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CVS Health Corp. (CVS)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to CVS Health's Third Quarter 2025 Earnings Call. We ask that you please hold all questions until the end of the prepared remarks, at which time you will be given instructions for the question-and-answer session. As a reminder, this conference is being recorded today. If you have any objections, please disconnect at this time.

I would now like to pass the call to Larry McGrath, Chief Strategy Officer. Larry, please proceed.

Laurence F. McGrath

Executive Vice President, Chief Strategy Officer and Chief Strategic Advisor to the CEO, CVS Health Corp.

Good morning, and welcome to the CVS Health third quarter 2025 earnings call and webcast. I'm Larry McGrath, Chief Strategy Officer. I'm joined this morning by David Joyner, President and Chief Executive Officer and Brian Newman, Chief Financial Officer. Following our prepared remarks, we'll host a question-and-answer session that will include additional members of the leadership team. Our press release and slide presentation have been posted to our website, along with our Form 10-Q filed this morning with the SEC. Today's call is also being broadcast on our website, where it will be archived for one year. During this call, we'll make certain forward-looking statements. Our forward-looking statements are subject to significant risks and uncertainties that could cause actual results to differ materially from currently projected results.

We strongly encourage you to review the reports we file with the SEC regarding these risks and uncertainties. In particular, those that are described in the cautionary statement concerning forward-looking statements and risk factors in our most recent Annual Report on Form 10-K, our quarterly report on Form 10-Q filed this morning and our recent filings on Form 8-K, including this morning's earnings press release. 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.

With that, I'd like to turn the call over to David. David?

J. David Joyner

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

Thank you, Larry, and good morning, everyone. This morning, we are pleased to report another quarter of solid results, once again reflecting the power of our diversified business and progress on becoming the most trusted healthcare company in America. In the third quarter, we delivered adjusted operating income of \$3.5 billion and adjusted earnings per share of \$1.60. In addition, for the third consecutive quarter, we are increasing our full year 2025 adjusted earnings per share guidance to a range of \$6.55 to \$6.65, up from our previous range of \$6.30 to \$6.40. Over the past 12 months, we have been intensely focused on executing against our commitments to our customers, partners, colleagues and shareholders. We are building momentum across the enterprise and feel a growing excitement about the opportunities ahead for CVS Health.

We are incredibly proud of what we have accomplished so far this year. While we are encouraged by our progress, we maintain a disciplined and cautious outlook as we position our business for another year of strong performance in 2026. This transformation is clearly visible within our Aetna business, where after a challenging 2024, there is renewed vigor and optimism about the future. Steve, Katerina and the broader Aetna team are well

on the path to ensuring this business is best-in-class. The Aetna team continues to drive impactful and exceptional results. Aetna is once again the industry leader amongst national payers for 2026 Medicare Advantage Stars Ratings even with CMS recently announcing that cut points for Stars continue to become more challenging.

Based on the current membership, we expect over 81% of our Medicare Advantage members will be in plans rated 4 Stars or higher with over 63% of them in 4.5 Star plans, nearly double the industry average. This result is not just a point of pride but another proof point in our ability to effectively collaborate across the enterprise allows us to deliver exceptional quality and service, drive down the cost of care, and remove friction from the healthcare system. We are still in the early stages of the 2026 annual enrollment period, but we remain confident that our thoughtful approach to our geographic footprint, benefit design and pricing positions us well for another year of recovery. In my first year as CEO, I have pushed our team to act with urgency and focus as we execute on opportunities to improve our business.

This means making thoughtful and difficult decisions, such as exiting our Individual Exchange business or taking advantage of market opportunities like our acquisition of the Rite Aid assets. In a similar way, as we outlined last quarter, we are moving with urgency to address pressures in Health Care Delivery. During the quarter, we recorded a \$5.7 billion goodwill impairment within Health Care Delivery. I want to be clear that this business' performance in the quarter was in line with our most recent expectations. However, our decision during the quarter to temper Oak Street Health clinic growth over the next few years was the primary reason for reporting this charge. Despite this update, value-based care remains a critical component of our strategy. The reasons to believe in this business have not changed, but the marketplace is evolving and we are adapting our strategy to get financial performance back in line with our expectations.

We understand the challenges at Oak Street Health and have taken actions to improve performance in both the near and long term. We continue to strengthen our Health Care Delivery business through investments in technology, a new leadership team and fair and equitable contracts with our payer clients. Turning to pharmacy services. We're incredibly proud of the meaningful impact we've had on drug cost in this country. As you've seen with our recently announced IVF initiative with the administration, we are strong supporters of President Trump's focus on lowering brand prices in America. This is important for our patients, our customers and for our business model. By tackling branded pharma and equitable pricing strategies that have left Americans carrying the financial weight of global drug innovation, the government is helping to relieve a long-standing burden on US consumers and businesses.

We believe that over time, the administration's actions can create a new lower ceiling price in the US in which PBMs will continue to negotiate and further reduce costs for their customers and consumers. This has been our job for more than three decades, and we have been tremendously successful at achieving durable results. We believe these actions are good for us, for our customers and for consumers, and we are encouraged to see the impact they may create for the industry. As the leading healthcare consumer company, we've been working diligently for years to lead with greater transparency and savings for consumers at the pharmacy counter. We were at the forefront of this transition with more than 25 million members who benefit at the pharmacy counter from our lowest net cost through point-of-sale rebates.

This includes our Aetna fully insured commercial members that we transitioned in 2019, and the benefit design we offer our own colleagues. Two years ago, we continued our innovation leadership when we introduced our new TrueCost model, which guarantees a net cost for each individual drug, delivering drug pricing transparency for our clients and consumers. We are encouraged by recent announcements that others are following us on this path. We know that this is the transition that consumers want and is also important for the future of our business. We're

incredibly encouraged by the path Caremark is on. However, we acknowledge there are near-term market dynamics from a few of our client contracts that have resulted in a revision to our guidance and will impact our near-term growth rate.

While incorporating this, as Brian will discuss later, we continue to expect meaningful growth in enterprise earnings next year. We are working diligently to re-contract over the next few years and resolve this issue. Importantly, clients, including the most sophisticated buyers of pharmacy benefit services, continue to see the tremendous value we provide, as evidenced by another strong selling season. We have achieved new client wins of nearly \$6 billion and are closing out another selling season with retention in the high-90s. I am incredibly bullish about the road ahead and believe we will continue to lead this industry given our unique advantages and insights. Turning to PCW, our leadership is clear in the retail pharmacy market as we work towards a more sustainable and transparent future.

Our deliberate strategic decisions, intentional investments, best-in-class drug purchasing and superior customer service have meaningfully improved our differentiated position in the market. Once again this quarter, CVS Pharmacy delivered solid performance, including pharmacy share gains. This is a testament to the strength and scalability of our model as well as the commitment of our engaged colleagues. We play a critical role in improving the health of millions of Americans by providing convenient health services, including vaccinations. Our 9,000 pharmacies are the front door to our enterprise. They are a differentiator for our business and a force multiplier towards improving the health of the communities that we serve. For CVS Health, being the most trusted healthcare company in America means improving health, simplifying care, and delivering a quality experience every day.

We do not take this responsibility lightly, and it is this team's firm belief that we must drive the evolution of healthcare forward in the US. We have unique capabilities to achieve all of those goals. The strength of our diversified businesses continue to set us apart, enabling us to deliver strong results even in this dynamic environment. The progress we've made this year is fueling momentum, and our disciplined execution positions us for another year of strong performance in 2026. We are working to simplify healthcare and we're bullish about the opportunities we see to lower the cost of care and drive innovation. Our future is bright because of the work of our more than 300,000 colleagues who take care of their friends, families and neighbors, and communities across our country. We look forward to sharing more on our longer-term plans at our Investor Day on December 9.

With that, I'd like to hand the call over to Brian. Brian?

Brian O. Newman

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

Thank you, David, and good morning. I will cover four key topics in my remarks. First, an update on our third quarter results, then I'll discuss cash flow and the balance sheet. After that, I will provide an update on our revised financial outlook for the remainder of 2025. And finally, I'll wrap up with a brief discussion on high-level headwinds and tailwinds as we look ahead to 2026. As David mentioned, we are pleased to report another quarter of solid performance and to deliver a third quarter in a row where we beat and raised expectations as we continue to focus on building a track record of consistent success. We improved our full year outlook for revenue, adjusted EPS, and cash flow from operations, and are building positive momentum as we close out the year.

Let me start with highlights on our enterprise results in the quarter. Third quarter revenues achieved a new record of nearly \$103 billion, an increase of approximately 8% over the prior year quarter driven by revenue growth across all segments. Adjusted operating income of approximately \$3.5 billion increased approximately 36% from the prior year quarter, primarily driven by an improvement in our Health Care Benefits segment. We delivered

adjusted EPS of \$1.60, an increase of nearly 47% from the prior year quarter. Finally, we generated year-to-date cash flow from operations of approximately \$7.2 billion. Turning now to each of our segments. In Health Care Benefits, we generated nearly \$36 billion of revenue in the quarter, an increase of over 9% from the prior year. This increase is primarily driven by our government business, largely related to the impact of the Inflation Reduction Act on the Medicare Part D program.

We ended the quarter with medical membership of approximately 26.7 million, which was flat sequentially and decreased approximately 445,000 members from the prior year quarter. This year-over-year decrease is primarily driven by declines in our individual exchange and Medicare product lines, partially offset by growth in our commercial fee-based membership. Adjusted operating income in the quarter was approximately \$314 million, a substantial increase from the adjusted operating loss recorded in the prior year quarter. Our medical benefit ratio was 92.8%, a decrease of 240 basis points from the prior year quarter result of 95.2%. The change was driven by the favorable year-over-year impact of premium deficiency reserves, higher favorable prior period development, and improved underlying performance in our government business.

These increases were partially offset by changes in the seasonality of the Medicare Part D program due to the impact of the IRA and the impact of higher acuity in the individual exchange product line. Our medical benefit ratio this quarter was impacted by approximately 100 basis points due to provider liabilities for matters dating as far back as 2018 and worsening individual exchange risk adjustment expectations based on the latest [ph] weekly (00:14:57) data. Each of these two items were roughly equivalent. Medical cost trends in the quarter remained elevated across all products but were modestly favorable relative to our expectations, primarily driven by our individual MA book. Days claim payable at the end of the quarter was approximately 42.5 days, an increase of approximately 1.6 days sequentially primarily driven by the partial release of premium deficiency reserves established in the first half of 2025 as well as an additional day in the third quarter compared to the second quarter.

We remain confident in the adequacy of our reserves. Shifting now to our Health Services segment. During the quarter, we generated revenues of over \$49 billion, an increase of over 11% year-over-year. 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 \$2.1 billion decreased 7% from the prior year quarter, primarily driven by continued pharmacy client price improvements, partially offset by improved purchasing economics. Performance in our Health Care Delivery business during the quarter was broadly in line with our expectations. Total revenues grew approximately 25% compared to the same quarter last year, excluding the impact of our exit from our CVS Accountable Care business earlier this year.

This increase was primarily driven by patient growth at Oak Street and increased volumes at Signify. During the quarter, we made certain strategic changes in our Health Care Delivery business, including the decision to reduce the number of new Oak Street clinics we expect to open over the next several years. These changes necessitated a quantitative assessment of the carrying value of goodwill in our Health Care Delivery reporting unit, which resulted in a goodwill impairment charge of approximately \$5.7 billion during the quarter. We are focused on improving financial performance in our Health Care Delivery business. As discussed last quarter, we have and continue to take actions at Oak Street to enhance our operations. During the quarter, we completed a comprehensive review of our Oak Street clinic footprint.

As David mentioned, this is core to our approach of evaluating each of our businesses, identifying strengths and making decisions to drive improved execution and performance. Following our review, we made the difficult decision to close underperforming clinics where we do not see a reasonable path to sustainable margins. To be clear, we view value-based care as a critical component to our Medicare strategy and expect the actions we are

taking to support improved financial performance beginning next year. Our Pharmacy & Consumer Wellness segment delivered another strong quarter. We generated revenues of over \$36 billion, an increase of nearly 12% versus the prior year quarter, primarily driven by pharmacy drug mix and increased prescription volume, partially offset by continued pharmacy reimbursement pressure. Revenues in the quarter increased over 14% on a same-store basis.

Our retail pharmacy script share grew to approximately 28.9% as our emphasis on operational excellence and superior customer experiences enables us to benefit from pharmacy market disruption. Same-store pharmacy sales in the quarter grew nearly 17% compared to the prior year, driven by pharmacy drug mix and a nearly 9% increase in same-store prescription volumes. Same-store front store sales increased 150 basis points versus the prior year quarter. Adjusted operating income decreased approximately 7% from the prior year to approximately \$1.5 billion. This decrease was primarily driven by continued pharmacy reimbursement pressure and increased investments in colleagues and capabilities. These items were partially offset by increased prescription volume.

Shifting now to cash flow and the balance sheet. We generated cash flows from operations of approximately \$7.2 billion year-to-date through the third quarter. We have distributed approximately \$2.6 billion in dividends to our shareholders year-to-date, and we ended the quarter with approximately \$2.3 billion of cash at the parent and unrestricted subsidiaries. We continue to meaningfully improve our leverage ratio, supported by our strong year-to-date performance and expect to make further improvement next year, as we grow enterprise earnings driven by margin recovery in our Aetna business. Shifting now to our revised outlook for 2025, we are increasing our full year 2025 guidance for adjusted EPS to a range of \$6.55 to \$6.65, an increase of \$0.25.

This update reflects our third quarter performance and our revised expectations for the remainder of the year, which continue to maintain a prudent outlook on medical cost trends and macro factors. We now expect full year total revenues of at least \$397 billion, an increase of nearly \$6 billion driven by increases across all segments. In our Health Care Benefits segment, we now expect full year adjusted operating income of approximately \$2.72 billion at the low end of our guidance range, an increase of approximately \$300 million reflecting our performance in the third quarter and improved expectations for the remainder of the year. We continue to 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 outlook continues to maintain a thoughtful and prudent view on medical cost trends through the remainder of the year.

In our Health Services segment, we now expect full year adjusted operating income of at least \$7.1 billion, a decrease of approximately \$240 million from our prior guidance. This update reflects our latest expectations for performance that David highlighted in his remarks. Importantly, we continue to make progress evolving our contracting and pricing models to respond and adapt to market dynamics. We are confident we're on the path to lead the evolution with our new TrueCost model, which guarantees a net cost of each individual drug driving, drug pricing transparency for our clients and members. The outlook for our Health Care Delivery business remains largely unchanged. Lastly, in our Pharmacy & Consumer Wellness segment, we now expect full year adjusted operating income of at least \$5.95 billion, an increase of approximately \$270 million from our prior guidance.

This increase reflects our performance in the third quarter and our revised expectations for the remainder of the year, while continuing to maintain a prudent outlook for the rest of the immunization season and potential impacts to the consumer environment. In aggregate, we now expect full year enterprise adjusted operating income to be in the range of \$14.14 billion to \$14.31 billion. We are also increasing our expectations for full year cash flow from operations to be in a range of \$7.5 billion to \$8 billion. Additionally, we now expect our full year adjusted effective tax rate to be 25.3%, an improvement of 40 basis points. You can find additional details on the components of our

2025 guidance on our Investor Relations website. Before we open the call up to Q&A, I also want to provide an update on some of the key headwinds and tailwinds for 2026.

Consistent with past practice, we expect to provide formal 2026 guidance at our Investor Day in December. Beginning with our Health Care Benefits business, we expect another year of meaningful margin improvement at Aetna. This includes another year of progress in our Medicare Advantage business, supported by our disciplined approach to plan design and footprint in individual as well as repricing opportunities in our group business. We also expect a tailwind from our exiting of the individual exchange business. Although our conversations with our Medicaid state partners continue to progress and this business has performed in line with our expectations this year, we are taking a cautious outlook in light of the broader pressures across the industry. In our Health Services segment, we expect improvement in our Health Care Delivery business, primarily driven by Oak Street Health.

In our Caremark business, we expect modestly lower growth as we continue our work to transition our contracts towards drug level pricing over the next few years. Altogether, we expect the segment to deliver low-single-digit adjusted operating income growth next year. And in our Pharmacy & Consumer Wellness segment, we are encouraged by our strong performance this year and expect this momentum to continue into next year. While challenges, including reimbursement pressure and the impact of shifting consumer dynamics remain in this business, we currently expect the trajectory to improve relative to our long-term expectation of a 5% decline. I would also remind everyone that consistent with past practice, the impact of prior year reserve development and other out-of-period items should be removed when considering an appropriate baseline for bridging to 2026.

As of the end of the quarter, these items contributed approximately \$0.45 to our year-to-date results. Altogether and after adjusting for these items, we currently expect a reasonable starting point for our 2026 adjusted EPS guidance to reflect mid-teens growth. We will provide formal guidance at our Investor Day on December 9. Overall, we are encouraged by the year-to-date performance of our diversified enterprise and are confident we are taking the right steps to position us for both near and long-term success. We recognize the importance of establishing credible commitments and expect to continue this philosophy as we establish future financial targets.

With that, we'll now open the call to your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question will come from Lisa Gill with JPMorgan. You may now unmute your audio and ask your question.

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Q

Good morning and thanks for the question. I really want to start with some of the comments you made on the PBM side. So first, the \$240 million that you talked about, as we shift more towards transparency, towards TrueCost, and again, this kind of goes to Brian's comments around 2026 as well, should we anticipate as we see shifts in these contracts that we're going to continue to see headwinds as we make that initial shift? So that would be the first part of the question. Secondly, how do we think about future PBM economics around a TrueCost model, not only for you as the PBM, but we also get questions around the plan sponsor? So as we know, many plan sponsors use rebates to offset premiums, et cetera. So how does that future look on the plan sponsor side as well as your economics on the PBM side?

J. David Joyner

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

A

Yes. Lisa, great question and something that obviously we're prepared to address both today as well as where we see the marketplace evolving. But let me first start with, I think if you look at the headwinds that we're seeing specifically within the PBM, this does reinforce the strength of a diversified company. So this is the third consecutive quarter where we both exceeded and raised guidance. It highlights the focus and the commitment that we've made around building trust and credibility. So I think that is what I want to make sure is known, that there's performance again across the broader enterprise. A couple of things as it relates to the PBM and specifically to your question about the future. Over the course of my 30-year career, Caremark has consistently driven innovation and been able to adapt to the changing market.

The drive is not just changing the way in which our teams are working, but we have talked over the last couple of years about changing the PBM model. And part of this is the TrueCost transition to what I believe will be the pricing model of the future. So I remain confident that Caremark will deliver both on the strong earnings and cash flow for the foreseeable future. And I think it's going to be reinforced in what we've said about the selling season. Even in light of some of the challenges around the industry, we delivered \$6 billion of new wins and had a high retention rate in the 90s. So, I'm going to let Brian speak to some of the financials and some of the pressures, then I'll have Prem speak more broadly to the last question about where this is going from a PBM model. Brian?

Brian O. Newman

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

A

Thanks, David. And, Lisa, thanks for the question. I think if we take a step back, I think it's actually important to provide some context on the historical industry practices. Historically, the norm in the industry was to use an aggregate market basket-based approach to structure guarantees. And I think as we highlighted in our prepared remarks, throughout the year we've observed a combination in mix of drugs, in utilization patterns that differed from our prior forecast. And given the market basket structure underlying the client guarantees, those dynamics are putting pressure on the contracts David actually mentioned in his prepared remarks. So, we've been closely monitoring the trends. And I think while we realize the impact that the market basket had on guarantees on a

subset of our contracts, we actually believe we had a credible and achievable pathway to mitigate the rapidly emerging challenges.

So as we closed the quarter, we realized the mitigations that we had identified, they didn't materialize as quickly or have the impact we had initially anticipated. And that's really the driver as a result that drove us to modestly miss our expectations in the third quarter. So, we've also revised our expectations for the full year. That's captured in the guide I gave. And as I mentioned in my prepared remarks, it will have an impact on the near-term growth outlook as we recontract over the next couple years.

Prem, maybe you can talk more about the value Caremark delivers and the evolving model.

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

A

Yeah. Lisa, thanks for the question. And just to answer directly on the future PBM economics. As you know, the PBM industry has been and will continue to be an extremely competitive space where we deliver tremendous value to our customers and deploy that value to them. If you think about – from my perspective, what Caremark has done over the course of the last many decades is we continue to focus on our clients' biggest problems, which is high cost of branded drugs. As we've said, 10% of drugs drive 88% of our pharmacy costs in this country, and we're going to continue to lead and be a leader in this space. You saw this 18 months ago when we launched Cordavis. We went after the largest specialty drug in the country.

We delivered our clients over \$1 billion in savings and we've interchanged and moved all the product to a lower-cost, 81% lower WAC price than the originator, and we delivered \$1 billion of savings. You saw it earlier this year with our addressing GLP-1s. GLP-1s are approximately 15% of our clients' costs. We were able to narrow our formulary in the weight loss category and our clients benefited from lower cost. And I would argue, the market benefited from the fact that we moved against one of the products, and we saw the net prices of the entire category come down. This is what PBMs do every single day. They create this competition. This is what they've done for the last three decades and we'll continue to do that. As it relates to the value and how the economics kind of pass through from us and our clients and how that plays out in the marketplace, at the end of the day the problem in this country still is healthcare is unaffordable.

And what you're describing is really kind of the spread of which is a member out of pocket or a plan premium. And from our perspective, what we're doing with TrueCost, which we launched two years ago, was very deliberate and it was driving greater transparency and making sure that consumers and clients had the benefit of that transparency while, again, maintaining our ability to create the competition and lower the net cost of drugs. As David said in his prepared remarks, we have over 25 million customers and consumers that are in our point-of-sale rebate program. Aetna has launched point-of-sale rebates as far back as 2019. So, this is something that we have been really focused on where we get the consumers the lowest possible price at the counter because we know medicines in this country help lower the cost of overall healthcare expenditures, and it's critically important.

And lastly, I'll say as all the things have been happening with the administration, we're excited to play an active role in making medicine more affordable in this country. We think we will continue to play that role, and we love the fact that they are going after the inequity across countries that you've seen and the price disparities that exist. So, more to come. But I would say the PBM business continues to be a very competitive space, continues to have durable margins, and continue to be a very necessary component of how we deliver care and lower cost in this country.

J. David Joyner

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

A

And maybe just one final comment. I think it's important to note that we saw this trend several years back, which is part of what we're trying to do within retail moving to CostVantage and where the PBM was driving towards TrueCost. So, we saw where the marketplace is going. We led the market. We're in the middle of that transition to the model of the future. And again, I think the near-term headwinds is not an implication on the long-term viability of the PBM model. Thanks, Lisa. Next question.

Operator: Our next question comes from Justin Lake with Wolfe Research. You may now unmute your line and ask your question.

Justin Lake

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. I wanted to ask about the PCW business. Looks like 3Q was ahead of your expectations, and you have about 3% growth assumed for the fourth quarter. I was hoping you could share some of the drivers around your confidence in that fourth quarter growth, particularly the headwind from vaccine, lower vaccine volumes to OI, and then the benefit of the 600-store file buy you got from Rite Aid for the fourth quarter and how that even impacts into 2026. Thanks.

J. David Joyner

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

A

All right. Thanks, Justin. I appreciate the question on PCW. So Prem, do you want to talk specifically about the growth rate?

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

A

Yeah. Justin, thanks for the question. And as you recall from a few analyst days ago, we were very deliberate with our strategy and purposeful with how we were going to kind of get this business back to something better than minus 5%, so a couple things. One, I'm incredibly proud of the leadership team and the strong execution that we've delivered. We have the right strategy and we're focused on it, and it's a foundation of just healthcare engagement. It's one of the things we really believe. So, we have over 9,000 community pharmacy destinations where we know we can service patients and members in a much better way to create differentiated services. At this point, I'm proud to say we are the best run pharmacy in the country. And it's operating nationally at scale. It has extremely strong consumer engagement and really good clinical expertise that we're delivering into the marketplace.

And it's a very, very strong deliverer of trust for our consumers that we can then continue to create value in other parts of our enterprise. When you think about what's driving that, first, from a business perspective we were very deliberate in our investments in technology and taking care of our colleagues. We have over 200,000 colleagues in 9,000 of these stores that continue to deliver best-in-class service. And then secondly, we were focused on how we can engage and better engage consumers in a differentiated way. So all in all, it's going really well. As it relates to the quarter, we delivered a strong quarter despite some of the persistent reimbursement pressures that we faced. If you look at the script growth, we had top line growth, about 11.7%. And our pharmacy market share is now at 28.9%. Rite Aid was one of the drivers that was in that as we kind of moved that business into our operating model.

But just remember, the strong foundation, the strong service enabled us to really be able to do that in a much more effective way. And then if you think about the immunization piece, we continue to be a trusted choice and a convenient option for those choosing to get vaccinated. The market demand is down year-over-year, but we've been able to offset that with a market share growth in our channel. We've seen approximately 400 basis points of market share growth inside of CVS. Secondly, if you think about our front store, we still have strong momentum. We're posting another positive comp for the second quarter in a row and improved from last year. We grew our customer base 2.6% versus last year. We increased trips 2.7% versus last year. And our retail market share on the front store has gained by 2 basis points versus last year.

So we're continuing to focus on delivering the value, being where consumers want us to be in the front store by driving loyalty and improving our value proposition. And I'd just say, all in all, we're incredibly proud of the results, incredibly proud of the leadership team and the focus that we have here. But we still have work to do to stabilize this business over time. And Brian, I'll hand it over to you for a couple more comments.

Brian O. Newman

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

A

Yes. No, Justin, in terms of the outlook, the strong performance Prem talked about in the quarter. We lifted our guide for the segment and it's now sitting at growth of 3% for the year. And I'd remind you, that's an 8% swing from our initial expectations of down 5%. So we're seeing that business improve, and we'll talk more about it come December 9 at Investor Day.

J. David Joyner

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

A

Maybe just closing out on the PCW conversation. This is a business that we've been investing in over the last several years. I think some of this has come to fruition in terms of the investments we've made in becoming best-in-class. So we've talked about this in the opening comments that the 9,000 stores is our front door to the enterprise. And when this business runs well, it does become the force multiplier to improving health and our focus on serving the community. So really excited about the performance, and we'll share obviously more, as Brian said, on Investor Day about the future direction of this business.

Operator: Our next question comes from Stephen Baxter with Wells Fargo. You may now unmute your audio and ask your question. Stephen Baxter, you may now unmute your audio and ask your question. We'll take our next question from Elizabeth Anderson with Evercore. Please unmute your line and ask your question.

Elizabeth Anderson

Analyst, Evercore ISI

Q

Good morning, guys. Thanks so much for the question. Hopefully you can hear me. I had a question in terms of the 100 basis points of provider liabilities that you called out. Can you give us a little bit more detail on exactly what those are? And is this a one-time item? Do we expect this to continue for a couple of quarters? Just any additional color there would be helpful because, obviously, with that, it shows that your MBR was much more in line than maybe it looked like from the first glance. Thanks.

J. David Joyner

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

A

Yeah. Elizabeth, thanks for the question. And you're correct in that assumption. So Brian, do you want to speak to the...

Brian O. Newman

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

A

Yeah. I guess I'd lift it up from an HCD perspective, Elizabeth. We're really pleased with the performance in the third quarter. As you think specifically about the third quarter MBR, some of the noise I called out in my prepared remarks, we had about 100 basis points of impact. Two things, provider liabilities. Those are dating as far back as 2018 for kind of a three, four-year period. And then a combination of that, that was roughly 50 basis points of the 100, and then worsening expectations for the individual exchange risk adjustment. We got the latest Wakely data that informed that. So those two factors really took a 92.8% as we printed. And if you back that up to get to a 91.8% roughly, it would say that the core outperformance on the MBR in the quarter was driven on an adjusted basis by individual MA. So that's how we think about the two drivers specifically to your question.

Operator: We'll now take our question from Stephen Baxter with Wells Fargo. Stephen, if you're calling in today, please use star six to unmute.

Stephen Baxter

Analyst, Wells Fargo Securities LLC

Q

Hi. Thanks. Sorry for the difficulties there. Just to kind of come back to that point a little bit. I think with the first couple of quarters of the year, you size in each quarter that, I guess, on a continuing basis there was around \$500 million core upside that you weren't taking through into the guidance. Wondering if there's an equivalent amount, if you think about kind of excluding the items that you called out around the exchanges and around the out-of-period settlements that you cite for Q3? And I guess how do we reconcile that versus the raise that you made? And I guess just one clarification as we're getting a lot of questions on it. This mid-teens EPS growth that you're framing for 2026, is that after taking the \$0.45 out of the baseline? Or is that off of this year's guidance as you currently revised it? Thank you.

Brian O. Newman

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

A

Yeah. To take your last question first, Stephen, you take the midpoint of the guide, which is \$6.60, back off the \$0.45 and then you can grow mid-teens off of that. And the way we got to the \$0.45, I think going into the quarter, we had about a combination of net both positives and negatives. If you take some of the out-of-period risk adjustments and revenue adjustments net of the upside, we'd be about \$900 million coming out of the first half of the year. You take the \$150 million of the provider settlements, that's how we get to \$750 million roughly or the \$0.45 as we adjusted and which I just walked you through.

Operator: Our next question comes from Michael Cherny with Leerink Partners. Please unmute your audio and ask your question.

Michael Cherny

Analyst, Leerink Partners LLC

Q

Great. Thank you so much for taking the question. I know Lisa had asked about the PBM, the PBM headwinds that you had been discussing. I want to talk a little bit more about the PBM tailwinds. Beyond Cordavis, what are you seeing broadly from a specialty growth perspective? And can you talk about some of the strategic advancements you're making to continue to benefit from what has obviously been an extremely strong overall market growth? Thank you.

J. David Joyner

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

Prem, do you want to take that?

A

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

Sure. Thanks for the question, Michael. Just a couple of things. So from a tailwind perspective, as we've said, we see a tremendous opportunity to continue to lower cost for our customers. And as you know, when we can lower cost for our customers, the PBM industry typically benefits from that as well. So a couple of things. One is if you think about the biosimilar pipeline, it still remains. There's \$100 billion of biosimilars going biosimilar by the end of this decade or early 2030, 2031 timeframe. So we continue to look at ways in which we can enable and drive down costs for our customers as it relates to biosimilars. We believe that there still is our ability to benefit from other specialty drugs as well in the generic pipeline that are going generic that will be an opportunity for us to deliver value for our customers.

A

And let me just take a couple of seconds to talk about our CVS Specialty Pharmacy business. It continues to be a leading asset in the specialty pharmacy arena. It's a leader and a key overall performance driver of Caremark, and we expect it will continue to be helping to support the members that they serve. Remember, these 1% or 2% of the population that utilize specialty pharmacy benefits typically drive 50%, 60% of all of healthcare expenditure. And so our business continues to perform really well. And we have a strong track record of continuing to gain access of new limited distribution drugs in that space. We continue to build technology that makes it seamless to transition patients from branded products to biosimilars.

And lastly, our operating platforms, tremendous amount of credit goes to our leadership in this business who's driving to a much more tech-driven AI native platform, that's driving and really taking a lot of the work out of lot of operations and something that was one of the most complex parts of healthcare, which is effectively trying to drive these medications into the patient's home. And so we continue to be really proud of those points as it relates to that. We also see opportunities in the PBM for what I would say is efficiencies and optimization over time, where we see the opportunity to leverage technology and other things to also play a role. And lastly, I think the PBM sales season is great evidence that we continue to focus on our customers. We're winning net new customers and delivering the value that they're asking for us. So we had over \$6 billion of net new sales for 2026.

So we continue to be excited about this industry. It remains to be highly competitive, as it always has been. And we continue to remain to be a leader in driving that competition and driving affordability for our customers and creating innovative solutions that they can deliver into the marketplace.

J. David Joyner

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

Thanks, Prem. Maybe just one additional comment on the PBM because there's obviously emerging models that we're seeing around the DTC. So two things I would point out. One is we were the first large provider to join the NovoCare program for GLP-1s. So that's again our push into lowering the cost of these obesity products in the direct-to-consumer market. And then the most recent announcement we made with the administration with respect to the IVF therapy, again, our specialty pharmacy playing an essential or critical role in the rollout of that program as we serve consumers and our customers.

A

Operator: Our next question comes from Eric Percher with Nephron Research. You may now unmute your audio and ask your question.

Eric Percher

Analyst, Nephron Research LLC

Q

Thank you. I'd like to return to Caremark and ask you to clarify the extent to which you're seeing pressure from adoption of TrueCost versus change in mix. If it's TrueCost, how much of that was CVS? I'd expect you were ahead of that versus others or independents that you're enabling. And then if more change in mix, are you seeing that changes to GLP-1 formulary or biosimilar private label is having an impact on rebate guarantees?

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

A

Yeah, Eric. Thanks for the question. First off, let me be clear. This is not from TrueCost. The TrueCost model is not what's driving this. As you know, in the legacy PBM models in the PBM marketplace, we predict and try to drive rebate guarantees, which is a way in which we derive the value for our customers. In that case, we had probably three primary drivers of some of the pressure. One, the slower growth of GLP-1s that we're seeing in the back half primarily driven from we expected a little bit more of the compounding volumes to come back into the benefit, which we're not seeing. Secondly, we had a couple products on the autoimmune category not related to Cordavis but drivers of a couple products that were driving that. So, one is in the autoimmune category and one is in the HIV category.

So, this is not from TrueCost. It is something we're working with our clients, actively adjusting our guarantees appropriately as we move forward but create a little bit of pressure in the short-term.

Operator: Our next question comes from Andrew Mok with Barclays. You may now unmute your audio and ask your question.

Andrew Mok

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. Wanted to ask about the recontracting efforts at Oak Street and understand the room for improvement there. So first, can you share the pre-tax operating losses of that business today? And to the extent you had problematic external membership this year, did you see the needed changes made to benefits for the 2026 plan year? And if not, can you help us understand what contracting changes you're making, including how much risk is shifting back to your Medicare Advantage partners? Thanks.

Brian O. Newman

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

A

Thanks very much. I'll let Prem talk to the business and the evolution. We don't share the pre-tax loss, but I think we've been very focused on the Oak Street business. Once again, the impairment we took was at the HCD level. But we took a look at clinic growth. And really by slowing the clinic growth, the terminal value is what drove the impairment charge. And we believe we're getting the Oak Street business in particular on the path to profitability. Prem, do you want give a little color on the business?

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

A

Yeah, sure. And thanks for the question. First off, just to be really clear, the performance in this quarter was in line with our expectations that we kind of – as we adjusted the guidance from prior, so performance is in line. If you think about value-based care, and David mentioned this in the prepared remarks, it's still a critical component of our strategy. We recognize the significant impact it can have on the healthcare system, the importance to patients

on experience and outcomes and costs. So, there's three or four things that we're really focused on in Oak Street Health. Let me just talk specifically to the payer contracts. One, we won't comment on any specific contracts, but we're focused on ensuring that we have alignment with our payers on ensuring the sustainability of these agreements and having fair and equitable terms for the value that we provide.

So, we're continuing to work on that with our payers and continue to drive that forward. But the two other areas I think that are really critical is we're really proud of our clinical model that we have. We continue to enhance our technology and our operations to drive an enhanced model which will ultimately lower cost and improve quality for our members. And lastly, on the center footprint, listen, at the end of the day the world has changed in value-based care. So, we're being very prudent and we've slowed the number of clinic growth that we had, and we're focused on growing membership inside of our clinics. And so from our perspective, those things are all the components that are driving. And we expect the Oak Street business to improve year-over-year. And lastly, as it relates to V28, it's in line with our expectations of the impact of that as we think about that business.

Operator: Our next question comes from George Hill with Deutsche Bank. You may now unmute your audio and ask your question.

George Hill

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Good morning, guys, and thanks for taking the question. And David and Brian, my question is kind of focused on the retail pharmacy business. And you talked about how 2026 is going to show an improvement from the long-term guide. I guess I would ask if you can comment how far are we away from like the long-term guidance down 5% not being the case anymore. And given the PBMs are paying pharmacies more money and CostVantage has taken root across different payer segments, the earnings growth starts to look more like script growth in that segment. I'll stop there.

J. David Joyner

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

A

Thanks, George, for the question. Maybe high-level, when we announced CostVantage that was a long-term goal, which we are the largest purchaser in the country today. We believe we have the best cost of goods in the market. And as we perform better, the payers will get the benefit of that. And so, that is – we are now going into year two of that in 2026. So as we get to Investor Day, we'll have more clarity about how that business will be performing. But ultimately, we do see better alignment with the payers in terms of how the actual cost of goods align with the actual reimbursement for the services we're providing. And so, Prem, do you want to give any other color?

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

A

Yeah. So, George, remember there's three primary headwinds in the retail business if you go back when we started CostVantage – sorry, three tailwinds that were offsetting one big headwind, which was reimbursement pressure. So, the three tailwinds were we would always drive incremental volume into our stores, right, script growth. We would have productivity initiatives that drove and lowered the cost of our cost basis of delivering those scripts. And lastly, there was cost of goods improvement. And all that netted out to a somewhat tailwind or a headwind that we're trying to cover. If you think about what CostVantage was doing, and as we mentioned, it was going to take a multi-year journey to get us to a place in which reimbursement erosion equaled our cost of goods improvement. We're making good progress towards that, but we still have reimbursement pressure in the underlying business that we continue to focus on.

So just from a CostVantage perspective, as we said at the beginning, 2025 was a transition year. We're proud that we moved all of our commercial and third-party discount card programs into our CostVantage program. We're making good progress in Medicare on transitioning to cost-based pricing models across our full book of business. We're more than 60% complete and targeting 100% of our eligible book by the start of 2026. If you compare our Medicare negotiations to our commercial negotiations, we're ahead of where we were last year, so we feel pretty good about where we are. And lastly, if you think about the impact of CostVantage, at this point it's performing in line with our expectations. As I said, it's going to be a multi-year journey to get that back. And we're addressing one of the major pain points that existed in retail pharmacy, which was cross-subsidization of branded and generic drugs.

J. David Joyner

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

A

Yeah. And George, maybe one final comment. Your thesis is right which is our growth should be tied to script growth. And as we get CostVantage rolled out across our payers, that will become part of the growth. The second part is the services we're going to provide inside the pharmacy. So, if you look at the Stars performance within Aetna, a lot of this was driven because of the collective enterprise effort and the services and the specific programs that have been delivered and launched within retail to engage and drive better performance around adherence and the other quality measures. So that is the next frontier, and this is how we're going to collectively drive the value across the enterprise.

Operator: Our next question comes from Kevin Caliendo with UBS. You may now unmute your audio and ask your question.

Kevin Caliendo

Analyst, UBS Securities LLC

Q

Thanks for taking my question. I want to ask a little bit about what's embedded in your 2026 comments for the Health Care Benefits around MA margin expansion. Can you get to be profitable next year? And also enrollment, I know enrollment is not over yet, but your sense of where your enrollment goes in individual MA next year.

Brian O. Newman

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

A

Thanks for the question. As we think about the guide, which we'll really get into in December at Investor Day, but in HCB, which you asked about, I would say we expect another year of meaningful margin improvement. It will include progress in MA. I think that reflects our disciplined approach to the plan design and footprint. We have repricing opportunities in group with, I think, about half the book repricing as of January. As you think more broadly about HCB, we'd expect a tailwind from our exit of the IFP business next year. And while we're seeing good progress in Medicaid in terms of rate advocacy discussions, we are taking a cautious outlook in light of the broader pressures that are across the industry.

Steve, do you want to provide a little bit more color?

Steven H. Nelson

Executive Vice President and President, Aetna, CVS Health Corp.

A

Sure. Thanks. Good morning. Look, when we entered this year from the Aetna perspective and all of CVS together, we're focused on a couple of objectives. One is to return the business to target margins; second, to regain leadership position overall in the industry. And within those objectives, we rallied around three very specific

priorities to be exceptional on fundamentals, make sure that we are distinctive and we can offer distinctive capabilities to our customers and build a really strong culture with top talent. And so we've been executing with discipline and rigor and urgency around those three priorities. And as you can see by the performance, that as Brian highlighted and David in his opening remarks, the plan is working. And so we are really encouraged by the progress across all of our businesses at Aetna. And we believe this momentum will carry into not only the fourth quarter but 2026.

So, we're going to lean into that momentum. Having said that, we're obviously respectful of the high trend environment, and it's a first year of a multi-year recovery. So, really encouraged by the progress. And maybe I'll just – couple of comments on Medicare and open enrollment as you asked. Look, obviously, early days, but it's going according to our expectations in line with those objectives of returning and continuing on the path to returning to target margins on this business. We made really great progress. It actually is a little bit ahead in terms of favorability, in terms of trends in the individual Medicare Advantage business in the third quarter. And so we're going to take that momentum. And the early signs in AEP is that we're on track to continue that momentum and keep the business on track to returning to target margin.

With respect to just sort of overall competitive positioning, we like our position. Again, early days. We do have the ability and we've developed capabilities as we did last year during the AEP to continue to make adjustments and be nimble as we need to dial up and down products, geographies, other kinds of mechanisms that we have to make sure that we continue on track in a really disciplined and rational approach. So, so far so good. And I would just say, we expect to exit AEP roughly flat in our individual Medicare Advantage membership. So, very encouraged so far, early signs. Look forward to providing more color at our Investor Day.

J. David Joyner

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

Yes. Steve, great quarter, and congrats to you and your team. So this will conclude the earnings call for this quarter. So before I end the call, I just want to thank our dedicated colleagues across CVS Health for the work you do every day. The trust we earn comes directly from the commitment to caring for our customers. I'm very encouraged about the progress we continue to make and look forward to providing you additional updates at our Investor Day on December 9. Thank you for joining the call.

Operator: Thank you for joining CVS Health's Third Quarter 2025 Earnings Call. This concludes today's conference call. You may now disconnect.

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