.

I want to anchor everyone on where we are today in Health Care Delivery. In 2023, we'll have about $6 billion in revenue. That revenue is driven by about 14 million visits from patients, and those visits are across our clinics. They're in the home and they're virtual. We served a little under 9 million patients in 2023. And those patients have over 200 different payor types and that's across commercial, that's across Medicaid and obviously across Medicare.

Most important in this slide, we are demonstrating very strong value for our patients and for our payor partners. Again, for example, Tom referenced this. Oak Street Health has a 21% savings rate in the ACO Reach program one of the top in the country. Signify spends significantly longer in the home than others, right? Driving better patient experience and so that differentiation is what's going to drive our future success.

So I'll take a step back and I want to talk about why we thought there's such a massive opportunity for growth in Health Care Delivery at CVS. The problems with the healthcare system are well-known. We spend twice as much per person as any other industrialized country, despite spending twice as much, we have worse health outcomes than those same countries. And patient experience is a problem. Case in point, the Net Promoter Score for the average primary care doctor is a negative 1.2, physician burnouts is a huge problem, with over 40% of physicians saying they experience symptoms of burnout. So we have these problems.

And that's why we need innovative models anchored in value-based care. We've heard about value-based care a lot today. And to me, what value-based care means is we're going to invest upfront. We're going to provide better quality care, better patient experience that's going to lower the total cost of care. And we're going to leverage value-based contracts to capture the savings we're generating. And so we're not going to be paid on the volume of service we offer, we're going to be paid on how healthy we keep our patients, our members and our customers.

And so if you look at studies, right, we spend over $4 trillion a year right now in healthcare in the US, $4 trillion a year. Studies have shown that about give or take 25% of that is waste, right? And by waste, I mean care that doesn't actively improve the outcomes for patients or adverse acute events that could have been prevented by earlier care. So we do the math, right, that means there's $1 trillion of addressable spend today. We also know that healthcare in the next decade is supposed to grow to over $7 trillion of spend.

So now the potential impact we can make is growing to close to $2 trillion. And when you're talking about value-based models and value based approaches, that addressable spend becomes the potential profit pool for our businesses. So any time you start talking about numbers with IT after them, you really know this is a incredibly massive opportunity for organizations that can address these problems. Our vision in the Health Care Delivery organization is based on that opportunity.

So we're going to create a fully integrated, value-based ecosystem to drive superior health outcomes for our patients. And that ecosystem is going to combine innovative organizations across virtual, in the community and home-based care like we've already done with Oak Street, MinuteClinic and Signify. And we're also going to leverage physician enablement capabilities that will help us also impact the quality of care at more traditional provider settings. Kyle will talk a lot more about that.

We're going to power this with a fully interoperable IT infrastructure and I will talk about what that means a little bit. We've heard that word a lot in healthcare and even today – interoperable. And what that means is, we're going to create the ability to pull in data from across the healthcare system, whether that be payor data, medical record data from hospital systems, data from our own assets. And by pulling that data in, that allows to analyze that data across the system; allows us to understand what patients need faster and meet their needs and hopefully keep them healthier and out of the hospital.

This interoperability is also going to be a huge advantage across CVS, because we create interoperability and we create consistent data across the broader CVS ecosystem. That means when patients go to the pharmacy, they go to Oak Street Health, they go to MinuteClinic, they go to Signify home visit, et cetera, et cetera, et cetera, that it's going to be a common set of information, a common platform, a common experience, and that is going to be a differentiator in the patient experience that we are able to offer at this organization.

Finally, we're going to monetize it through risk-bearing or value-based contracts. And again, this is a really key part of our approach and our strategy. Because by getting away from the traditional fee for service reimbursement that underpays for primary care service and therefore it doesn't give patients what they need, we can actually turn it around and make that $1 trillion, I talked about, that now is our profit pool, right? Because we're going to capture the savings we generate through these contracts. So that's the vision of what we're building. And again, CVS is uniquely positioned both because of the legacy assets of CVS and because of the new acquisitions of Signify and Oak Street to achieve this vision.

So one of things I want to make sure I cover today is we are already one of the largest healthcare delivery organizations across the country, and we're doing it across channels. We have over 75,000 providers on our platform in 2024. And that includes over 1,200 centers conveniently located in the community across Oak Street and MinuteClinic. We have over 4,000 employee providers that includes expected 1 million lives under management and our CVS ACO with 60,000 providers being enabled by that solution next year. And that includes over 11,000 clinicians that work at Signify that will do almost 3 million home visits this year. So again, we are already one of the largest organization in the country. And as we'll talk about, poised for even more significant growth.

Just as importantly as the size is the impact we are making on quality and experience. The basis of value-based care is investing more to keep patients healthier. And we're doing that at Oak Street Health. We've reduced hospitalizations by more than 50% for our patients. If you're a patient of Oak Street Health, you're less than half as likely to have an acute event and go to the hospital. And that's what powers our savings. And across the last two years, we've been the top performer in the Direct Contracting and ACO Reach program because of that strong care model.

At the same time, the healthcare delivery organization is driving a significantly better patient experience. I referenced the average primary care doctor has a Net Promoter Score of negative 1.2. For those of you who are less familiar with NPS, the range is negative 100 to 100. So the average primary care doctor doctors a negative 1.2, MinuteClinic has an NPS of over 81, vastly differentiated and better experience. At the same time, I want to highlight the stat that 97% of people who have a Signify home visit, indicate they like another one. They are that satisfied with their care. These are differentiated patient experiences.

And I want to talk about why, one of the keys to our experience is we operate different innovative models. The different innovative models drive a better patient experience. Better patient experience drives better patient engagement. One of the keys to increasing quality is improving patient engagement.

You can't change a patient's health trajectory if they're not engaged in their care. They're not coming visit. They're not listening to you. They're not following up with you, right? That leads to a better quality. The better quality in value-based contracts leads to your surplus, leads to your savings that drives your economic model. And that means you actually can afford to invest in the innovative model.

So these things are all related and when you put them together in an ecosystem like we're doing at CVS, it makes a massive, massive difference to care. We are also already seeing the impact on these results from being part of CVS.

And I'm going to turn it over to Kyle to talk more about the flywheel effect.

Kyle Armbrester

Executive Vice President & Chief Executive Officer-Signify Health, CVS Health Corp.

All right. Thank you, Mike. It's been an amazing experience getting to join the CVS team, getting to work with folks like Mike on the cutting edge of healthcare, and then getting to realize that David Joyner started his career at CVS when I was one years old. And so getting to come into that whole group is frankly a big reason why we wanted to join from the diversity of the experience we brought together, but also just the platform.

Second, when we went through our process, one thing that stood out about CVS, one thing that Signify needed was a national consumer healthcare brand. And I really believe we are the only national consumer healthcare brand. And I've seen and felt directly the impact that's had on our business and many of the other businesses throughout our portfolio. When we kicked off our original strategy work with CVS, this was the strategy slide we showed. We wanted to engage more folks, get to experience our services inside their homes. Two, we wanted to do more inside of the homes. And then finally we wanted to help remove administrative burden from clinicians to allow them to work to the top of their license.

I'm happy to say that we've continued to do that. So just a quick reminder on the in home part of our business, we're seeing almost 34,000 members come through us being scheduled each and every day. As Mike said, we were in slightly under 3 million homes this year and we're spending real quality time with these members. Almost 20 minutes of med reconciliation and 2.5 times the amount of time they're getting to spend with an average primary care visit.

But most importantly, we've pushed this business and even more so post-acquisition into doing more inside the home. And so this case management referral volume has picked up dramatically. We're hoping to ensure that senior women are getting mammograms. We're helping to ensure that folks are getting vaccines or immunizations in MinuteClinics. It's really starting to drive this home as a nexus to bridge out and do better care for the individuals lives that we have the honor to touch.

Beyond that, we kept up with innovation. One of the biggest opportunities inside Signify is to drive more optimization through our logistics and routing platform. Many of you that studied us know that we have a large team of engineers that focus on drive time and solving one of the most complex computer science problems, which is the traveling salesman. How do you get an individual to a location with dynamic supply and demand? And through a real investment post-acquisition, we've been able to markedly drive down this drive time to drive up utilization of our most precious asset, which is our clinical workforce.

Beyond that, through some of that extra time, we've expanded to more diagnostic tests being done in the home. And so we're doing things like each EKG, spirometry, a whole host of tests that are giving patients and members real-time access to results, right, in the comfort and quality of their home. But finally, that post visit is really important. And again, so much of where I believe, home visits and Medicare Advantage in general are going is not just to identify things, but to do something about it. I'm proud to say Signify has been a leader in this space across all of our payor clients, helping to drive better outcomes for the lives that we touch inside the homes.

Here's a few more stats just on that. And just to show you some of the power of the consumer brand that CVS brought to us and then what we were able to bring to some of the other assets as well. So first, as Karen and Prem both mentioned, there's this population of members and we started inside Aetna that have always been very difficult for us to reach for a host of reasons, right? Many of these members tend to be high-risk members and members that need case management referrals and a lot of additional help.

Through our integration with the CVS Pharmacy assets, we've been able to go out and engage with 65% of those members. Just a tremendous number, way more than we ever anticipated when we brought this deal together to actually drive better differentiated care and an enhanced consumer experience with them. Second, we want to do this in a technology-centric way. And so we didn't want to make it cumbersome for Prem and his pharmacy team, who already have a ton of work to do each and every day. They have to rely just on phone calls.

So CVS accelerated a technology investment inside Signify. We built an online scheduling portal that has API access right into our iPad application where all those logistics and routing happen. I'm happy to say that we've had over 10,000 visits already scheduled since launching this late in Q3. So this has been a tremendous success and again, showing that power of that consumer engagement flywheel with CVS.

Second is I already alluded to we're doing more inside the home. And so there's been an increased demand, especially since the pandemic, for vaccinations, immunizations and connecting folks back. It's difficult to do in the home only because of cold chain and supply chain issues. But we've been able to bring them back and schedule them directly into MinuteClinics to make that a seamless experience for them after we start that visit inside the home.

Second, and I'm proud to say, and this was one of the things we launched just this year with Oak Street, Signify, with Aetna members, is the largest and most productive channel now in the populations we serve, driving almost 55% of welcome visits into Oak Street members. So again, we're inside the home with an Aetna member. They might not have a primary care doctor or they have a relationship they'd like to change. We've been very successful and we're their top performing channel now, as I just mentioned, getting folks to connect back into Oak Street.

The other part of Signify is a national leader in ACO enablement or provider enablement. The good news is when we came into CVS, they had one of the top performing and largest ACO Reach businesses, it's a business that we hadn't participated in. And we brought all of our capabilities in MSSP and some Medicare Advantage risk. When you bring that all together and which we have this year, we now have over 100 – I'm sorry, a 1 million lives under management. We're one of the largest ACO enablement companies in the country, helping over 60,000 providers in almost every state.

And the thing I'm most proud about with this business is we're not just a technology solution. We're boots on the ground, physically helping to change these practices, lift them up and drive shared savings to get better results for the patients that they touch. We've also scaled this business not just in rural America, not just in academic medical centers, but across all stripes of healthcare, to ensure that this platform has been really resilient and is touching individuals when and where they need care the most.

But value based care is a journey. And one thing that I'm also proud about is when we go in to talk to these existing facilities and they're starting down that value-based care journey, we have a program that is broad, but also deep. And so we were able to meet them with a shared savings program on the basic track, take them into enhanced go into ACO Reach. And almost every one of our clients is asking us to help them manage delegated Medicare Advantage risk, take care of risk adjustment, take care of the quality programs, take care of the reporting, take care of the contracting with the various payors we already have great relationships with.

So I've been very excited about seeing this come together. It's built largely upon that integrated, interoperable tech platform that Mike mentioned, and there's going to be a lot more development and excitement here for many years to come.

And with that, I'd love to show you guys a video just showing how all of these parts in healthcare delivery are starting to come together and then Mike will closes out. Thank you.

[Video Presentation] (02:50:34-02:52:50)

Michael T. Pykosz

Executive Vice President & Interim President-Health Care Delivery, CVS Health Corp.

All right. I hope everyone enjoyed the video. I always find it really helpful to see what we talk about kind of in concept, in action and how it impacts an individual patient. One thing at the same time, I found it really fortuitous that that patient chose Oak Street Health when presented with those options because it really sets up the next slide perfectly. So, I was lucky. It's also a joke I can see if you guys are paying attention or not, anyways, all right.

I know some of you are more familiar than others with Oak Street Health. Oak Street Health operates primary care centers for older adults on Medicare. We operate a fully value-based model, so we invest upfront to take better care of our patients. And if we were able to take better care of them, we keep them healthier, keep them out of the hospital and that creates a surplus and that's what drives our economic model. In order to create a predictable and homogenous care environment, a similar technology offering across all of our centers, we open up our centers de novo.

So, that means that as we open up our centers, we have to build the number of patients we see over time, get our patients in our care model and then drive that savings. And so the combination of the time it takes to fill up the center and the time it takes to get them in our care model creates the – this is the J-curve as we call it for an Oak Street center, which is what you see on this page. And it takes about, give or take, $3 million of center operating losses to get a center to breakeven.

And we've achieved what we believe are very strong and predictable unit economics at our Oak Street centers. Some data points for you, we project in 2024 that 95% of our centers that were open in 2021 and prior will be profitable. So it's about over 120 of the 129 centers at that time. More importantly, of our 39 centers that are in kind of our year six or more mature, those will have between $6 million and $7 million of clinic level profitability.

And finally, for our centers, with over 2,000 at-risk patients, which we refer to as our mature centers, still some growth opportunity, but getting close to full. Those centers will have over $8 million, of four-wall margin in 2024. So hopefully those numbers is a highlight, both the strength of the economic model, but also the consistency, as you see those numbers staying consistent over time, even into 2024.

We also believe there is a massive market for what we're doing. We talked about the $1 trillion opportunity. A lot of that addressable cost is in Medicare patients and innovative models like Oak Street that, improve care quality, improve experience are still, I believe, in their infancy on adoption. And so because of that, we are ramping up the pace of center of growth that we already shared, we're going to put up 50 to 60 centers next year.

And what that means is as we keep growing more centers, we're creating a larger and larger embedded set of profitability within CVS as those centers mature. We also realize that there is a huge opportunity to improve the economics by shortening the time it takes to get to maturity for our centers. So as you see from this graph, just adding one more patient per day per center will pull the curve forward a full two years.

So those mature centers statistics, those year-six plus center profitability statistics will pull all those forward two years, which obviously makes a big difference in our ability to invest in more centers and drive bottom line growth for the organization. And to make sure I'm tying – or connecting the dots, that opportunity is currently not in the guidance that, that Tom shared. So that's one of the focuses we do to create even more growth in Health Care Delivery and the organization more broadly.

This is also a place where CVS can really help us. We've talked a lot about the unmatched breadth and customer, member, patient engagement you find at CVS and I'll offer some numbers against that. There are over 650,000 Medicare beneficiaries visiting CVS stores in Oak Street catchments every week. There are nearly a 1 million Aetna, Medicare and PDP members in Oak Street catchments today.

And in 2023 Signify will complete over 300,000 home visits in Medicare patients who live in Oak Street catchments. All told that is over 4 million Medicare beneficiaries that our customers, members, patients with CVS today that live in Oak Street catchments, that number is only going to grow as we keep putting more and more Oak Street centers up.

So to put these numbers in a bit of context. That one patient per center per day I referenced on the last slide that moves the maturity curve up two years. That's about 50,000 total patients added additionally in 2024. So if we can capture 50,000 of the 4 million that CVS is engaging with, that level of progress will help move our J-curves forward two years. And we're already rolling out programs and seeing really strong initial results. So some of you saw yesterday example of an Oak Street table set up in a CVS store. That's something we've rolled out in a series of markets.

And what we're seeing is one in six customers we engage end up scheduling a visit with Oak Street Health. And not only are we achieving those test results, we are improving the results. As we've innovated rapidly our daily and weekly basis and done things like creating senior days and advertising those for CVS customers, we've seen the results double in that outreach.

The Aetna team has identified 120,000 of those 850,000 members who could benefit from an improved primary care relationship at Oak Street Health. And we are finding ways to outreach to those members to make them aware of what we're doing. Kyle talked about this, but just to reiterate it. At Signify, over 10% of the people who just hear about Oak Street from Signify are scheduling a welcome visit with us. So we're in early innings of rolling these things out, but we are seeing a very strong impact already from the broader flywheel and broader engagement with CVS.

Taking a step back from Oak Street we are just scratching the surface on what we can do with the value-based care capabilities within the CVS Health Care Delivery portfolio today. Like Kyle touched upon a lot of things really well about how we're seeing the CVS ACO growing, for example. And we put together the capabilities across Signify, across CVS ACO, across Oak Street what you find very quickly is, we have everything we need for a multi-payor platform, right? Or a risk-bearing MSO, we call it internally.

And what that means is we can invest in one interoperable platform and that platform can serve all of our businesses. And that means we can invest more, continue to differentiate ourselves from others out in the marketplace. And then all of these different business, whether it be Oak Street, whether what we're doing in the MinuteClinic side, whether Signify, whether CVS ACO can benefit from those investments. Let me give you an example of that. Oak Street a couple of years ago bought a company called RubiconMD that specializes in eConsults.

Essentially, it allows our doctors to consult with a specialist. They have over 400 different types of specialists on their platform, allows us to consult with a specialist to help understand if their care plan is correct. And what we find is oftentimes our providers think they know what to do for a very complex patients. But thinking you know what to do or believing you know what to do is not enough. You need to be sure. And in the traditional system that means they'd have to send them off to a specialist. What we can do with eConsults, we can get that second opinion within hours.

And oftentimes we find out that the doctor's plan is fine or we can tweak it a little bit and we can avoid that specialist visit, which is a better experience for patients. Removes opportunities for things to fall through the cracks and saves cost. And that's the type of capability that we invested a lot in on the tech side to integrate it with our workflows, et cetera. And that's something we can rollout to the broader set of CVS Health Care Delivery assets, whether it's leveraging it for MinuteClinic in the commercial population that Brian was talking about, when he talked about Aetna, whether it's leveraging it for the CVS ACO, et cetera, so that's one example of this, risk-bearing MSO, the scale we can build.

Another example, I want to talk, another opportunity – I'm sorry, another advantage – another opportunity is local density. When we put together all of these different assets in the Health Care Delivery and create that interoperable data infrastructure, what we can do is we can create a lot of local scale, and that opens up even more opportunities for our care model.

For example, by getting more local density, we can do more with home visits for patients following a hospitalization and lower readmissions. And we can leverage Signify for providing that service to Oak Street patients or for patients in the CVS ACO. Along the same lines, more local density allows us to get more volume to specific specialists, enables us to contract more creatively with them and it allows us to help make sure we are getting people to specialists that have a more appropriate practice patterns. Again, increasing quality, lowering cost and those opportunities with the local density are things that none of our assets could do on their own. But together, right, it creates an opportunity for all of them to be better.

I want to talk about an example in the market of Chicago, right? So you can see already in Chicago the level of density we have created when we've combine all these assets. We have 28 centers in Chicago serving over 50,000 patients at Oak Street. Signify completed 32,000 home visits on Medicare patients in the Chicago area. CVS Accountable Care is contracted with 1,500 provider partners and has 40,000 patients in the ACO. And there's a 120 MinuteClinic providers across Chicago. So take that density serving over 290,000 patients today. Now, we can add on the fact that Aetna has a strong presence and growing in the Chicago market.

And we can add that obviously CVS Pharmacy, you can see have incredible local presence. And that level of local density combined with the omnichannel offering across Pharmacy, across Retail Health, across primary care for chronically ill patients, across care in the home is something that's unmatched. I'll give the example of this coming to life. One of our on-call providers shared a story with me last week about how – it was the weekend and there was a patient who needed care right away and Oak Street is not open on weekends.

And before the CVS transaction they probably would have sent the patient to the ER, not the outcome we want, but we didn't have the asset, right? In this case, they were sent to the local MinuteClinic and because of a program we put together, they were actually able to co-care for the patient leveraging the fact that they knew the patient on a relationship. They were able to talk to the MinuteClinic person while the patient was in their exam room and actually avoid the ER visit, avoid the hospitalization, and create a very satisfied patient as well. So, again, that's one example, of the things that we can do now that we're combined.

We are already seeing the value of the flywheel, the value of the CVS brand impact our Health Care Delivery organization in a huge way. So I anchored you earlier at $6 billion of revenue in 2023. We are projecting we'll have over $10 billion of revenue in Health Care Delivery in 2024. We are almost going to double in size year-over-year. And we expect that rapid growth to continue. We expect to grow mid double digits for the next five years. And we have a lot of visibility where that growth is going to come from. It's going to come from assets across our Health Care Delivery continuum. We talked about we're going to put up more Oak Street centers and accelerate the patient growth.

Kyle talked about how we're going to increase both the number of home visits we're completing and the services offered within those home visits. We have gotten incredible traction with our ACO Reach signing up more providers. And as Kyle talked about, there's also a huge need from those providers and demand to move into Medicare Advantage risk, to eventually move into commercial risk. We obviously have the capability in our platform today to take Medicare Advantage risk, Oak Street today takes it over 20 payors in 25 different states.

And then finally on the retail side, we're going to take the local community easy access that MinuteClinic provides. And we're going to make sure we're adding more capabilities on the primary care side that will continue to serve our commercial and IFP patients of Aetna and also multi-payor and leveraging value-based concepts within that model as well as making sure it provides a convenient access point for all of our value-based care partners and all of our value-based patients across Health Care Delivery to keep patients out of the hospital. And that's going to drive very significant growth for a long period of time.

As important as the revenue growth is the embedded margin and potential we are creating. We know today that Signify can generate a high teens margin. We know in our mature centers at Oak Street Health that our margins are in the mid-teens, we expect our ACO model to be low to mid-single digits depending on mix between MA and the ACO programs and we know what Retail Health can do.

So as that growth happens, right? Following that – following getting patients in our models, following the maturation curves that profit will come as well. And again, as Tom referenced, this is a lot of the upside that we believe – in fact we're really committed to delivering, we believe very strongly in our ability to do so to create a really meaningful kind of fourth pillar to what CVS offers. It's really important that we allow all of you to follow along with our progress.

We are committed to giving you visibility in that. So we're going to share a set of metrics, including the number of Oak Street centers, but just importantly, the number of profitable mature Oak Street centers. We're going to share with you the number of at-risk lives we're serving, the number of home visits we're completing and the number of providers on our platform.

I started this conversation talking about with a huge opportunity that's out there in healthcare, right? You've heard about this again and again and again today, that we have a unique opportunity here at CVS to meaningfully improve care quality and lower cost and improve experience. And that opportunity again is a $1 trillion opportunity size and the portfolio of assets we bring is differentiated and unmatched. And we are in the very early innings of this transition. We are in the very early innings of this realization.

But we firmly believe that CVS is uniquely positioned to win as this market evolves. And so, we are committed to building a rapidly scaling differentiated Health Care Delivery organization. Most importantly, we're going to drive meaningful impact to the cost and quality for patients. And the Health Care Delivery organization is going to be positively impacted by being part of a broader CVS.

Everything we talked about around engaging customers in the stores, partnering with the pharmacy, partnering with Aetna is going to drive better results and we could drive on our own and vice versa. We know that we can partner with the health plan. We know we can partner with retail. We know we can partner with Caremark to also impact their results in a positive way. And if we deliver on this vision and when we deliver on this vision, we will drive strong future earnings growth as we realize more and more of that potential profit pool out there. And we are very excited to be with you on this journey as we transform healthcare.

All right. So this is not advancing. But I can tell you, because I remember my slides that the next thing is a break and we'll come back in 15 minutes for Q&A. Thank you.

QUESTION AND ANSWER SECTION

Larry McGrath
Senior Vice President-Business Development & Investor Relations, CVS Health Corp.

A

Okay. Welcome back. And thank you all for your attention so far. So we're going to conclude today with a Q&A. So we've got mic runners. You raise your hands, and we start with Lisa. Why don't you introduce yourself first, guys?

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Okay, great. My name is Lisa Gill and I am with JPMorgan. My first question is for Brian and Mike. We've heard a lot about the risk model changes that begin in 2024. Can you talk about the impact to each of your businesses? Brian, you talked about it a little bit as far as new membership coming in, but others have talked about it as being a more broad impact in 2024. And obviously, there would be an impact on the providers like Oak Street as well. So if you could just give some incremental color?

Brian A. Kane
Executive Vice President & President-Aetna, CVS Health Corp.

A

So there is an impact on our business for 2024. We've priced for it. It's just not as material as it could have been had we had a very large portion of our business in closely linked value-based relationships, full risk relationships, high portion of duals. Those are the members in particular and those are the relationships in particular where there is, I would say, more breakage with respect to v28. The broader PPO populations, the broader managed care populations, it's a much lower percentage impact for v28, it's also phased in over three years, as you know, and we fully price for that.

Michael T. Pykosz
Executive Vice President & Interim President-Health Care Delivery, CVS Health Corp.

A

I would say on the Oak Street side, there's a couple of components impacting the model changes that keep in mind the model changes are phased in over three years, right. Think about the first year of the phase and Tom has shared that we expect an impact of around 2% for revenue for Oak Street.

And that result is a combination of a couple of factors. One coming in, what are your clinical protocols and what are you documenting? And then how is the change impacting what you're documenting, right? And we're just seeing a lower impact, I think, than other groups are based on the way our clinicians created the protocols of how we capture risk.

And then number two is really a function of our model and how fast we can adapt to the new model and having our center-based approach where we have consistent workflows, consistent staffing. Having canopy, which allows us to roll-out changes very quickly. I think it's allowed us to react to the new model, right, to make sure we're capturing the new codes faster than others can, as well as kind of other opportunities to improve our performance on revenue. And so I think that the reason why I think to – in your question, why – what you're hearing from us is slightly different than others, I think is actually a combination of what we did historically but also our operational excellence going forward.

Larry McGrath
Senior Vice President-Business Development & Investor Relations, CVS Health Corp.
A

Why don't we go with Eric?

Eric Percher
Analyst, Nephron Research LLC
Q

Thank you. Eric Percher from Nephron Research. A question for Karen and Tom, I'd like to get your take on the enterprise impact of the pharmacy model that you've suggested. Number one, Karen, you mentioned that you've reached a floor. Is that a floor relative to your cost to serve and acquisition cost? Are you confident the rest of the industry will follow? Do they need to?

And then relative to the total enterprise, if you're able to push for more adequate reimbursement at the pharmacy, how does that look to the PBM? And what happens if everyone follows? Does it change the PBM profitability?

Karen S. Lynch
President & Chief Executive Officer, CVS Health Corp.
A

Well, thank you for the question. Since I joined CVS, one of the questions I always get and all the pushback on the retail business has been, what are you doing about the pharmacy reimbursement model? And we have always said for the whatever I've been here now, for the four years I've been as part of CVS, we had the same exact answer every single time. And as we've been looking at pharmacy reimbursement, I said the definition of insanity is doing the same thing over and over and expecting a different outcome. So as we step back and we looked at sort of that pharmacy reimbursement and said, we're doing everything we can to eradicate it. And you saw that on the slides.

But now we're saying, we have to make a change and we have to make a change because our consumers are demanding it, the governments demanding it. And we have the opportunity here to drive a much more transparent model and match the economics of our purchasing of drugs to the reimbursement. So what we're trying to do, as we said, eliminate that cross subsidization, get a fair margin on every script that we write. And over time – and to kind of the impact on the whole company, you're seeing our new product from the PBM match what Prem is doing that's the intention, right? So he's offering choice to our customers to match what Prem is doing.

And then obviously, Brian will make those decisions with his customers. But in order for us to sort of eradicate that negative 5% and stem the earnings decline, this is our answer. As Prem said, we are the leaders in the industry. It's time for us to chart a new course and an important for us to really stem that earnings decline for the viability of this business, because we see an important strategic component of that retail business. People come to us for care. It is a place where – it is a business that significantly generates cash flow. And so it's important for us to make that change and that's what we're really trying to accomplish. And I'll ask Tom to add anything else I might have missed.

Thomas F. Cowhey
Interim Chief Financial Officer, CVS Health Corp.
A

I think for you to believe that the model is going to work, you have to believe that we're at the bottom, right? And we've had one of the largest chains in the nation declare bankruptcy. And as we look at what the dynamics are in this marketplace, I think we believe that that time is now, that the market is ripe for change and that's why we've announced this today.

One of the things that I think people get confused by, as we think about your PBM question is, what is – like, you're going to raise prices. Is that what you're saying? No. What we're saying is, as you look at the slides that Prem walked through, there is $1 billion-plus of reimbursement pressure in the pharmacy every year and we've offset more than half of that on an annual basis with our cost of goods improvements.

In these new models, the cost of goods improvement is going to get automatically passed on to the customers quicker than it has been in the past, which is what Prem talked about. And so prices at the pharmacy are still going to go down. They're just going to be tied to our ability to go out into the market and source those lower costs, which we are adept at doing.

As you think then about the model, 5% down is in the base and we hope that over time that this could stabilize that at a flat level at some point. And maybe even if we transitioned enough of the model, you could start to see growth as you grow scripts and share so that you can actually model this business the way that you would expect to model a normal business.

Larry McGrath
Senior Vice President-Business Development & Investor Relations, CVS Health Corp.

A

Justin?

Justin Lake
Analyst, Wolfe Research LLC

Q

Thanks. Justin Lake, Wolfe Research. I'm sitting, I probably look like I'm standing anyway. Prem, wanted to ask you about the new model as well. First, as you roll this out for 2025, is this going to be black and white with the PBMs in terms of you're either in this new model price cost plus or you're not in our network? Have you run it by the other PBMs, specifically Optum and Express Scripts? And then maybe you can just walk us through the economics on – you've told us, look, we'll get to a growth rather than shrinking 5% a year if we're able to roll out this model, what are the economics if you start losing scripts because someone's out of network? Thanks.

Prem S. Shah
Executive Vice President, Chief Pharmacy Officer & President-Pharmacy and Consumer Wellness, CVS Health Corp.

A

So, Justin, a few things, and I think the big point and it's similar to the last question is when you think about this industry and what's happened over the course of last decade, right, there's been a tremendous number of things that have helped us drive costs down and reimbursement down with our cost of goods improvement across the industry, generic dispensing rates rising and all the other things that have happened.

If you think about what we're doing with the PBMs, we are still going to be providing them very aggressive economics in terms of what we're able to deliver with our size, our scale and our operating efficiency. So our desire is to continue to wake up every single day and drive down the cost of products for them so they can deliver that.

We're going to work with them very closely over the course of the next two quarters to drive this forward in terms of the model as we see fit. And those PBM negotiations will be structured in the way that I described, right. It'll be a acquisition cost plus a markup plus a dispensing fee or patient management fee. Those things will be negotiated out over the course of those – over the course of the next few quarters, every PBM, depending on what they provide, we'll continue provide those services.

And then if you think about the – what Tom had mentioned in the remarks, right, our current base business is projecting minus 5% operating decline. That's with none of this, right, we're moving the way we want to move the model. And so we're going to continue to drive that transparency. I personally believe that PBMs and plan sponsors, I mean I've been on both sides of the business and David can comment as well, I believe it's time for change, right.

Some of the things that have happened in the current pricing model for the last decade, it's antiquated, and leads to consumer friction that nobody wants in the supply chain, we're removing that, we're making this simpler. And this is a foundational step in leading the change from where we stand. And so we want to continue to do that. We want to bring this model forward and we want to lead that change. And I firmly believe our PBM and plan sponsors will also want to drive the change in a transparent fashion.

We're still – there's going to still hold us accountable. If our cost of goods is higher than someone else's, I suspect that we're going to have a different conversation. Our goal is to continue to drive our cost of goods down. Our goal is to continue to have a competitive markup fee and a competitive dispensing fee. And our goal is to provide the great care we provide across this country at scale for the – across the 9,500 stores and 100 million plus members who provide every single day to invest and make pharmacy better in this country. That's the goal.

Karen S. Lynch
President & Chief Executive Officer, CVS Health Corp.

A

And Justin, let me just comment on your question about will they take CVS out of their network. We serve 120 million customers today, and we're in every community in America that would be significantly disruptive to a consumer and where people access care. So I think CVS is rooted in the communities today, an essential part of where people get care. So I think people really recognize the value of what we bring in those communities.

Larry McGrath
Senior Vice President-Business Development & Investor Relations, CVS Health Corp.

A

Lance?

Lance Wilkes
Analyst, Sanford C. Bernstein & Co. LLC

Q

I'll stand, I'm not as tall as Justin. Lance Wilkes from Bernstein. Just had a question for Mike and Karen on value-based care. And in particular, as you're growing that part of the business, what are the additional capabilities you're looking for? How do you prioritize other areas beyond MA like Medicaid and chronics within employer? And then just understanding a little bit about as you look at the ramp-up in Oak Street and you're talking about the J Curve, can you just comment a little bit about the addition of new payors as you work through a market and kind of what you normally start with as far as a number of payors and where you get to in year kind of two and five? Thanks.

Michael T. Pykosz
Executive Vice President & Interim President-Health Care Delivery, CVS Health Corp.

A

So, on a capability front, I think one thing we're really excited about, I think we feel like we have all of the core capabilities we need between what CVS had when we joined, between what Kyle has brought, both on the in-home side, but also on the ACO enablement side. And then what Oak Street brought. And I think what's been great is it's almost like a puzzle piece. Some of the things that we didn't have in Oak Street that were on our roadmap to build, Signify brought to the table, vice versa. So I think we have that core platform to build off of and where I think we'll be investing, I think in the IT and Op side, on the data side, we'll be investing that. I think mostly the internal although we can we can look for capabilities if we need to.

And I think what you build, though, when you have this platform, right, is we can now do things more strategically from an acquisition standpoint. We don't have to, we can opportunistically, whether that's be specialty assets or other assets down the line. But I think we don't have anything we have to fill in a gap of our current offering. And then specifically the Oak Street question, we go to market multi-payor and most of our payors, most of the national payors, we have kind of national contracts with. So we go to market, we generally have all the national payors in that market. Some, some nuances in there. And then if there's a high share of local blue or a local player, we'll get them. So we generally are opening up multi-payor today.

Karen S. Lynch
President & Chief Executive Officer, CVS Health Corp.
A

Hey, Lance, if you recall, we said, the capabilities that we needed to kind of drive the acceleration of growth, we wanted to be in, primary care. We wanted to be in the home. We want to have provider enablement capabilities. We have that basic platform today where now you saw the effects of the economic flywheel, where we really need to continue to grow and execute on that strategy. And also, as you think about this payor platform, it's multi-payor, so it's not just Aetna, so we have the opportunity to kind of accelerate the platform grow through our multi-payor capabilities.

Larry McGrath
Senior Vice President-Business Development & Investor Relations, CVS Health Corp.
A

Liz?

Elizabeth Anderson
Analyst, Evercore Group LLC
Q

Hi. Elizabeth Anderson from Evercore. Maybe just to talk a little bit more about that, the new pharmacy reimbursement model. How does that impact the sort of fund the long-term size of the store base that you need? I mean, you have obviously additional services and that links into. I just wanted to understand better that longer term vision for what the right size of that is.

Prem S. Shah
Executive Vice President, Chief Pharmacy Officer & President-Pharmacy and Consumer Wellness, CVS Health Corp.
A

Yeah. If you look at the overall number of pharmacies in the entire country, that's actually down over the course of the last five years. I think it peaked at 65,000 and it's now down with some of the closures that have happened. We want to serve our communities in an appropriate manner where it makes sense across the country. We want to make sure there's local convenient pharmacy access where there's not pharmacy deserts. That being said, where there's oversupply or other issues, I think the marketplace is already working itself out as it relates to that. But our goal is to continue to be in those markets, to continue to provide it. I think the other piece that's a real issue is that the amount of capacity of pharmacies that exist in the marketplace is also declining over the course of the next four years, just based on college enrollments. And so, you know, I think some of that stuff will play out on its own. As it relates to where we want to be, we want to be in the communities where people need pharmacy services and then we can continue to deliver our pharmacy services locally. We firmly believe that that's, based on a certain methodology that we have based on MSAs and based on way we deliver those results, but it's an essential component of healthcare and I think that we're going to reach a point where you can't narrow that number of pharmacies and aggregate down anymore because at the end of the day, people need to get serviced for their pharmacy needs and that needs to happen in local community settings, whether that's CVS, Walgreens or an independent or someone else. Those types of services are going to be essential as it relates to that.

Thomas F. Cowhey
Interim Chief Financial Officer, CVS Health Corp.

A

Liz, I was just going to say that one thing I just want investors to be mindful of is that we have talked about a program that we had to close 900 stores. We're two-thirds of the way through that program. We expect to close another 300 stores next year. And the results that we've seen to date have been phenomenal, just strong execution from our teams. We've retained more scripts than we originally projected. We've retained more of the front store volume than we originally projected. And importantly, in this environment, in this market, we've retained over 90% of the employees by offering them opportunities at other local stores, which is a number that we're really proud of.

We're constantly evaluating what our footprint needs to look like, but we have one more year of our announced program that we are expecting to execute on at this stage.

Larry McGrath
Senior Vice President-Business Development & Investor Relations, CVS Health Corp.

A

George?

George Hill
Analyst, Deutsche Bank Securities, Inc.

Q

Good morning. George Hill from Deutsche Bank. I'm going to take the other side of the CostVantage question, which I think of as the true cost question. And I guess, first, could you talk about whether or not this is a product that you have to sell into clients or you can just push through? And it sounds like you want to push CostVantage onto your non-CVS pharmacy partners. With how you discussed what reimbursement would look like under true cost, I guess, could you talk about whether or not you've had any conversations with respect to people's receptivity for that? And my last question would just be if you guys would provide any expectation on the impact of Cordavis in 2024?

Karen S. Lynch
President & Chief Executive Officer, CVS Health Corp.

A

David, go ahead.

J. David Joyner
Executive Vice President & President-CVS Caremark, CVS Health Corp.

A

I'll take the true cost question. So yes, we do have to package and sell the true cost offering to our customers as a client choice. We believe that they are equally as frustrated with the pricing variations and volatility. So they're asking us, quite frankly, to solve this problem for them.

When I rejoined the organization in March, we had a client advisory meeting, and we laid out what their single biggest frustrations were, given all of the noise and activity from their employee populations. And this is one of the top issues on their list, is the fact that in the cash marketplace potentially is priced differently than the funded, how do you reset and/or focus on delivering more transparency to their membership beyond the transparency that we're giving to our customers today and ultimately get to a place that is a more predictable, reliable price for the medication. So we believe that the market is ready for something along these lines, and you've seen it within our other peer group, trying to do essentially the same thing, recognizing that there is, what I believe, an inflection point of where we are with the current pricing.

As it relates to now how we take that same model and contract with other pharmacies, yes, there is one benchmark and one solution that CVS Retail is offering. And we'll end up probably with multiple different strategies within each one of the pharmacies that we're negotiating with as they're probably unlikely to want to share their acquisition costs. The most important thing is to reset the pricing that we have today and get to a place that, again, others are going to be able to benchmark and compete.

So if we accomplish that goal both with how we contract with the network, and ultimately, how we recontract with our customers to serve the members, we believe it'll be a much better experience. And we'll begin, again, the same example – what the PBM does is lowers cost and improves service. So the goal is going to continue to drive down the cost and get the improvements of the acquisition, improvements across the supply chain.

Thomas F. Cowhey
Interim Chief Financial Officer, CVS Health Corp.
A

With respect to your Cordavis question, as I noted in the presentation, there is a contribution from Cordavis, and it's included in the Health Services segment projections for next year.

Karen S. Lynch
President & Chief Executive Officer, CVS Health Corp.
A

And George, let me just take it up at a higher level. If you think about what's going on in the industry and you think about the intense scrutiny of pharmacy costs in America, we're doing our part to change the pricing model to lower the cost of pharmacy to drive transparency, to meet the needs of our consumer because everything starts and ends with the consumer. So if the consumer have lower drug prices, we can engage with them at the pharmacy with a broad set of assets. And that's what we're really trying to do.

At the highest level, this is an important consumer change to lower the overall cost of drugs. And I think it meets what consumers are demanding, it meets what the regulatory environment and the scrutiny that we're under. And as Prem said in his prepared remarks, we're a leader in this industry, and we have to chart a new path.

Larry McGrath
Senior Vice President-Business Development & Investor Relations, CVS Health Corp.
A

Kevin?

Kevin Caliendo
Analyst, UBS Securities LLC
Q

I'm Kevin Caliendo with UBS. So I guess what I'm trying to understand is, what does this mean for Red Oak and what you expect it means for generic pricing? Is there any change to how this model might affect Red Oak going forward? Is it as important to you in this model? And what does it sort of mean for your distribution partners as well, given these changes?

Prem S. Shah
Executive Vice President, Chief Pharmacy Officer & President-Pharmacy and Consumer Wellness, CVS Health Corp.
A

So, Red Oak wakes up every single day to lower the cost of generic drugs. There's no change in the mission of Red Oak and what they do every single day in the supply chain. And our PBM and payor customers have benefited from the great collaboration and great work that Red Oak has done over the course of the last decade, and it will benefit from it as it goes forward.

Larry McGrath
Senior Vice President-Business Development & Investor Relations, CVS Health Corp.

A

Erin? Over there, Jake.

Erin Wilson Wright
Analyst, Morgan Stanley & Co. LLC

Q

Hi. It probably looks like I'm sitting, but I'm standing. Erin Wright, Morgan Stanley. Can you talk a little bit about the disciplined capital deployment strategy from here? Is it all dedicated to share buyback at this point, or do you see opportunities from an M&A perspective?

And then last one was just on a clarification. Tom, you gave that chart that gets you to 2028 mix. There's still a drag from retail pharmacy. I think there's also corporate in there. But is – I just want to clarify how much of that is corporate versus retail pharmacy.

Thomas F. Cowhey
Interim Chief Financial Officer, CVS Health Corp.

A

Sure. So, your first question on capital deployment, in the short term, we're focused on repurchases and organic initiatives, right? So, as you think about what the 2024 guidance implies, very specifically said, as we look at what we're doing for next year, we have annualization of interest expense. We're going to offset that with repurchasing shares. And so we expect that we'll be in the market repurchasing shares in 2024, probably to the tune to $3.5 billion to $4 billion.

As you look further out, there is going to be more capital availability. The business, if we grow on the trajectory that we've outlined, will de-lever rapidly. That will create additional opportunity to lean in further than the 2% to invest in other initiatives, to invest in accretive M&A to – there's a variety of different things. And what we've built into the long-term guide at this point is that 2% deployment, which means that naturally the model, if you run it out over a couple of years, is going to deploy and create additional capacity beyond the $40 billion to $50 billion that I put on there for the next couple of years.

As you think about the longer-term algorithm, what's embedded in there is our traditional corporate business growing at a mid-single digit rate. And then, you've got our – the drag from the Pharmacy and Consumer Wellness business being, again, at that 5% rate. So, there is nothing baked into that long-term algorithm, that rising of the floor that's – that is contingent upon the success of the new model.

Larry McGrath
Senior Vice President-Business Development & Investor Relations, CVS Health Corp.

A

Charles?

Charles Rhyee
Analyst, TD Cowen

Q

Yeah, thanks. Charles Rhyee with TD Cowen. Maybe a question for Prem. And when we think about the starting point of down 5% operating profit growth, it's – where does the front end fit into this? I know we spent a lot of time talking about the pharmacy and maybe obviously the changing retail environment. Maybe you can talk a little bit of how you're factoring that into sort of the outlook. And is it the idea that CostVantage – the benefits of that will offset a continued pressure on the front end and just how you're thinking about front end in general. Thanks.

Prem S. Shah
Executive Vice President, Chief Pharmacy Officer & President-Pharmacy and Consumer Wellness, CVS Health Corp.

A

Yeah, I'll start, and, Tom, you can comment. Look, our biggest challenge as I laid out on that slide as it relates to our retail business has been the pharmacy reimbursement pressures that we face, right? So, we continue to have a very vibrant and strong front store business that we're focused on, and we continue to transform to a health and wellness destination that we're using. It continues to perform as expected and in lines with where we stand. So, from my perspective, what we're doing is solving the single biggest issue we've had in terms of our Pharmacy and Consumer Wellness segment, which is the reimbursement pressure piece. We're going to continue to [ph] have it (04:03:58). For example, this year, we won the Toy of the Year. I'm not sure if you guys saw that. We have things like that, that happened as well, so we have a great team and a talented team that drives that. Tom, you can probably comment a little.

Thomas F. Cowhey
Interim Chief Financial Officer, CVS Health Corp.

A

The front store, we actually think margins are going to improve next year. As you look at some of the efforts that team has done, it's been exceptional as they look at what are the right SKUs, what are the SKUs that we really want in those categories, how should we think about health and beauty, how should we think about our own CVS-branded products, which perform very well at a discounted price and have great margins. We actually think that there continues to be a lot of opportunity there. And so, we feel good about the prospects for that business.

Larry McGrath
Senior Vice President-Business Development & Investor Relations, CVS Health Corp.

A

Okay. We're going to take the last question. But before that, just one quick clarification. As it relates to our Individual Exchange business, our targets for the long term, we target a high-single digit top line growth and mid-single digit margins. I heard that that created some confusion, so just wanted to clarify that. So, last question will go to Jess.

Jessica E. Tassan
Analyst, Piper Sandler & Co.

Q

Thank you. Jess Tassan from Piper Sandler. This is maybe for Kyle and Mike. Can you discuss the assets that comprise CVS Accountable Care? Is this the former Signify Caravan Health business? And if not, can you just describe the assets in terms of maybe program participation, geographic density and how they're supporting providers in the community?

And then I guess just to follow up on Lance's question, should we conclude that the Signify acquisition has checked the box on MSO capabilities? Thanks.

Kyle Armbrester
Executive Vice President & Chief Executive Officer-Signify Health, CVS Health Corp.

A

Sure. Yeah. So, there is two main assets that compromise what we now call CVS Accountable Care. First, CVS, before Signify, had very successfully built out one of the largest scaled, performant ACO Reach businesses. And so, they did that with their own novel technology stack and internal teams. That was a fully CVS built initiative. And then, Caravan came via Signify. We merged those two things together and that's the million total lives. When you think about coverage, we're in rural health centers, so FQHCs, critical access hospitals, PPS hospitals, all the way up to multi-state academic medical centers. We've closed since the acquisition a multi-state health system. So, there's been continued traction there. There's been good top line growth just with the sales pipeline in that business as well. It's across 40-plus states. So, it's across the country essentially and it's again showing positive shared savings rates and it's been a really big success story bringing the businesses together.

Larry McGrath
Senior Vice President-Business Development & Investor Relations, CVS Health Corp.

A

Okay. We'll hand it over to Karen.

Karen S. Lynch
President & Chief Executive Officer, CVS Health Corp.

I want to take this opportunity to thank all of our colleagues who wake up every single day to transform healthcare and put our consumers at the heart of everything that we do. Healthcare is a serious business, and we are serious about our ability to transform healthcare, and we are serious about our ability to achieve our financial objectives and provide our shareholders the returns they deserve. So, I really appreciate all of your time today and your questions today, and on behalf of the entire management team, I wish you and all your families a healthy and happy holiday season. Thank you.