CVS Health Corporation (the "Company") uses non-GAAP financial measures to analyze underlying business performance and trends. The Company believes that providing these non-GAAP financial measures enhances the Company's and investors' ability to compare the Company's past financial performance with its current performance. These non-GAAP financial measures are provided as supplemental information to the financial measures the Company discloses that are calculated and presented in accordance with GAAP. Non-GAAP financial measures should not be considered a substitute for, or superior to, financial measures determined or calculated in accordance with GAAP. The Company's definitions of its non-GAAP financial measures may not be comparable to similarly titled measurements reported by other companies.

Non-GAAP financial measures such as consolidated adjusted operating income, adjusted earnings per share ("EPS") and adjusted income attributable to CVS Health exclude from the relevant GAAP metrics, as applicable: amortization of intangible assets, net realized capital gains or losses and other items, if any, that neither relate to the ordinary course of the Company's business nor reflect the Company's underlying business performance. The Company may, from time to time, refer to projected non-GAAP financial measures for future periods in its discussions of its results for the third quarter of 2024. The Company believes that a quantitative reconciliation of these projected non-GAAP financial measures cannot be presented at this time without unreasonable efforts due to the unpredictability and uncertainty of the amounts and timing of events affecting the items that are excluded from these projected non-GAAP financial measures. Material changes to any one of the items could result in a significant adjustment from these projected non-GAAP financial measures.

LEVERAGE RATIO CALCULATION

The Company defines Leverage Ratio as Adjusted Net Debt divided by adjusted earnings before interest, tax, depreciation and amortization (Adjusted EBITDA). Adjusted Net Debt is defined as short-term debt and total long-term debt, including the current portion of long-term debt (GAAP measure), plus the current and long-term portion of operating lease liabilities (GAAP measure) reported on the Company's unaudited condensed consolidated balance sheets, plus the present value of payments related to agreements to resolve substantially all opioid claims against the Company (the "opioid litigation liabilities"), less cash and cash equivalents held by the parent company or nonrestricted subsidiaries. Adjusted EBITDA is defined as the trailing twelve months of (i) net income (GAAP measure) plus income taxes, interest, depreciation and amortization plus (ii) operating lease costs, and (iii) other items, if any, that neither relate to the ordinary course of the Company's business nor reflect the Company's underlying business performance such as acquisition-related transaction and integration costs, restructuring charges, office real estate optimization charges, opioid litigation charges, losses on assets held for sale and any other items specifically identified herein. The following are reconciliations of total debt to Adjusted Net Debt and net income to Adjusted EBITDA as well as a calculation of Adjusted Net Debt to Adjusted EBITDA as of September 30, 2024 and December 31, 2023:

Adjusted Net Debt-to-EBITDA

Adjusted Net Debt

	As of	
In millions	**September 30, 2024**	December 31, 2023
Total debt (GAAP Measure) [1]	**$ 65,534**	$ 61,610
Operating lease liabilities (GAAP Measure) [2]	**17,170**	17,775
Opioid litigation liabilities [3]	**2,975**	3,198
Less: Cash & cash equivalents held by the parent company or nonrestricted subsidiaries	**(1,156)**	(735)
Adjusted Net Debt	**$ 84,523**	$ 81,848

Adjusted EBITDA

In millions	Trailing Twelve Months Ended **September 30, 2024**	December 31, 2023
Net income (GAAP Measure)	**$ 5,010**	$ 8,368
Income tax provision	**1,717**	2,805
Interest expense	**2,890**	2,658
Depreciation and amortization	**4,584**	4,366
EBITDA	**14,201**	18,197
Operating lease cost [4]	**2,465**	2,532
Acquisition-related transaction and integration costs [5]	**396**	487
Restructuring charges [6]	**1,169**	507
Office real estate optimization charges [7]	**17**	46
Opioid litigation charge [8]	**100**	—
Loss on assets held for sale [9]	**—**	349
Adjusted EBITDA	**$ 18,348**	$ 22,118

Adjusted Net Debt-to-EBITDA

In millions (except leverage ratio)	As of **September 30, 2024**	December 31, 2023
Adjusted Net Debt	**$ 84,523**	$ 81,848
Adjusted EBITDA	**$ 18,348**	$ 22,118
Adjusted Net Debt-to-EBITDA	**~4.61x**	~3.70x

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. By their nature, all forward-looking statements are not guarantees of future performance or results and are subject to risks and uncertainties that are difficult to predict and/or quantify. Actual results may differ materially from those contemplated by the forward-looking statements due to the risks and uncertainties described in our Securities and Exchange Commission ("SEC") filings, including those set forth in the Risk Factors section and under the heading "Cautionary Statement Concerning Forward-Looking Statements" in our most recently filed Annual Report on Form 10-K, our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2024 and our Current Reports on Form 8-K.

You are cautioned not to place undue reliance on the Company's forward-looking statements. The Company's forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements. The Company does not assume any duty to update or revise forward-looking statements, whether as a result of new information, future events, uncertainties or otherwise.

Endnotes

(1) Represents short-term debt and total long-term debt as of September 30, 2024 and December 31, 2023.

(2) Represents the current and long-term portion of operating lease liabilities reported on the Company's unaudited condensed consolidated balance sheets as of September 30, 2024 and December 31, 2023.

(3) Represents the net present value of payments related to agreements to resolve substantially all opioid claims against the Company by certain states and governmental entities as of September 30, 2024 and December 31, 2023.

(4) Represents operating lease cost for the trailing twelve-month periods ended September 30, 2024 and December 31, 2023, respectively.

(5) The acquisition-related transaction and integration costs relate to the acquisitions of Signify Health, Inc. (“Signify Health”) and Oak Street Health, Inc. (“Oak Street Health”).

(6) During 2024, the restructuring charges are primarily comprised of a store impairment charge, corporate workforce optimization costs, including severance and employee-related costs, and other asset impairment and related charges associated with the discontinuation of certain non-core assets. During the third quarter of 2024, the Company finalized an enterprise-wide restructuring plan intended to streamline and simplify the organization, improve efficiency and reduce costs. In connection with this restructuring plan, the Company completed a strategic review of its retail business and determined that it plans to close additional retail stores in 2025, and, accordingly, it recorded a store impairment charge to write down the associated operating lease right-of-use assets and property and equipment. In addition, during the third quarter of 2024, the Company also conducted a review of its various strategic assets and determined that it would discontinue the use of certain non-core assets, at which time impairment losses were recorded to write down the carrying value of these assets to the Company’s best estimate of their fair value. During 2023, the restructuring charges are primarily comprised of severance and employee-related costs, asset impairment charges and a stock-based compensation charge.

(7) The office real estate optimization charges primarily relate to the abandonment of leased real estate and the related right-of-use assets and property and equipment in connection with the Company’s continuous evaluation of corporate office real estate space in response to its ongoing flexible work arrangement.

(8) The opioid litigation charge relates to a change in the Company’s accrual related to ongoing opioid litigation matters.

(9) The loss on assets held for sale relates to the long-term care (“LTC”) reporting unit within the Pharmacy & Consumer Wellness segment. During 2022, the Company determined that its LTC business was no longer a strategic asset and committed to a plan to sell it, at which time the LTC business met the criteria for held-for-sale accounting and its net assets were accounted for as assets held for sale. During the first quarter of 2023, a loss on assets held for sale was recorded to write down the carrying value of the LTC business to the Company’s best estimate of the ultimate selling price which reflected its estimated fair value less costs to sell. As of the third quarter of 2023, the Company determined the LTC business no longer met the criteria for held-for-sale accounting and accordingly the net assets associated with the LTC business were reclassified to held and used at their respective fair values.