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CVS Health Corp. (CVS)

Bernstein Strategic Decisions Conference - Fireside Chat

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CORPORATE PARTICIPANTS

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

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

OTHER PARTICIPANTS

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

MANAGEMENT DISCUSSION SECTION

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

Okay. So we're going to kick off with Tom, who is not the Interim CFO, but the CFO, speak to a few statements and then Karen is going to start off with some introductory comments.

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

Thanks, Lance. Thanks everyone for joining us. I just want to say we will make forward-looking statements today. So we encourage everyone to please look at our risk factors that are in our SEC filings. You can access them through the SEC website or through the investor portion of cvshealth.com.

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

Thank you, Lance, for having us this morning. Really appreciate the opportunity. I just wanted to start with some opening comments. As you know, our recent performance has been disappointing to us, but it is because of one of our businesses. And I thought it was important this morning to talk about a fair amount of things that we have going on in our business that you appreciate broad portfolio of assets that we have. As you know, our strategy is really to build a convenient, connected, personalized of integrated solutions company that is focused on the lifetime value of a consumer. And as we know, consumers' expectation to interact with healthcare systems will deliver a lower cost, will have improved quality, and eventually, continue to drive growth for our company because of the better outcomes and because of the better retention that we have with them.

But I thought it was important this morning to really highlight some of the things that are going on with the company that are going well before I talk about Medicare Advantage, in December, we talked about our strategic intent of doing a number of things relative to our business. We started and we talked about Cordavis, which is, in a way, new approach to the biosimilar market. And in a very short period of time, one month, we have dispensed

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more biosimilars than the entire market did last year. And I think that speaks volumes to our ability to execute and our ability to drive down cost. As a result, we expect to see continued growth from that market.

Our Pharmacy & Consumer Wellness business outperformed in the first quarter. And as we said in December, we are introducing a new – two new pharmacy model. One is CostVantage and the other is TrueCost and PBM. We are having very productive and meaningful conversations around our CostVantage program and I can assure you that our Caremark PBM will be contracting with CostVantage and we'll have more to talk about towards the latter half of this year.

The other thing I would just comment on is TrueCost, we've had a lot of good conversations with customers and there's big interest with our customers in TrueCost and it's been very well received from consumers. And then I would just say with Oak Street, Oak Street is performing – if you think about what we tried to do with Oak Street and Signify Health is really to introduce a new health services business in our company. Oak Street is performing in line with expectations and Signify had more in-home assessments in the quarter than they ever had before. So really good results in that healthcare delivery part of our company. You know, obviously, in the quarter, we had a tough quarter in Medicare Advantage, which was disappointing to us, as I said earlier.

But we took immediate action. And the most immediate action that we could take to influence 2025 was pricing. Our bids are due in a couple day. We have taken a very prudent and thoughtful approach. We'll talk about this, I'm sure, but we are committed to margin recovery in that business and our bids will be going in. So that was important to kind of just level set before we got into Q&A.

We have a broad portfolio of assets. We have one business that is underperforming, but many of our businesses are doing quite well.

QUESTION AND ANSWER SECTION

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

Q

Great. Well, I appreciate that. And you now, the characteristic of this event is focusing on the long-term strategic opportunities. I want to walk through those for the current environment, probably two topics that would be worthwhile to just hit and knock through. One, I just mentioned to you on the MA pricing, yeah, I think the most common question I'm getting from investors and being a former Aetna person, it's one of those incidents it is surprising to me because of how I think of some of the actuarial rigor. So what went wrong with MA pricing for 2024 and what are the steps you're taking [indiscernible] (00:05:10) to address that so it goes right 2015 and beyond?

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

A

Yeah. I think there's a number of things. One, obviously, we're seeing a broad secular trend of...

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

Q

Yeah. Yeah.

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

A

...utilization and then, you know, relative to pricing, one of the things we did was we missed trend, and we had a super elevated trend and then a flat stable trend. That's not what we saw in the market. Obviously, we continue to see elevated trends. A second thing we did was we added new supplemental benefits and people are utilizing that benefit. But that is not the full driver of our utilization. But we are seeing uses of supplemental benefits. And then because we grew, we had some operational – we didn't have enough nurses on kind of on the lines to start. But, you know, obviously, we fixed that subsequent to that.

So what are we doing? So the first thing we did when we saw some of these pressures as well as we put together an entire cross-enterprise group to really look at all aspects of the Aetna organization to make sure we just shored up anything in the operations. The second thing we did was we took an intense review, Tom and I and a host of our colleagues, intense review of the pricing bids that are going in, in a couple of days. And we've done a number of reviews. And what we've done and we said our sole goal is margin recovery.

So one of – a couple things that we've done is we have reduced benefits and we are going to exit counties. We are going to in some counties pull products and refile. And then we took a view that the elevated trends will continue to see elevated trends in 2025. So we've taken the entire, kind of, organization to look at the operations, and we took an intense view of our pricing. And Tom and I have been deeply involved in that. Is there anything you want to add there?

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

A

No. I mean, if you just think about the bids for 2025, like Karen said it, you know, just reemphasize it. We tried to take a prudent and thoughtful approach. And so, you know, we're looking at the pathway to profit improvement at a very granular level. You know, we're filing bids. And I think it's over 2,000 counties. And literally our teams are looking at each of the competitive dynamics associated with each of the products in each of those markets and coming to an individual decision on what it is that we need to do across the enterprise with those local market teams and the product teams and medical management teams, all working together to recapture the margin that we're talking about.

There's two things that need to happen. First, we've made an assumption that trends are going to persist at this very, very high level. So we saw that level of core trends in 2023. Our guidance and our base plan assumes that that's going to persist in 2024 and then into 2025. So we've rarely seen two years of trend like this. We've never seen three years of trend like this, but that's the approach that we're taking. So when you think about that level of trend relative to the rate that we have for 2025, the first order of business just to stay at par is you've got to go through and pull all of the levers that you can to try to cover that gap. And then we've talked about an additional up to 200 basis points of margin improvement.

So the way we're doing that is we're looking at every lever available to us. So that could be medical management, [ph] trend benders where some of my peers (00:08:58) like to call them, and as Brian likes to call them as well, network configurations and benefits. And so benefits are TBC benefits and non-TBC benefits. And there's lots of complicated rules about that, including our stars restoration and our largest contract actually reduces our ability to impact TBC benefits. But these are the choices and the context that we're looking at in every market. And so when you've pulled all of those levers, the only thing that's left to you is to exit. And so there are some places where we'll simply exit completely. There are other places where – and this is probably a bigger impact than the

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pure market exits, where we will pull a product from the market and we will reintroduce a different product with a different level of benefits.

Now, that comes at a cost. We're in a year where there could be a lot of disruption, where some of our peers could be making significant changes as well, where you've got the Part D changes out in the marketplace that could have various different impacts. We're going to be telling these folks your plan is no longer available and they're probably going to go shop. And so as we think about that, we think that the retention levels on those that was exit refiles are probably pretty low. And that's where as you start to think about different scenarios, you know, there's a wide range of outcomes it really depends on what do the competitors do in each market. But, you know, could you lose 5% of membership in that case? Sure. Could you lose up to 10%? It's very possible. But that's okay because we're making rational decisions about the progress that we want to make on margin in 2025.

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

Q

Got you. Just two follow-up questions on that aspect. One is for the audience, you know, my experiences in sector have been that when you have big portfolio, you have a lot of dispersion in MLR. But when we talk about exiting counties, it makes a lot of sense to me. Maybe you could just describe a little bit of the characteristics of dispersion MLR across markets, understand if there is wide variability there, first; and then the second is, given the uncertainty around what might be the member impact of this, how do you deal with your operating expense load to be able to get to the margin? And, obviously, you got to be nimble with that because you're going to see how that plays. Can you just talk to those two [indiscernible] (00:11:24)?

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

A

And I just talk operationally about expenses that I've asked the team and we are putting together the plan under a variety of scenarios. So where are the expense takeouts? How do we – what do we need to do? How do we get those expenses out if they are still depending on that membership loss? So there is a big plan that it will be executed and will be delivered to me so that we can see where we will, you know, surgically reduce spending to match the membership critically important.

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

A

Yeah. I mean, to Karen's point, the teams are all over this and preplanning for what those options are going to be based on how the ultimate membership forecasts come out and, you know, what I gave you is not guidance...

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

Q

Yeah. Yeah.

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

A

...it's just directional in terms of how we're thinking about things right now. But I'd much rather be in a position where we have the ability to take out our own costs rather than trying to think about what utilization trends might be in the – out in the market that are much more difficult to control. As you think about the dispersion, the places where we're exiting, which is a minority of the – what we're doing here in the membership loss, those are really places where we don't like where we're positioned from a contracting perspective. We don't think that we can get there. The benchmarks are not where we think they need to be based on the costs in the market.

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And so there is a wide dispersion of earnings as you think about our largest contract, the national PPO, obviously at loss of star bonus we price through that, that's pressured this year. You know, as we think about some of our dual products, they're faring better than the rest of the book. You know, there is dispersion both at the product level and also at the geographic level, but we're looking at all of those different intersections to roll up, thinking about elevated level of trend and then really driving the teams to deliver up 150 basis points, 200 basis points of margin improvement next year across the entire book.

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

Q

Got you. One more current looking topic, and this is, I guess, something that maybe is [ph] moving as your stock (00:13:25) today is utilization. And so, can you just comment a little bit on first quarter and then maybe any further development as far as insights and what that first quarter is looking like, and any perspectives on kind of outlook for utilization for the year?

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

A

So, on the first quarter call, we highlighted that we had a lot of earnings pressure in Medicare Advantage. You know, since then we've only really closed April, right?

[indiscernible] (00:13:50)

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

A

And so, as you look at the first quarter trends, so what do we know, you know, post the first quarter about how that's developed. We talked about this on the call and it looked like it was going to develop positively in half, which is great news. As we look at MA, one of the places where there's been particular focus has been inpatient. You know, as we said before, January, February, the admits were very high. March and April were notably better. But, as we look at the first quarter restatement, you know, we have seen that inpatient remains elevated. But we've actually seen improvement in other cost categories.

So, it's still really early in the second quarter. You know, we're watching all of this very closely. There's still a lot left to play out. April was a seasonally intense month. June, so seasonally much less intense month because of the way the calendars work and the year-over-year trends. And so, we're watching it closely and we're going to update folks when we get to the second quarter call.

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

Q

Got you. Okay. That's really helpful. And then, with now broadening it back out to kind of the corporate strategy and where you're going, one of the questions that kind of bridges us from here to there is, given the situation, how is this impacted capital deployment priorities for you? You know, what sort of your game plan going forward?

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

A

[indiscernible] (00:15:16) just relative to the strategy, I would say that we are committed to our overall strategy, which is really to continue to grow our foundational businesses, to expand into other growth drivers like the Health Services business and to really drive fundamental growth around the integrated value of the company. And that's

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really the core of our strategy and we are continuing to commit to that. If you think about the utilization pressures in Medicare Advantage right now, we have the two premier assets, Oak Street and Signify in Medicare Advantage and value-based care. So it's really can support that. However, given some of the pressures, we are taking a broad look, making sure that we are prudently focused on where we're, what we're doing, how we're investing in our businesses, how we're investing in our capital, like, Tom talked about our capital deployment, but – and so – and what we're also doing relative to our expense structure, we talked in the first quarter about looking at expenses. So, committed to the strategy, but really important that we take a fresh look across the board to make sure that we're focused on profitable businesses. We're focused on our expense structure. We're focused on deploying capital appropriately. Anything you'll add?

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

A

Yeah. I mean, for both cash generation and liquidity remain very strong, right, as we think about the business. And that's a real enabler for the strategy and will be for the next multiple years. On liquidity, we just actually completed a very successful debt transaction. Both S&P and Moody's reaffirmed both our ratings and our outlook. And when we launched that transaction, we were about 4 times oversubscribed at its peak, which actually allowed us to pull in some of the pricing on that. So we're just very pleased with the execution on that transaction. That said, leverage is higher than normal. It's – we have a demonstrated ability though to de-lever. We proved that after the Aetna acquisition, and in 2025, restoration of some of the margin in the Medicare Advantage business will go a long way towards driving down that leverage, and we feel we have a very strong ability to drive that leverage below 4 times, which is really what we kind of where we would like to be at the low 4 times on a sustained basis, will be slightly above that this year and that's okay.

As long as, like, we can go up for a period of time, as long as we're committed to and driving it back down, which is what we're going to do. As you think about deploying cash, the priorities really haven't changed. So first and foremost, we invest in organic growth. You know, we've had capital expenditures that are approaching almost $3 billion this year. Those are all investments in our infrastructure, in our stores, in our technology. You know, things of that nature that are going to help drive customer experience, help drive growth. And then some of the investments that we make on the insurance company side are risk-based capital investments to support growth in the business. And we've had a great success in growing the top line this year at Aetna.

Then we have a very attractive dividend. And both management and the board recognize its importance to shareholders and are committed to that. As we evaluate our remaining capacity then we have looked to repurchase shares. We did share repurchase in the first quarter of this year. You know, that was really to help offset some of the annualization of the acquisition interest expense. But, we want to continue to deploy capital to drive EPS growth, and we believe we'll continue to have opportunities to do that once we are closer to our leverage targets.

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

Q

Got you. With respect to the broader corporate strategy and kind of the Oak Street is the element of that strategy, one question would be how fast do you need to support the risk taking clinics to make it effective as an integration with the Aetna products and maybe to absorb some of the expenses out of the retail side of the business. So trying to understand in order to deploy your strategy, obviously, there's the opportunistic side of like, oh, I'd like to grow this business that potentially has really attractive long-term growth business, but how much do you need to grow that to get some of the other synergies across the businesses?

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

A

Yeah. I think you said it right, Lance. You look at kind of the ability to take that Health Services part of our company and that is a longer term growth prospects. And that's really why we see longer term value with Oak Street and Signify. I would just comment on a couple of things here relative to Oak Street. First and foremost, we acquired Oak Street. We tripled our Aetna membership. And I think that is a testament to kind of that integrated flywheel that we have. We have continued to grow some of the clinics.

What I would say the Oak Street clinics that are kind of the older clinics are doing quite well, and they're hitting – the performance of Oak Street is in line with our expectations. And so, we'll continue to take that approach to take a measured approach to growing the clinics to support the growth of our own Aetna members. So these members are multi-payor. And we have the opportunity to really drive value not only for our company but for other companies as well.

Signify Health, as you know, as we said in the quarter, had the most number of IHE that they ever had in the quarter. So it is a true testament. And what we're seeing is we're seeing that integrated flywheel and the value of the integration where Signify is referring to Oak Street, where in our pharmacies people are visiting our pharmacies, we're referring them to Oak Street. We're seeing more Aetna members in Oak Street. So you are seeing sort of effective flywheel. And like I said, Oak Street is performing and I do think we bought those assets for the long-term growth trajectory of our company.

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

Q

Got it.

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

A

[indiscernible] (00:21:54) want to add anything else to that?

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

A

No. I mean, clinic expansions, it's an important just driver of growth rate over the long term. And we're committed to continuing to expand that footprint. As you think about the Oak model, right, when you open the clinic, you have losses over the course of the first couple of years. That's the J-curve that they talked about before it reaches profitability and then starts to expand. And some of that is you're building your patient panels in the early years, you have to understand their health needs, develop a care plan, give those time to mature those results come through in the medical costs.

But it's that initial build and that lag on when you can start to make a difference in the health outcomes that really drives that J-curve. But even in 2023, with the MA utilization pressures that we saw broadly, as you think about that [indiscernible] (00:22:51) clinic margin, that contribution margin that Oak Street used to talk about, about 40% of clinics were actually profitable with that line. And we think that, that will despite v28 and other headwinds, that will probably be more like 50% as we think about 2024. And part of that is about where our curves – where are the clinics in the maturation path, we think that there'll be progress again. But that 10%, as you think about where some of those older clinics are and there were less clinics than they would have been in the last couple of years, and that's where you get about a 10% bump there.

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There's been a lot of inquiries based on some recent press reports on the Oak Street. I just – let me reiterate, I think we've said it two or three times already, like first quarter performance at Oak Street was in line with our expectations. But since the time of the acquisition, we've been very clear that we might explore some sort of alternative financing mechanism to think about the growth there. You know, that's our job as management to continually try to think about how do we balance short term versus long term in health care delivery and Oak are really important to the long-term growth of the business. And we're committed to executing on the strategy to improve care and deliver that value for shareholders that if it were to be a financing transaction, I think it's a function of how do we think about the near-term earnings pressure versus the higher cost of capital of doing something like that.

Clearly, some of our peers have chosen to finance that in different way. We're not sure whether or not that's the right answer for us or not. It's something that we continue to evaluate as we're evaluating everything relative to where we are and how we want to drive performance over the remainder of 2024 and into 2025 and beyond.

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

Q

Yeah.

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

A

Yeah. Lance, I would just say that our job is to make sure given sort of where we are to explore and look at everything in the company and that's what we're doing. The only other point I'd add on kind of a strategic use of [indiscernible] (00:25:02) pharmacies. We are building some Oak Street in our retail clinics, so pulling out the front store, putting Oak Street in some of pharmacies, we're piloting some of those things in Texas, and we're looking at different formats to use our real estate a little bit differently.

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

Q

Yeah. So those pilots, that's particularly interesting to me because again, like, as I think of your position and if I was trying to put myself in those positions, it seems like for some other populations you service like individual Medicaid employer that, that co-located clinic might be interesting. Are you seeing much appetite in either product design for individual or an employer, ASO employers interested in value-based care sort of capabilities with your Aetna add-on?

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

A

Yeah. Let me talk about that just [ph] because US (00:25:51) coming off of the Oak Street. I think there's opportunities for us with Oak Street. They're skilled at chronic conditions, right? And so if you think about the other populations at Aetna, the Medicaid business or the individual business or high cost, we can leverage that asset to support. So we're looking at that and seeing if there's opportunities there. [ph] We don't want to (00:26:13) pull too far away from their core capability, but they already do those kinds of things. So there's opportunities to reduce – you know, that will help reduce overall cost – your medical cost. So that exploration that is happening as well.

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

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Just one quick thing before we move on, this is part of the other bit of chatter, if we were to do a financing transaction at the Oak clinics, I want to make sure it's clear, it's not something that we need to do to achieve our goals for 2025. The guidance that we gave preliminary as it was didn't incorporate any upside from that type of a structure.

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

Q

Got you. That's very helpful to understand. And as you're thinking about maybe everything being on the table from a strategic perspective, obviously, you've got a broad collection of businesses, really strong market share in a number of those. Are there particular areas that investors ought to be thinking of that present opportunity either for you to exit, for you to structure in certain ways?

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

A

Yeah. I think that we just have to look at are there assets that aren't performing where we want? Obviously, looking at how we kind of can grow the businesses that are performing really well. And I think some of the things that we're already doing, like Cordavis is a relative example where we have the $100 billion market opportunity in biosimilars. We just demonstrated and proved that we can convert a market in one month more than last year. There is a big pipeline of opportunities coming in the biosimilar. So that's a good opportunities for kind of the longer term growth for our shareholders.

Obviously, we've taken actions in our retail pharmacy business at the end of this year, we'll have shut down 900 of them but while retaining 70% of the script volume, while retaining colleagues and then what we said strategically is looking at our expense structure across the entire portfolio and making sure that we're optimizing our expenses across the company. So those are just some of the things that we're looking at in addition to how do we just continue to capitalize our growth in our commercial business, growth in our Medicaid business, growth in our PBM business. Those are important elements of our long-term strategy.

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

A

Yeah. Let's just – yeah. As a reminder, we've done some of this as well in terms of portfolio management. We exited our international businesses, we sold Bswift. Right? There have been things that we have been doing to look at assets and it's a continuous process, and we're committed to continually evaluating all of the assets inside the portfolio and figuring out whether we need to accelerate growth or whether we're not the best owner for them or whether we need to partner them.

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

Q

Okay. Going back to Medicare Advantage, but more with an eye towards long term, how should investors think about the opportunities that business presents once it's kind of able to get to a run rate? So how do you look at sort of long-term margin targets for that business in the current environment, and what do you think are the growth prospects for that [ph] spec (00:29:47)? When you think, like, where do you think penetration maxes out and things like that?

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

A

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Yeah. So, in 2024, Medicare Advantage hit the 50% mark in sort of total Medicare, it's projected to get to 60% by 2030. So it's still a growth market given everything that's going on this year with PDP and the pricing, there's probably more opportunity to see growth in Medicare Advantage because as people look at the cost of PDP, the cost of [ph] bed staff (00:30:26) and the cost of pay for service this year, there's going to be some disruption, right, because of what you're going to see coming out with bids. And so there's probably additional growth in Medicare Advantage.

Medicare Advantage is an important product and it's a capability that will continue to grow over time. And it's important capability for us. That's why we brought a whole host of asset between Signify, Oak Street, our pharmacy business. Those all kind of wrap around a Medicare Advantage member. And what we've seen is when you wrap around services with members, they tend to be stickier. We tend to kind of grow more services with them. So it's a valuable market going forward. Now, it was disappointing this year with the way rates had turned out. But I do think we will be able to restore our margins, and we as a company at Aetna, we are always hitting those 4% to 5% kind of margin over a long period of time. And I'm confident that we can restore back to those levels. You want to add anything to that?

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

A

No. I mean, you asked about penetration. I think there's several services out there that suggest that by the end of the decade, or a little bit more that you could be in the 60s in penetration. We think that those are reasonable. That might mean that the growth in membership, 2025 [indiscernible] (00:31:54) flow from the high end [ph] or (00:31:56) the low end to high-single digits to the high end of mid-single digits. But that still means it's a very attractive business. And we believe that we can drive this business back towards that 4% to 5% margin target. And with that level of growth and that level of margin, that's a very attractive. And all the other services that we can wrap around members, we think that that's a very attractive business.

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

Q

Yeah. And maybe, again, you've got a lot of portfolio managers here in here as well. Could you talk a little bit about maybe some of the structural advantages you've got with the combination of assets [indiscernible] (00:32:32)? What extent does CVS brand and location help you with distribution of MA? And then what are the opportunities today versus in the future to further penetrate like Oak with an Aetna member, so maybe kind of where we are today and how – what are the most important [ph] mix (00:32:53) driving that equation going forward to you?

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

A

Yeah. What I would say is, first of all, CVS is one of the most trusted brands in healthcare today. So that kind of gives us that brand advantage. You know, 5 million people walk into our stores every day, so one subset of those are seniors. So that gives us an opportunity to interact with people. They're using our pharmacy, so our pharmacist can react – talk to them about the importance of Oak Street or even home visits with Signify. We were underpenetrated with our Aetna membership into Oak, into Signify. We've seen, as I said earlier, tripling of that membership. There's more opportunity there. And as we constructed our bid, as we thought about our bid next year, there's more opportunity to drive growth into Oak Street.

We, obviously, have been driving growth into Signify as well. So – and the other piece is CVS Pharmacy is the number one pharmacy driving medication adherence that helps us with stars. So you could see sort of that kind of

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overall flywheel get better star performance. You have better adherence to your meds. You've got a holistic approach in care delivery through Oak Street, through Signify returning them to the care that they need. What does that mean? That means lower overall medical cost will improve retention of those Medicare Advantage members over time will grow because we have a different and unique assets that we can bring to our Medicare Advantage members. So I think we have to think about it kind of that whole flywheel and get economic advantage of having that member. And we've seen [indiscernible] (00:34:49) lifetime value is substantial when we get that member into our portfolio of assets.

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.
A

But it's not just the Medicare business, right?

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

Right.

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.
A

So...

[indiscernible] (00:35:01)

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.
A

...the other one that I think is worth highlighting is just the individual business. So it's our first co-branded CVS Aetna product. It's got over 1.7 million members in it today and growing. And it's some of the things that we've been able to do, like, are – I think, really helpful relative to that ecosystem. There's two that come to mind for me. The first is that penetration of that book, how often does that book use the CVS Pharmacy? It's almost 50% of the time. Right. And so we have an insurance product, which is on a path to profitability to be profitable this year, right. It is on that path and trajectory as of the first quarter and inside our guidance, and it's driving volume into the stores, which we think is a real positive.

We also have a – I think it's a no-cost benefit in MinuteClinic. And what we found is that those individuals who use the MinuteClinic twice as often as other folks do, and that's a very high-quality, low-cost interaction that helps to drive costs out of the system. And we can also use and have been using our Signify assets to do income evaluations on individuals that helps with revenue capture. But it also helps with return to care, so we can understand what the diagnoses are for these individuals and make sure that they are getting the care that they need, helping us with both, as I said, the revenue side but also just the medical management side.

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

Yeah. Let me ask a little bit on the PBM and on the specialty pharmacy side, and if you could comment a little bit about – obviously, we talked a bit about biosimilar opportunity, but if you could maybe for the audience give a little description of the specialty pharmacy capabilities you have, and maybe the magnitude of that portion of the business. And then if you could talk about GLP-1 opportunities, any sort of trends and coverage you're seeing with GLP-1?

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

Yeah. I'll start with the GLP-1s. Obviously, it's an important new medication, albeit incredibly expensive, and it is the number one topic that we have when we talk to our [indiscernible] (00:37:22) our customers and it is driving substantial trend. And so one of the things that we're doing is, obviously, our PBM has the ability to lower overall costs there through their contracting. We've also have kind of medical management capabilities that we've put in place. And so as we speak about GLP-1 is an important driver, but we're really working very closely on how do we lower the overall cost, how do we make sure that the people that need it are getting it and, obviously, there's been some shortages and we're working with the manufacturers to make sure that there's availability of it.

On the specialty pharmacy, we are the number one specialty pharmacy company in the US. We have been – that business performs very well. It has demonstrated its ability to lower overall pharmacy costs. We've been using technology to enhance its capabilities and its efficiency and effectiveness. And it's part of the reason that we drove the performance of the biosimilar market given the capabilities and the teams in that business.

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

Got you. And I think that's really helpful framing for that. Coming out of Investor Day in December, I would say the top question or the top topic I was getting from investors is really related to the new retail pricing model. And so you made comments earlier that Caremark definitely will be...

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

Yeah.

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

...contracted with this.

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

Better be.

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

That's awesome. But, I guess, it'd be interesting to understand both, what's the market reaction and like the outlook for the other major PBMs and then what's the approach? Because again, it seems like a very rational approach you're [ph] taking (00:39:25) to me, the signaling associated with the approach, it seems like it's being taken up by others in the market, which I think is an important aspect of this. But maybe what is the rollout path look like and maybe just [indiscernible] (00:39:37) at this stage and how much does that matter for you?

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

Yeah. I think if I step back and look at the pharmacy industry at large...

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

Q

Yeah.

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

A

...we have seen pharmacy reimbursement pressures for years and years and years, right? We sit up here and we talk about we're doing lower cost of goods, increasing script share and lower expenses. And what we said was the definition [ph] today (00:40:04) is that we keep doing the same thing, getting exactly the results. So, we came up with a new innovative approach to really address the market. We've seen one of our competitors basically fall by the wayside and go into bankruptcy.

So there's a lot of turbulence going on. So we decided that we had to do something different and innovate to address this market, which is what [ph] CostVantage (00:40:33) puts down sort of the reimbursement pressures that we're having. The conversations that we've had have been very constructive. There's a lot of interest. But as I said earlier, those conversations and those contracts don't happen until the latter half of the year. But we do expect to see movement for 2025. And Caremark will, obviously, be the first one.

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

Q

Got you.

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

A

[indiscernible] (00:40:58) anything to add there? No.

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

A

No.

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

Q

And then one other aspect on retail has been the potential for greater use of online pharmacy [ph] or (00:41:12) centralized pharmacy. And you guys are positioned with your collection of assets and you actually frequently talked about things as they are not just in the store but also in the home and I think in the palm of your hand [indiscernible] (00:41:28), what are you doing with respect to sort of digital pharmacy and either direct home delivery, or how do you look at maybe drive-thrus and things like that diversifying away from the kind of physical retail pharmacy?

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

A

Yeah. We've done a number of things. Obviously, we now have – when we first started this journey, we didn't have very many digital customers. We now have 55 million digital customers which people would [indiscernible] (00:42:00) 55 million digital customers to interact with. So there's a lot we've done to upgrade our digital capabilities and there's a lot more we are doing to upgrade those capabilities. We do deliver in the home. We've been delivering in the home for a very long time. We're also using artificial intelligence and machine learning in

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our pharmacies to really do workforce optimization so that we are supporting our pharmacists. And when – before it used to be one store with one store, now we can look at [indiscernible] (00:42:36) like pharmacist can help other stores to clean their inventory out.

So we've been using that dynamic workload balancing using artificial intelligence. We've been using AI to change the way our call centers work. For example, we now have the ability to use AI to script the call after it's done so that we have that capability so no one has to write. So we're doing a lot using technology to support kind of the pharmacies and those brick and mortar. So we have delivery, we have online capabilities, but sometimes there is that need to go to a location to pick up your drug because you go to the emergency room and you need it immediately and you can't wait for a delivery. So there's a place and time for brick and mortar. There's a place and time for digital. And there is a place and time for other kind of technologies that we're looking at all those things.

Thomas F. Cowhey A
Executive Vice President & Chief Financial Officer, CVS Health Corp.

As you think about that interaction in the store, one of the things that we have done that's been extremely successful is our air support launch.

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

Yeah.

Thomas F. Cowhey A
Executive Vice President & Chief Financial Officer, CVS Health Corp.

And so part of what that allows pharmacies to do is to actually have other members in the network, usually in that local geography, do a lot of backend work on the prescriptions so they can spend that time with the customer at the counter and not come back to a backlog. And that's really – launched that in the majority of our stores at this point with a plan to continue to roll that out. And the impact is a bit noticeable. It's really – it's a great help for both the pharmacists, but I think it's also driving some of our customer satisfaction.

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

We have the highest NPS scores in our stores than we've ever had before. And [ph] as you think (00:44:31) sort of all this technology and support.

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

That makes a lot of sense. One question we've got came in, passing condolences on the death of the founder...

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

Oh. Thank you.

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

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...Stanley Goldstein. And I think this is probably a [ph] PM (00:44:47) type of question, asking for your view on your competitiveness by segment and seeing that is like historically a CVS strength. And so just asking kind of just to provide the audience a view as to how you perceive your role in each of the four major business in healthcare.

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

Yeah. I think I will start with the retail pharmacy. I think [indiscernible] (00:45:13) the landscape of retail pharmacies, I think we're well positioned there and very competitive. We've been doing a number of things that we just talked about to support our pharmacies. We've been – and you could see that in our increase in scripts and growing share. In our PBM business, I think we're well positioned there. We have strong competition – kind of strong competitiveness with our specialty business, with what we're doing with biosimilars. That is [indiscernible] (00:45:48) and with TrueCost. Those three things are resonating in the marketplace.

We just had a customer forum. We got lots of good feedback, a lot of good interaction. More to come on sort of growth there. But we feel really good about the growth in that business. And then if we look at Aetna, we've been growing our commercial business. So I think that speaks well to the competitiveness. Obviously, Medicaid, it's an important business. We've won some new business there, but I think there's more we can do in our Medicaid business, and then Medicare Advantage, we've talked a lot about and we're repositioning for 2025.

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

Got you. Last question I got to see up here, and this is frequently, PBM policy, PBM regulatory environment would be like the first question we'd ask.

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

Yeah.

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

And it would be great if it was that, but as the last question, maybe historically done a little more negative on PBMs...

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

Really?

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

...deep in my heart. Like, I've got more – much more positive on this outlook on a valuation and adjusted sort of basis. It does seem like a lot of policy folks I talk with, just potential for lame-duck session policy. It might be like transparency, PBM policy [indiscernible] (00:47:12) in your perspectives, what the policy outlook is for PBMs you seem enormously well connected there?

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

A

Yeah. I would say it is difficult to get alignment and bipartisan support on the specifics relative to PBM. So I'll just start there. I think if anything happens, it'll be on transparency. But you have seen time and time again that there's been some challenges. But I would say that we are very well positioned because we are on the forefront of leading change in the PBM model. And I think that is what critically important for us as we go talk to our congressmen and senators in Washington. That is the conversation that we lead with that we're leading transparency through our [indiscernible] (00:48:08) model, that we are driving lower cost.

We can show how we [indiscernible] (00:48:14) have been able to keep trends, pharmacy trends relatively stable, that puts us in a position, really demonstrate that we're doing what they're asking to do before they actually [ph] discuss (00:48:28) to do it. And that's what we want to be and because my view is we are the leading PBM, leading pharmacy. If it's anyone that's should and could be doing, it should be us and we're well on our way to do that through cost management through TrueCost. And it's resonating with them. When we go and explain it, they're like, oh, okay, I get it.

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

Q

The TrueCost model is a very innovative and positive step towards [indiscernible] (00:48:53).

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

A

Thank you.

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

Well, I appreciate your time. And we have a minute left and there's no way I can sneak in one more question [indiscernible] (00:49:03). So I'll let you get to your series of meetings. But thanks so much for coming.

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

Thanks, Lance.

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

Always a pleasure.

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

Appreciate it.

Thomas F. Cowhey
Executive Vice President & Chief Financial Officer, CVS Health Corp.

Thanks, everybody.

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Karen S. Lynch

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

Thank you.

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