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CVS Health Corp. (CVS)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Laurence F. McGrath

Executive Vice President, Chief Strategy Officer and Chief Strategic Advisor to the CEO

NON-GAAP FINANCIAL MEASURES.....

- During this call, we'll use non-GAAP measures when talking about the company's financial performance and financial condition
- And you can find a reconciliation of these non-GAAP measures in this morning's press release and in the reconciliation document posted to the Investor Relations portion of our website

J. David Joyner

President, Chief Executive Officer & Director

BUSINESS HIGHLIGHTS.....

Opening Remarks

- We are pleased to report another consecutive quarter of solid results as we execute against our ambition of becoming America's most trusted health care company
- In Q2, we delivered adjusted operating income of \$3.8B and adjusted EPS of \$1.81
- We again increased our full year 2025 adjusted EPS guidance to a range of \$6.30 to \$6.40, up from our previous range of \$6 to \$6.20
- Our strong results and updated expectations reflect the power of our diversified business
- We are seeing the impact of our intense focus on the execution within our Aetna and Pharmacy businesses, while managing incremental pressure in Health Care Delivery
- We are encouraged by our enterprise performance and revised outlook, especially in this very dynamic environment
- At the same time, we continue to maintain a prudent and respectful outlook for the remainder of the year, with clear opportunities for outperformance
- Brian will provide specifics later in the call
- As we focus on delivering against our financial commitments to you, we are also taking on the largest challenges in health care, affordability, access and inconsistent care coordination
- The breadth of these problems means that they can't be addressed with a fragmented piecemeal approach
- Instead, it requires holistic solutions implemented by companies with the necessary reach, capabilities and focus to execute on them

CVS

- CVS holds a unique position in health care with our diverse and scaled businesses, our national footprint of community health destinations and the deep connections we have with more than 185mm consumers
- We have unmatched reach and powerful insights that drive our innovation and differentiated solutions
- Tackling these challenges requires that each of our businesses be best-in-class

Aetna Business

- I'm pleased to report that we are making meaningful progress in the Aetna business
- Our recovery has been a top priority
- We realigned the organization and strengthened our talent with a clear focus on creating distinction in the marketplace
- We enhanced our operations using technology to automate and streamline processes that improve service and reduce friction for our members and health care professionals
- We're starting to see the results of these efforts, delivering better experiences while also allowing us to better navigate this elevated utilization environment
- But our work is not done
- As we look ahead, we will maintain this intense focus, continuing to diligently execute against our margin recovery plan

Health Care Delivery Business

- While we are pleased with the improvements we are seeing at Aetna, we continue to see pressure in our Health Care Delivery business, driven by higher medical benefit ratios at Oak Street
- This is partially offset by continued positive performance at Signify Health
- Value-based care remains a critical component for our Medicare Advantage strategy as we know that it delivers better clinical outcomes, better patient experiences and a lower total cost of care
- We are working with urgency to further strengthen this business and ensure seniors can benefit from this industry-leading model
- This includes improving operations through investments in technology, enhancing leadership with talent from across CVS Health and improving our partnerships with our payer clients
- We know that Oak Street capabilities are best-in-class and are taking the right actions to improve performance

Pharmacy Businesses

- Let me turn now to our Pharmacy businesses
- At Caremark, we are delivering on our commitments to clients and members by doing what PBMs do best, adapting to client needs, driving down drug costs, and helping to deliver better access and outcomes
- Managing trend remains the most important focus for our customers as they try to balance the benefit of new drug innovations and their higher cost
- Our PBM is saving consumers and clients billions of dollars a year on drug costs, but we must continue to innovate and drive more savings
- For example, our clients needed a solution as they experienced the impact of the rapid growth in the use of GLP-1s

SPEND

- Spend in this category for our employer clients has nearly doubled over the last two years and now represent 15% of their pharmacy costs
- On July 1, we took a significant step to create competition among manufacturers to lower cost in this drug category

- We used our unique capabilities to minimize friction, resulting in over 95% of the eligible members adopting a preferred formulary weight loss product
- However, we know drug therapy alone is not enough to achieve the best outcomes

WEIGHT MANAGEMENT PROGRAM

- To address this, we offer a powerful weight management program that empowers patients to achieve greater weight loss than drug therapy alone
- Importantly, our program participants, on average, achieved double-digit percent weight loss at 12 months, regardless of the drug they use

INNOVATION

- Our innovation, reach, and clinical capabilities differentiate us in the PBM marketplace
- We're having a strong start to the 2026 selling season, with retention expected to be in the high-90s
- Our approach and commitment to lowering cost is also leading to new wins with the most sophisticated clients
- For example, in our new business win with CalPERS, they specifically highlighted our commitment to delivering more affordable drug benefits and our performance-based model that emphasizes managing pharmacy cost and ensuring clinical quality

Retail Pharmacy Business

- In our retail pharmacy business, we are working tirelessly to be the source of stability as we ensure the communities we serve across America maintain access to their medications
- PCW delivered another strong quarter, despite persistent reimbursement pressures
- Our performance is a direct result of our ability to anticipate market dynamics and take the right actions to lead the industry
- We made deliberate investments in technology and our colleagues to strengthen our operations, deliver best-in-class service, and ensure we are the employer of choice in the pharmacy market

Front Store Business

- Our front store business continues to improve as we grow our customer base and gain retail share
- We continue to have best-in-class generic drug purchasing through Red Oak, and we share those savings with our payer partners through our CVS CostVantage model
- Under this new model, we are fairly reimbursed for every script we dispense and the value we provide to our customers
- We are encouraged by the transition of our commercial scripts to CVS CostVantage, which continues to be in line with our expectations

PHARMACY REIMBURSEMENT MODEL

- We're making good progress on the next stage of evolving the pharmacy reimbursement model as we transition our government business to cost-based pricing models for 2026
- This quarter, we made a number of important announcements as we strive towards our goal of improving the health care experience in America
- Last month, we announced our pledge with CMS to streamline, simplify, and reduce unnecessary complexities in health care

PRIOR AUTHORIZATION

- We've taken a leading role in the industry's initiative to improve prior authorization and deliver a better experience for providers and patients
- But we're not stopping there
- We've taken steps to make the prior authorization process simpler for patients undergoing cancer care
- We are bundling multiple requests into one upfront approval, eliminating unnecessary complexity
- The response to this initiative has been encouraging, and we're working hard to expand the program to additional therapeutic areas

Transformation

- We also recently announced that over the next decade, we committed \$20B to support our transformation of health care
- We will deliver a better health care experience with reduced friction, greater visibility, and a stronger partnership with doctors and hospitals
- By delivering on these ambitions, we'll enable providers to focus on patient care instead of administrative tasks
- Members will benefit from the clearer communication and simpler health care journeys
- We will develop new ways to connect the health care landscape so it works better for people
- We will use emerging technologies to innovate and drive the transformation of the health care experience of today, making it unrecognizable in 10 years
- Our investments will allow us to drive change at scale and will empower consumers with the right information to engage on their terms
- We look forward to sharing additional updates and innovations in the near future

CLOSING REMARKS

- We are building momentum as we navigate what continues to be a dynamic and evolving environment
- We're strengthening our position as we execute against our strategic priorities and deliver solid results
- We remain focused on building trust and are setting expectations that are appropriate and achievable and continue to focus on areas where we can drive outperformance

Brian O. Newman

Executive Vice President & Chief Financial Officer

FINANCIAL HIGHLIGHTS

Opening Remarks

- I want to start off by saying how excited I am to be part of CVS Health and this leadership team
- I joined CVS Health because I truly believe in the meaningful impact we can have on improving health care in this country
- Our scale and deep consumer touch points uniquely position us to deliver a differentiated experience
- After my first couple of months, my belief in our enterprise mission has been consistently reaffirmed
- I am looking forward to meeting many of you over the course of the next few months and sharing updates about our progress

- In my prepared remarks this morning, I will cover three primary areas
 - First, I will provide an update on our second quarter results
 - Next, I'll discuss cash flow and the balance sheet
 - And finally, I'll wrap up with our financial outlook for the remainder of the year
- CVS Health successfully navigated another dynamic quarter, driven by the strength of our execution

Enterprise Performance

- Let me provide some highlights on our enterprise performance
- Second quarter revenues of nearly \$99B increased approximately 8% over the prior year quarter, driven by revenue growth across all segments
- We delivered adjusted operating income of approximately \$3.8B during the quarter, an increase of nearly 2% from the prior year quarter, driven by increases in our Health Care Benefits and Pharmacy & Consumer Wellness segments, partially offset by a decline in our Health Services segment
- Second quarter adjusted EPS of \$1.81 was relatively consistent with the prior year quarter
- Finally, we generated YTD cash flow from operations of approximately \$6.5B.

Health Care Benefits

REVENUE

- Turning now to each of our segments
- In Health Care Benefits, we generated over \$36B of revenue in the quarter, an increase of over 11% from the prior year, primarily driven by increases in our government businesses, largely related to the impact of the Inflation Reduction Act on the Medicare Part D program
- Medical membership of approximately 26.7mm as of the end of the quarter decreased by approximately 350,000 members sequentially, primarily driven by the previously discussed declines in our individual exchange product early in Q2

ADJUSTED OPERATING INCOME

- Adjusted operating income in the quarter was approximately \$1.3B, an increase of nearly 40% from the prior year quarter, driven by the favorable y-over-y impact of changes to our individual exchange risk adjustment estimates, improved underlying performance in our government businesses and higher favorable prior period development
- These increases were partially offset by a premium deficiency reserve in our Group Medicare Advantage business of approximately \$470mm

Group MA Business

- Trends in our Group MA business remained elevated during the quarter, and were modestly higher than our expectations
- This resulted in a revision of our estimate for trends for the remainder of the 2025 plan year, triggering a PDR.
- As we've previously discussed, Group MA contracts tend to be multiyear agreements and reprice less frequently than our individual MA business
- We expect to make progress on margin recovery in our Group MA book over the next few years as contracts come due for renewal, including the opportunity to reprice approximately half of our Group MA revenue in 2026

MEDICAL BENEFIT RATIO

- Our medical benefit ratio during the quarter was 89.9%, an increase of 30BPS from the prior year
- This increase primarily reflects a 140 basis point impact from the Group MA PDR, largely offset by the favorable y-over-y impact of changes in our individual exchange risk adjustment estimates
- During the quarter, we received final 2024 risk adjustment data for our individual exchange business
- As a result, we decreased our risk adjustment payable for the 2024 plan year by approximately \$300mm
- We experienced favorable development across all lines of business during the quarter, predominantly related to fourth quarter 2024 and first quarter 2025 dates of service
- When the favorable prior year development is combined with the favorable risk adjustment, it largely offsets the impact of the Group MA PDR within the quarter

Medicare Business

- In our Medicare business, while trends remained elevated, performance in the quarter was modestly ahead of expectations
- This outperformance was again primarily in our individual Medicare Advantage business, driven by favorability within our supplemental benefit offerings and Part D
- We continue to remain cautious on the outlook for Part D until we have additional experience, given the substantial changes in plan liability in 2025

Aetna Lines of Business

- Across our other Aetna lines of business, results were broadly in line with our expectations
- There were no changes to the expectations embedded in the PDR we recorded last quarter related to our individual exchange business, although we continue to closely monitor emerging cost trends in this book
- Days claims payable at the end of the quarter was approximately 40.9 days, down approximately two days sequentially, primarily driven by a higher mix of pharmacy costs, partially offset by the impact of the Group MA premium deficiency reserve recorded in the quarter
- We remain confident in the adequacy of our reserves

Health Services Segment

REVENUES AND ADJUSTED OPERATING INCOME

- Shifting now to our Health Services segment, during the quarter, we generated revenues of over \$46B, an increase of over 10% y-over-y
- This increase was primarily driven by pharmacy drug mix and brand inflation, partially offset by continued pharmacy client price improvements
- Adjusted operating income in the quarter of approximately \$1.6B decreased approximately 18% from the prior year quarter, primarily driven by continued pharmacy client price improvements and the impact of a higher medical benefit ratio within our Health Care Delivery business, partially offset by improved purchasing economics and pharmacy drug mix

Pharmacy Services Business

- As we discussed last quarter, results in our Pharmacy Services business can see material fluctuations throughout the year

- In 2024, we saw strong performance in Q2, following a slow start to the year, which impacts the prior year comparison

Health Care Delivery Business

- In our Health Care Delivery business, total revenues in the quarter grew approximately 19% compared to the same quarter last year, excluding the impact of our exit from the ACO REACH program and the sale of our MSSP business earlier this year
- This increase was primarily driven by patient growth at Oak Street and increased volumes at Signify
- During the quarter, we continued to expand the number of patients served at Oak Street and ended the quarter with total at-risk membership up 31% from the same period last year
- Results in our Health Care Delivery business were pressured during the quarter, primarily due to a higher medical benefit ratio at Oak Street Health
- These pressures were partially offset by another quarter of solid performance in Signify, driven by continued strong volumes

Pharmacy & Consumer Wellness Segment

- Our Pharmacy & Consumer Wellness segment delivered another strong quarter, as our focus on operational excellence and technological enhancements continues to enable us to deliver superior experiences for our customers
- During the quarter, we generated revenues of over \$33B, an increase of over 12% vs. the prior year quarter, and over 15% on a same-store basis
- These increases were primarily driven by pharmacy drug mix and increased prescription and front store volume, including some early impact from the acquisition of a portion of Rite Aid scripts, partially offset by continued pharmacy reimbursement pressure
- Retail pharmacy script share in the quarter grew to approximately 27.8%, an increase of approximately 60BPS from the same period last year

SAME-STORE PHARMACY SALES AND ADJUSTED OPERATING INCOME

- Same-store pharmacy sales in the quarter grew over 18% compared to the prior year and same-store prescription volumes increased over 6%
- Same-store front store sales increased over 3% vs. the prior year quarter, primarily driven by higher volumes as well as the timing of the Easter holiday, which contributed roughly 1 percentage point
- Adjusted operating income increased nearly 8% from the prior year to over \$1.3B, primarily driven by increased prescription and front store volume, partially offset by continued pharmacy reimbursement pressure

BALANCE SHEET.....

Cash Flow, Dividends and Leverage Ratio

- Turning now to cash flow and the balance sheet, we generated cash flows from operations of approximately \$6.5B in H1
- We have distributed approximately \$1.7B in dividends to our shareholders YTD, and we ended the quarter with approximately \$2.4B of cash at the parent and unrestricted subsidiaries
- While our leverage ratio remains above our long-term targets, it has improved meaningfully since year-end 2024, and we remain pleased by our progress

- We continue to expect our leverage ratio to return to more normalized levels as we maintain disciplined financial policies and make progress on margin recovery in the Aetna business
- CVS Health's strong cash flow generation has been an important strength for the enterprise, which I will look to build upon by seeking opportunities to drive greater efficiency in working capital
- As I step into this role, I will ensure that we maintain a disciplined and balanced approach to capital deployment
- This is critical as we continue to strengthen our balance sheet and make progress towards our leverage target

OUTLOOK

Adjusted EPS and Revenues

- Shifting now to our revised outlook for 2025
- We are increasing our full year 2025 guidance for adjusted EPS to a range of \$6.30 to \$6.40
- This update incorporates our second quarter performance, while maintaining a prudent outlook on medical cost trends and macro factors for the remainder of the year
- We now expect full year total revenues of at least \$391.5B, an increase of approximately \$9B, driven by increases across all segments

Health Care Benefits Segment

- In our Health Care Benefits segment, we now expect full year adjusted operating income of approximately \$2.42B, at the low end of our guidance range
- This reflects an increase of approximately \$500mm, primarily driven by the final 2024 risk adjustment update for our individual exchange business and the favorable impact of the prior year reserve development that we experienced in Q2
- We now project our full year 2025 medical benefit ratio at the low end of our Health Care Benefits adjusted operating income guidance range to be approximately 91%
- This guidance continues to reflect the deliberate actions we took to improve our operations in the Aetna business

MEDICAL COST TRENDS

- While medical cost trends remain elevated vs. historical periods, in aggregate, they are generally in line to slightly better than our expectations so far this year
- Given this elevated trend environment, we are maintaining a prudent view on medical cost trends through the remainder of the year
- The high end of our Health Care Benefits guidance reflects a 50 basis point improvement in medical cost trend over the remainder of the year, which is worth approximately \$0.10 in enterprise adjusted EPS.
- Our medical membership guidance remains unchanged

Health Services Segment

- In our Health Services segment, we now expect full year adjusted operating income of at least \$7.34B, a decrease of approximately \$200mm from our prior guidance
- This update is entirely driven by our Health Care Delivery business as a result of a higher medical benefit ratio at Oak Street

- Our clients continue to see the tremendous value proposition of our Pharmacy Services businesses, including Caremark
- The outlook for our Pharmacy Services business within our Health Services segment remains unchanged

Pharmacy & Consumer Wellness Segment

- Finally, in our Pharmacy & Consumer Wellness segment, we now expect full year adjusted operating income of at least \$5.68B, an increase of approximately \$200mm from our prior guidance
- This increase reflects our strong H1 performance, while continuing to maintain our prudent outlook for potential changes in vaccine market demand and the consumer environment
- We are pleased with our transition to CVS CostVantage, which continues to track in line with our expectations
- Altogether, we now expect full year enterprise adjusted operating income to be in a range of \$13.77B to \$13.94B
- We're also revising our expectations for full year cash flow from operations to at least \$7.5B
- You can find additional details on the components of our 2025 guidance on our Investor Relations website

CLOSING REMARKS

- Overall, we are encouraged by our performance
- For another consecutive quarter, we're delivering on our commitments and continue to demonstrate clear progress on our path to achieving the embedded earnings power of CVS Health
- I'm confident we will continue building on our momentum as we will aspire to become America's most trusted health care company while simultaneously generating value for you, our shareholders

QUESTION AND ANSWER SECTION

Lisa C. Gill

JPMorgan Securities LLC

Q

Obviously, Q2 strong performance and HCB up 40%, \$600mm beat on the core side, by our numbers. Underlying assumptions and visibility, when we think about how that looks post the quarter and the guidance that you've given, there's a lot of moving parts here. Can you maybe just talk about the level of visibility you have, what some of the underlying assumptions are, your level of conviction moving into the back half of the year?

J. David Joyner

President, Chief Executive Officer & Director

A

Before I turn it over to Brian, let me just make a couple of high-level comments about the Aetna business. One is, we know this has been one of the top priorities of the enterprise. It's been an enterprise focus on the multiyear recovery. And I'm really pleased with the progress to-date, and we'll share some color on the back half of the year as well.

One of the things I think is equally as important is the innovation that Aetna is driving. So while they're focusing on the recovery, they're equally focused on driving innovation, simplifying health care. You've seen this in the work we've done with the prior authorizations, with a bundled PA process as well as the new care path and technology that we're rolling out. So I'm really bullish on the progress that Aetna is making. And so, I'll turn it over to Brian to give some of the financial details, then I'm going to have Steve provide some color more broadly on the Aetna business. Brian?

Brian O. Newman

Executive Vice President & Chief Financial Officer

A

In terms of HCB, it was the second consecutive quarter of strong results. We saw our earnings grow by \$370mm y-over-y, so a good quarter. As David mentioned, encouraged by the performance across our HCB businesses.

The notable exception, Lisa, is our Group Medicare Advantage business, which continued to be pressured. The medical cost trends, I would say, across all lines of business remained elevated, but they were modestly favorable, in aggregate.

There were some impact in the quarter, though, from one-timers that I'd call out for you.

One, there was a favorable risk adjustment of about \$300mm related to 2024 plan year. Additionally, we had some favorable net PYD. Those two were largely offset – or largely offset the impact of our Group MA PDR, which came in at \$470mm. And if you strip out those underlying items, the HCB business beat by about \$0.5B in the quarter, which was strong performance.

The beat itself was primarily driven by Medicare, particularly from individual Medicare and the two components were Part D and supplementals. And then, I would just remind you as we're thinking about the back end of the year, Part D continues to track modestly ahead of expectations, but we're maintaining a cautious outlook until we have more experience given the changes in the plan liability from the IRA.

So, Steve, maybe I'll turn it over to you for some more color.

Steven H. Nelson

Executive Vice President and President, Aetna

A

So I'll provide maybe a few high-level comments about Aetna overall and then get into some specifics relative to the line of business, each line of business. Look, our priorities, as Brian stated, David said in his prepared remarks, remain absolutely unchanged. We're focused on returning Aetna to its target margins and, frankly, a leadership position in the industry. I'm really encouraged by the strong progress in the quarter and H1 in totality.

And while it's early, it's a multiyear journey here, and all respect to the environment that we're in, very, very encouraged how the quarter is playing out. There's many drivers of that progress, and maybe I'll highlight just a few. One is the Medicare business, which I'll come back to, as Brian mentioned. But also, we've significantly strengthened our operations and our fundamental capabilities, which allows us to have better insight into our trends and then actually be able to take action against those trends. So very happy with how we've improved the operations and just our fundamental capabilities.

And then, we have increased management rigor overall. We remain incredibly disciplined, whether it comes to pricing or just how we think about the business overall relative to our clear priority. And we've developed a culture of relentless execution and focus. And so that's all playing out nicely and really encouraged by those results.

I also am very proud of the management team and our colleagues. We've added – we've strengthened our management team. And I really appreciate how the leadership and our colleagues have come together and just really pouring everything they have into serving our members, partnering with the providers in increasingly innovative and distinctive ways, as David mentioned.

Relative to Medicare specifically, there's several key points I'd like to make that have contributed to the progress of that business and the year-to-year improvement. One is we have really strong Stars for payment year 2025. And that's a result of returning to a leadership position in Stars as our enterprise has focused on Stars and brought the unique and diverse set of capabilities to impact Stars. And so, that has contributed nicely to the y-over-y improvement and progress.

Also, the moves that we made, not only in the bids, but during AEP to rationalize the products and geographies. So, we had an optimal mix of membership, and that is playing out, again, nicely as we think about the moves we made during AEP. And then lastly, we've – I'm really pleased with the execution and the insights around trend, understanding it, and then mitigating it, honestly, to the extent that we can where we have opportunities to do that. And the PDP product, as Brian mentioned, is performing well in addition to that. So, individual Medicare business has shown a lot of progress and very encouraged by that.

The Group business, as Brian mentioned, we have seen pressure there. But as we approach 2026, the good news is half that business is up for renewal and we're taking very disciplined approach to renewing that business, and we're getting some traction there. And really, I see the entire Medicare business coming together and continuing the momentum through the back half of the year and into 2026 as we think about returning that business to target margin.

In terms of Medicaid, that business is also in line with our expectations. Despite the higher trend we see, it is in line with our expectations. And then, frankly, the execution around our rate advocacy has been really strong. We've seen good engagement with our state partners. And that's, again, tracking to our expectations, including the higher acuity that we've seen.

IFP, we've talked about, took a PDR earlier in the year, elevated trends, but that's incorporated in our outlook, but I just want to give you a quick update on the exit. So, as we wind down that business, that's going really well. We've had very positive conversations with our states. We've notified all our members. We continue to provide coverage for them, and we'll focus on that. But we're exiting that business, and that wind down is going really well.

And last, I'll just finish by saying our commercial business is strong. We've seen some really nice wins in our self-insured across public and labor, national accounts, and our Meritain business. Fully insured, we do see elevated trends. We saw that early. We took a disciplined pricing approach to that in 2025, which has pressured membership, but we're going to stay disciplined in our pricing approach to fully insured.

But overall, commercial business strong and it is a platform for innovation. And that's resonating really well with our very sophisticated and demanding clients, so really, really pleased with that. So, look, overall, it's early, lot of respects for the environment that we're in, but very encouraged about the progress, not just for the quarter, but the foundation that we're laying as we think about the back half of 2025 and also heading into 2026 and beyond.

Justin Lake*Wolfe Research LLC*

Q

Wanted to get your early view on 2026 headwinds and tailwinds. Specifically, your thoughts on expectations for continued improvement in MA margins post your putting in your 2026 bids, your thoughts on the sustainability of outperformance and share gains in the pharmacy business vs. your long-term expectation of mid-single-digit OI declines. And then lastly, potential for improvement in the value-based care business vs. current losses. Thanks.

J. David Joyner*President, Chief Executive Officer & Director*

A

Yeah. Justin, thanks for the question. I think we're early yet in terms of forecasting or giving guidance on 2026. So, at this time, I think there's, obviously, strength in 2025. We feel good about the progress that we're making and the plan is to by EOY, give you more perspectives and insights in terms of how we're looking at 2026.

Stephen Baxter*Wells Fargo Securities LLC*

Q

Just wanted to check in on the Group MA margins. I was wondering where this PDR places margins for the business in 2025. And then, appreciating the commentary on repricing, just can you remind us when you're repricing Group MA, are you expecting to get all the way back to target margins for that 50% cohort in a single cycle or does it take longer than that due to the magnitude of dislocation? Thank you.

J. David Joyner*President, Chief Executive Officer & Director*

A

So, Steve, I'll let you take that.

Steven H. Nelson*Executive Vice President and President, Aetna*

A

I think that specifically regard to your question around Group MA and the renewal process and how that plays out, these contracts are typically three- to five-year contracts. And so, we are taking a very disciplined approach to renewing the business also as we consider new business, and we are contemplating the elevated trends as we go through that process with them.

So, typically, as with any of these businesses, the absolute objective is to write the business so it achieves target margin. But sometimes, it takes more than one cycle to get there. So, that's how we think about it. And actually, very optimistic, I would say, about that business. It plays an important role in our enterprise, the commercial business synergy across – with our Caremark business. So, it's an important piece of business and we take it serious. And it serves these really important clients in an important unique way. But it needs to perform at target margins. So we certainly take that into account as we think about it.

George Hill

Deutsche Bank Securities, Inc.

Q

Well, my question was about the outlook – good to have you. My outlook was about the pharmacy segment outlook for the back half of the year. Maybe could you break out if there's any changes in the vaccine outlook, talk about the impact of reimbursement stabilization, and maybe the impact of the Rite Aid file buys? And are there any other moving pieces we should consider? And kind of should we think about this performance as sustainable? Thanks.

Brian O. Newman

Executive Vice President & Chief Financial Officer

A

So, from a guide perspective, Prem, do you want to talk about business, and I'll talk about the numbers?

Prem S. Shah

Group President & Executive Vice President

A

Yeah, sure. So, thanks for the question. So, first off, really strong performance in our PCW business, and we continue to be focused on the strategy we laid out at Investor Day a few years ago. And so, if you think about what we've done, we focused on strong service levels in our business. And we continue to be American's leading pharmacy and community destination for pharmacy because of that strong execution and the consumer trust we've been able to gain with our 200,000 plus colleagues that we have.

Our results reflect our strength. If you think about our top line growth of 12.5%, and AOI increase of about 7.6% in the quarter, it's reflective of where we've been focused. On the pharmacy side of that business, we saw strong script comp growth around 6.5% and that's primarily driven by a few factors. One is the innovation and our continued strong service levels, but also from the market disruption we've seen from other pharmacies closing.

And lastly, CVS CostVantage, we're proud to say, as we've said on prior calls, that we've delivered it into the commercial marketplace. All of our contracts are on CostVantage and they're performing in line with our expectations. And then, as we've said before, as you've seen in this quarter in front store, we continue to improve as we grow our customer base from market disruption as well as our retail share gain.

So this is all really kind of part of our long-term strategy. But lastly, all of this is powered by our technology advancements and our strong operating model we have underlying this business to really focus on consumers and driving their needs in the 9,000-plus local community destinations we have.

Brian O. Newman

Executive Vice President & Chief Financial Officer

A

So maybe I'd just comment on the guide as a follow-up to Prem's comments. As he mentioned, the strong volumes impressive with the strong script growth, 6.5% and the strong front store sales of 3.5%, albeit some of the front store sales as we look at the modeling, 1% of that was due to the Easter holiday. But net-net, very encouraged to see it flowing through. We started the year with a guide of down 5%. We're now at about down

1.6%. Keep in mind that the business has been pressured for some time, well over a decade if you pull out the COVID.

So I would say, from a guide perspective, taking a cautious stance on the consumer dynamics and spending piece, and we'll continue to watch immunizations as they remain dynamic and think about the potential for lower market demand in that business.

J. David Joyner

President, Chief Executive Officer & Director

A

And maybe just one addition over the top here. This has been a multiyear effort. So the results is not by accident. We've focused, as Prem said, on building out the technology to make the pharmacies more efficient and work better for our colleagues and work better for the members that we're serving. So I couldn't be happier with the innovation and the progress that we're making and feel really excited about welcoming the new Rite Aid customers in the back half of the year.

Elizabeth Anderson

Evercore ISI

Q

Maybe following up on that a little bit. As we think about what you said in terms of moving CostVantage into the government business next year and maybe there's potentially some 340B impact. How do we think about the sort of reimbursement landscape, like as it stands now for 2026? Do you think you can sort of see generally flat reimbursement, like all else equal, or sort of other puts or takes to think about as we're at this point, which obviously is still on the early side?

J. David Joyner

President, Chief Executive Officer & Director

A

Prem?

Prem S. Shah

Group President & Executive Vice President

A

And just a little bit background on CVS CostVantage, just to remind folks again. We started this process to really solve a few things. One is we wanted get a sustainable durable pharmacy model that shifted reimbursement to align more closely with the underlying cost of the business and the underlying cost of the drug.

And one of the challenges this industry has faced over the last decade is the cross subsidization that existed across scripts. So what CostVantage does is it brings a more stable environment, gives more predictability to payers, allows them to get greater transparency and provides that value to them sooner in a much more transparent way.

And so to answer your question, where are we today in 2025, as we said, it was a transition year. We were deliberate. We worked very closely with all the payers to transition the commercial business on to our CostVantage program. As you look out to next year, we'll continue to focus on our government programs and to move them as well into these cost based models as we go forward. We feel good about where we are as it relates to that transition.

And as we said prior, over time, we expect that the reimbursement erosion, which was one of the primary headwinds that we faced in the retail pharmacy business, will equal the cost of goods improvement to drive a more sustainable and durable marketplace. So we continue to make progress against that. We're midyear. We do

these contract negotiations throughout the year for payers and we'll update you at a later time, but we feel good about where we are with CostVantage. And we feel good about the value that we're delivering to the payers across the country to create a more predictable model that can lower costs for them and their clients.

J. David Joyner

President, Chief Executive Officer & Director

A

Yes. And, Elizabeth, maybe just one other thing in terms of the innovation that we're driving around the pricing model. So this is not just being executed and delivered in the retail setting. The PBM Caremark is also driving new price models to remove the cross subsidies and some of what I think is the inefficiencies in the pricing of the products today. So I think if you have parallel paths and the market begins to move, we'll begin to see a more rational pricing structure across the market.

Andrew Mok

Barclays Capital, Inc.

Q

Can you help reconcile your favorable Medicare results in the HCB segment with the unfavorable results you're seeing at Oak Street? Is the pressure coming more from internal or external MA members? And are there any benefits or cost categories you would call out as driving the elevated pressure in Oak Street? Thanks.

J. David Joyner

President, Chief Executive Officer & Director

A

I think the first point is that they're different books. So the acuity and/or the mix of members are very different across Aetna's larger book vs. the concentrated more higher-risk population inside of Oak Street. So let me maybe let Brian speak a little bit to the nuances between the two. And if I could have Prem speak more broadly to the Oak Street.

Brian O. Newman

Executive Vice President & Chief Financial Officer

A

The elevated – we're seeing elevated trends across MA broadly. And I don't think there's a direct comparison between Aetna and the Oak Street book for a few reasons. One, as David started to mention, there's different populations. Aetna's large, more diverse from a member base. Oak Street is smaller, skews higher acuity. We also need to remember that Aetna members, they represent an increasing, but still a minority of total patients at Oak. And so not all health plans have pulled back on benefits in 2025 to the same extent that Steve and the Aetna team have done.

So as David mentioned, value-based care remains a critical component to our strategy, providing better experiences, better outcomes, lower cost. And I think, Prem, you can talk to Oak Street's care model being best-in-class.

Prem S. Shah

Group President & Executive Vice President

A

Yeah, absolutely. So as Brian and David said, we saw some pressure inside of our Health Care Delivery business. That was driven by, what I would say, an Oak Street persistent elevated medical cost, the member mix that we had and then the more robust benefit and supplemental benefit offerings that plans provided to their members. And this is partially offset by strong performance at Signify, driven by in-home assessment volumes.

If you look at Oak Street specifically, we're focused on addressing the market dynamics while strengthening the business and improving the financial performance over the short and long-term. And what I'd say is there's four

areas that we're really focused on. One is we've put in place a strong leadership team with new leaders that have deep rooted experience in value-based care and population health management.

Two, we continue to look at the technology stack and the operations to provide the leading clinical solution from a technology perspective for our business and we focused – that has to drive to better medical cost management. Oak Street was one of the best large-scale clinical programs out there for value-based care. We continue to look at how we're going to leverage our tech stack to drive that even further.

And then lastly, we're going to take a thoughtful approach to center expansion while prioritizing patient growth inside of those centers. And so, from my perspective, we remain committed to value-based care. It's an important part of our health care system. And we've been really intentional in our strategy to focus on assets with a proven track record, like Oak Street, and delivering improved quality and experience while managing cost.

Eric Percher*Nephron Research LLC*

Q

I'll stick with Health Services. And, Brian, a similar visibility question as you addressed on HCB earlier. It's proven harder to draw a line in the sand on delivery [ph] HBR (48:50). Can you speak to visibility at this point of the year? And maybe how much of the \$200mm headwind was H1 vs. expectation for any improvement in H2? And then for the team, I know there's no change in pharmacy services, but could you speak to the customer price improvements? And are you seeing more cost to retain this high 90s retention level?

J. David Joyner*President, Chief Executive Officer & Director*

A

As I mentioned in the prepared remarks, we are seeing pressure in HCD specifically Oak, and I think it's driven by the higher medical benefit ratio and that's attributed to elevated medical cost, member mix, more robust benefit offerings.

As we think about – and some of that was offset by the solid performance at Signify, as Prem had mentioned a few minutes ago, but as we think about the guidance reduction in the segment, it's all coming out of HCD. And as we think about the revised expectations for H2, we think we've captured a trend.

And as I sit here today, I would say HSS earnings distribution as you look at the back half vs. the front half, H2 is roughly evenly split between the two quarters from a cadence perspective, probably with a slight tilt towards Q4 from a profit perspective. Prem, did you want to...?

J. David Joyner*President, Chief Executive Officer & Director*

A

Yeah. So maybe, Prem, you can speak a little bit to the selling season and how the PBM is performing?

Prem S. Shah*Group President & Executive Vice President*

A

So, we're really pleased with the strong start to the 2026 PBM selling season. Caremark continues to be well positioned as the leader in the PBM in the marketplace. And what I'd say is we continue to be focused on driving what our clients value the most, which is making prescriptions and pharmacy cost more affordable and lowering the cost by increasing competition.

And on the kind of retention side, we're on track with where we normally are with our historical upper 90% retention rate. And the PBM industry has always been competitive. We remain to have the same discipline we've always had in our pricing and in the marketplace. But what I'd say is, as we talk to our customers and as we're out in the marketplace, what's really resonating is our approach, our transparency, and in the way in which we are continuing to create the competition.

And some of those great examples are over the course the last couple years with, for example, we led the way with Cordavis in the biosimilar marketplace. And we're leading the way this year on 7/1 with the competition we've increased in the indication in weight loss on GLP-1. So, we continue to focus on what our clients need most, which is lowering the cost and making prescriptions more affordable in the country. And from our perspective, it's resonating in the selling season, it's resonating in our retention rates.

Erin Wilson Wright*Morgan Stanley & Co. LLC*

Q

I'm curious at your thoughts on the Part D space and how that's playing out kind of relative to plan, how you think about kind of the demo and the CMS announcement more recently on that front and how you're thinking about that into next year. And maybe we don't have enough visibility yet on that, but want to see how that's playing out in terms of behaviors, in terms of utilization trends, and what you're seeing across Part D.

J. David Joyner*President, Chief Executive Officer & Director*

A

All right. Steve, would you take that, please?

Steven H. Nelson*Executive Vice President and President, Aetna*

A

So, as I mentioned earlier, our Part D plans are performing really well YTD. And that's a result of some deliberate actions and decisions we made to position the product for the long term. So, we deliberately wanted to derisk this with the shifts in the IRA and some of the policy things as put more risk and more cost to the health plan. So, we reduced our plan offerings, eliminated the enhanced plans. So, we just have one standard plan, and that has changed sort of the mix, and then we also made some design changes.

So, overall, in 2025, the business is performing well. But as expected, that did have some membership implications. So, we think that will continue to play out a bit, but not as much as we lost in H1, but this is all with the eye towards returning our business to target margins and creating a sustainable product. And so, as we contemplated 2026, we took that same approach and our bids focused on ensuring the sustainable product for 2026 and beyond.

Now we just got that guidance from CMS earlier this week. We're still digesting that. And we really won't have more insight into that until we kind of get through our process. And obviously, the entire competitive landscape impacts how we think about it as well. So, more to come there, but again, those products, Part D, are performing well for us. And we're going to continue to make sure that we make decisions to create that and continue that sustainability.

John W. Ransom*Raymond James & Associates, Inc.*

Q

I'm proud of myself for understanding this new process. My question is – and I know this is a small part of the business, but the front-end part of the drug retail business has been a struggle for the industry for probably as

long as I've been covering it, which is forever. I just wonder as you kind of look through your business strategies, what are we doing differently. And I am intrigued that you're back in the business of even buying drugstores. But what's the long-term strategy to address sort of the competitive pressures and the competitive position of the front-end? Thanks.

J. David Joyner*President, Chief Executive Officer & Director*

A

And look, we have a very solid front-end business, and we've been focused on it with a very strong management team, and been deliberate with how we're thinking about that business. So, as you saw in this quarter, we saw our trip comp increase about 2.7% from LY, and we continue to see retail share gains, which is new for this part of the business if you look at it over a longer duration of period.

So, the strategy we have in place is, one, how do we create more value for consumers in the offerings that we have? How do we continue to work with our vendors to help reduce the cost so we can provide that value upfront? And then secondly – I'd say thirdly is, how do we get more consumers and foot traffic into our stores and be there? And so, we're benefiting from some of the, what I'd say, is adjacency to pharmacy as it relates to that, meaning that we'll – as we get more and more pharmacy patients, they utilize our front store services.

Second, we've been focused on our consumer, what I'd say, marketing efforts and other ways in which we're bringing those customers into our stores and continue to drive that value, the value price equation. So, I'm really impressed with the progress we're making on our front store. We continue to gain traction. The leadership team has been focused about this. And you're right, John. We don't spend enough time on these calls on that, but it is an important part of our business and something we're really focused on. We've been very deliberate on how we turn that around over the – into the future

J. David Joyner*President, Chief Executive Officer & Director*

CLOSING REMARKS

- I think we're at close. And I think about before I end this call, I just want to thank the 300,000 dedicated colleagues for the work that they do every day. It's because of you, I'm confident in our future and our ability to become America's most trusted health care company
- I also want to thank everyone for joining this call today. And we're extremely excited about the progress and look forward to providing you additional updates

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