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CVS Health Corp. (CVS)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to CVS Health's First Quarter 2026 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. Larry, please proceed.

Laurence F. McGrath

Executive Vice President-Capital Markets, CVS Health Corp.

Good morning, and welcome to the CVS Health first quarter 2026 earnings call and webcast. I'm Larry McGrath, Executive Vice President of Capital Markets at CVS Health. And I'm joined this morning by David Joyner, Chair 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.

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 Reports 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 certain 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

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

Thank you, Larry, and good morning, everyone. Let me start off with some highlights across the business. We entered 2026 with strong momentum, and our intentional execution and deliberate actions across CVS Health have led to another quarter of excellent performance. We are driving improved results at Aetna while removing friction for members and providers.

We remain laser-focused on delivering meaningful savings and the lowest net cost to our clients and members at Caremark. We are executing against our operational plans in Health Care Delivery to improve healthcare access across the country. And through the dedication and hard work of our colleagues in the communities across the country, we continue to build momentum and expand our position as the best-run national pharmacy.

Turning to our results this quarter, we delivered adjusted operating income of \$5.2 billion and adjusted earnings per share of \$2.57. Our strong first quarter performance gave us the confidence to increase our full-year 2026 adjusted earnings per share guidance to a range of \$7.30 to \$7.50, up from the previous range of \$7 to \$7.20.

Our revised outlook continues to reflect the core principles of our guidance philosophy; credible targets, disciplined execution, and clear opportunities for outperformance. Across CVS Health, our teams remain focused on what matters most; improving affordability, reducing friction, and delivering a more connected and seamless healthcare experience. However, to realize our ambition of becoming America's most trusted healthcare company, we need to drive change across the entire healthcare ecosystem. We've been focused on strengthening our relationships with all stakeholders to address our key priorities and improve healthcare for Americans.

We share CMS's goal of ensuring the long-term sustainability of the Medicare Advantage program, which remains the best example of a public-private partnership. The final rate notice that came out in April represented a step in the right direction towards greater sustainability, but it remains insufficient to offset underlying medical cost trends.

These trends remain above historical levels, and for the past several years have pressured the entire industry. This includes our own Medicare business, which improved significantly in 2025, but like most of the industry, still generated an adjusted operating loss. As we look ahead, we remain committed to taking the necessary actions to progress towards our target margins.

We're encouraged to see the recognition of the importance of value-based care providers and the detrimental impact of the proposed risk model changes, as well as the critical role of clinician-led documentation in the chart

review process. This is a clear example of how we're working to engage with CMS, regulators, and legislators, discussing what's not working, developing constructive solutions, and being disciplined in the actions we control.

That same approach of collaboration with a focus on consumer outcomes is also shaping how we are working with the Federal Trade Commission to reach a settlement. We saw where the market needed to go more than two years ago, and we have been leading that transition. Recent regulatory actions are helping clarify that direction and reinforcing our focus on simpler pricing, greater transparency, and lower out-of-pocket costs for patients at the pharmacy counter.

A clear example of this commitment is our work to ensure that every American has access to certain insulin products for \$25 per month across our network of more than 60,000 pharmacies, including our own 9,000 CVS pharmacies. At the same time, we continue to introduce innovations that simplify the pharmacy experience, accelerate biosimilar adoption, and improve cost predictability.

We recently announced that on July 1, 2026, we will exclude branded Stelara from our commercial template formularies to be replaced with the low-cost effective biosimilars. We'll use the same proven playbook that allowed us to be the only ones to meaningfully move share with Humira, converting over 90% of eligible patients.

By delivering the same frictionless experience for providers and patients, we expect to achieve similar conversion rates and for the majority of our customers to pay \$0 out-of-pocket for this therapy. This is not theoretical policy. It is real, repeatable savings delivered at scale.

Another important priority we're focused on is reducing unnecessary friction for providers and patients, particularly in the prior authorization process. Our leadership here is clear, Aetna has the fewest medical services subject to prior authorization in the industry. Our focus on embedding technology within each of our businesses has enabled us to approve more than 95% of the eligible prior authorizations within 24 hours, with over 80% being approved in real time.

We've integrated medical and pharmacy decisions, and we've introduced bundling solutions for certain conditions that replace multiple approvals with just one. And now we're leading the way forward by standardizing prior authorization submissions.

Over the past several months, we rallied and worked with key industry peers through AHIP to commit to standardize the services for the most common prior authorizations, which represent over 50% of the PA volume by the end of this year. Importantly, Aetna is well ahead of the industry standard, with 88% of procedures standardized today. This is a meaningful step towards faster decisions, less administrative burden, and a better experience for clinicians and patients alike.

As we look ahead, the next critical step is ensuring other stakeholders within the healthcare system open up their own systems so these standards can be fully adopted and the benefits of this work can be realized at scale.

While we drive towards reducing cost and friction in the system, our work to reimagine the healthcare experience is also directly aligned with our priorities around access and interoperability. At our Investor Day in December, we outlined our vision for an open consumer engagement platform with the consumer at the center. Later this year, we will be launching Health100, an AI-native, state-of-the-art technology and service platform that allows for any payer, PBM, pharmacy, or provider to seamlessly connect.

The Health100 app is designed to be the consumer's front door to a fully integrated healthcare experience, regardless of the banner on their pharmacy or brand of their benefit card. This is where CVS Health scale, consumer trust, and position in the system truly differentiate us. Few companies have the reach, data, and engagement points with the consumer that are necessary to bring a platform like this to market, and to do so in a way that benefits consumers, clients, and the broader healthcare system.

We are focused on developing tech-forward solutions like Health100 because we believe the future of best-in-class healthcare companies will be powered by technology and AI. We see an immense opportunity for technology to drive systemic change across the entire healthcare industry. That is why we've been embedding it in everything that we do and using it to ensure that we are best-in-class in each of our businesses.

AI has been deployed across CVS Health for years to improve our operations and to drive efficiencies. But what we are most excited about and believe will have the biggest impact is AI's ability to improve consumer experiences, engagement, and outcomes. It is already making it easier for our members to find the right providers and better navigate the system. We're enabling more personalized and exceptional care by empowering our pharmacists and clinicians with constantly improving insights. And we're accelerating our go-to-market strategies by using cutting-edge technology to develop deep consumer insights rapidly and at scale. Technology is truly the enabler of our strategy and growth, and we are continuously driving innovation across the enterprise to distinguish ourselves in the marketplace.

In closing, I want to emphasize how encouraged we are by our first quarter performance, our revised outlook for the rest of the year, and the incredible progress we are making on our initiatives to improve affordability for our clients, patients, and members. We are executing against our commitments and continuing to build momentum on our path to becoming the most trusted healthcare company in America.

As we look ahead, our priorities remain clear, disciplined execution, thoughtful partnership with stakeholders across the healthcare system, and a continued focus on innovating to improve affordability, access, and provide a simple healthcare experience, one person, one family, one community at a time.

With that, I'll turn it over to Brian to walk through the financial details.

Brian O. Newman

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

Thank you, David, and good morning. I'll cover three key topics in my remarks this morning. First, an update on our first quarter results. Then I'll discuss cash flow and the balance sheet. And finally, I'll wrap up with an update on our revised financial outlook for the remainder of 2026.

I want to start by reinforcing the theme David just outlined. Our first quarter results and our updated expectations for 2026 are a clear reflection of our say-do philosophy in action. This guidance philosophy is predicated on committing to thoughtful and credible targets, while simultaneously striving to identify and execute on opportunities to deliver outperformance. The strength of our results in the first quarter demonstrates the discipline with which we are managing the enterprise.

Let me highlight some of our enterprise results in the first quarter. We generated over \$100 billion of revenue, an increase of over 6% over the prior-year quarter, driven by growth across all operating segments. Adjusted operating income of approximately \$5.2 billion increased over 12% from the prior-year quarter, primarily driven by an improvement in our Health Care Benefits segment. We delivered adjusted EPS of \$2.57, a meaningful

increase of over 14% from the prior-year quarter. Finally, during the quarter, we generated cash flow from operations of approximately \$4.2 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 3% from the prior-year. This increase was primarily driven by our government business, partially offset by our exit from the individual exchange business in 2026.

We ended the quarter with approximately 26 million medical members, which declined sequentially by approximately 600,000 members. This decrease was primarily driven by our exit from the individual exchange business in 2026, partially offset by growth in our commercial fee-based membership. Adjusted operating income in the quarter was approximately \$3 billion, and our medical benefit ratio was 84.6%.

Our performance reflects a substantial improvement from the prior-year quarter as we continue to execute on our margin recovery plans at Aetna. The MBR was also better than our expectations in the quarter, driven by favorable prior-year development, as well as some pockets of core outperformance resulting from strong medical cost management. We remain confident in the adequacy of our reserves.

Shifting now to our Health Services segment. During the quarter, we generated revenues of over \$48 billion, an increase of 11% year-over-year. This increase was primarily driven by pharmacy drug mix and brand inflation, partially offset by continued pharmacy client price improvements. We delivered adjusted operating income of approximately \$1.5 billion in the quarter, a decrease of approximately 7% from the prior-year quarter, primarily driven by continued pharmacy client price improvements, partially offset by improved purchasing economics and pharmacy drug mix.

Our results this quarter also reflect the early recognition of value that we previously expected to occur in the second quarter. When excluding the impact of this pull forward, our Health Services segment still modestly exceeded our previous expectations. We are encouraged by progress in our Health Care Delivery business during the quarter, which delivered results that were broadly in line with our expectations. Total revenues grew over 15% compared to the same quarter last year, primarily driven by Oak Street Health.

Our Pharmacy & Consumer Wellness segment delivered another strong quarter. We generated revenues of nearly \$32 billion, which remained relatively consistent with the prior-year quarter. In the quarter, we saw increases primarily driven by pharmacy drug mix, increased prescription volumes, and brand inflation. These increases were largely offset by the impact of regulatory-related price reductions on select drugs, as well as the impact of recent generic drug introductions and pharmacy reimbursement pressure.

On a same-store basis, total revenues increased approximately 3% in the quarter. Same-store pharmacy sales grew over 3% compared to the prior-year quarter, driven by the revenue drivers I previously mentioned, including a nearly 7% increase in same-store prescription volumes. Same-store front-store sales increased 120 basis points versus the prior-year quarter.

Our retail pharmacy script share of over 29% continues to represent meaningful growth compared to the same quarter last year. Adjusted operating income decreased approximately 9% from the prior year to approximately \$1.2 billion. Although results in PCW this quarter were impacted by milder seasonal illness and greater weather disruption compared to last year, our strong underlying business performance exceeded our expectations. This provided us with the flexibility to make incremental investments in our business.

Turning now to cash flow and the balance sheet. In the first quarter, we generated cash flows from operations of approximately \$4.2 billion and returned nearly \$850 million to our shareholders through our quarterly dividend. We ended the quarter with approximately \$2.2 billion of cash at the parent and unrestricted subsidiaries. Our leverage ratio at the end of the first quarter improved to 3.84 times. We expect to drive further improvement this year as we execute against our 2026 guidance.

Shifting now to our outlook for 2026. As David mentioned, we are increasing our full-year 2026 guidance for adjusted EPS to a range of \$7.30 to \$7.50, an increase of \$0.30, or more than 4% higher than our previous guidance. We now expect our full-year total revenues to be at least \$405 billion. We are also updating our outlook for full-year cash flow from operations to at least \$9.5 billion, reflecting improved underlying performance primarily related to working capital.

In our Health Care Benefits segment, we now expect full-year adjusted operating income to be in a range of approximately \$4 billion to \$4.34 billion, an increase of \$420 million relative to our prior guidance, reflecting the favorable prior-year development that we experienced in the first quarter. We continue to expect a full-year MBR within our previous guidance range of 90.5% plus-or-minus 50 basis points. This outlook continues to maintain the same respectful and prudent view on medical cost trends until we have greater visibility into how those trends are developing.

In our Pharmacy & Consumer Wellness segment, we now expect full-year adjusted operating income of at least \$6.18 billion, an increase of approximately \$90 million from our prior guidance. This increase reflects our strong underlying business performance in the first quarter and our revised expectations for the remainder of the year.

We are also pleased to reiterate our full-year guidance for our Health Services segment. In aggregate, we now expect full-year enterprise adjusted operating income to be in the range of \$15.53 billion to \$15.87 billion. We now expect a roughly 60-40 split of earnings between the first-half and second-half. You can find additional details on the components of our updated 2026 guidance on our Investor Relations website.

Before we open the call for questions, I just want to reiterate how incredibly encouraged we are by our performance in the first quarter. We drove over \$1 billion of year-over-year AOI improvement at Aetna. Our updated CVS Pharmacy guidance now already reflects an over 2% increase in earnings for 2026. We are driving improvement at Health Care Delivery, and our team is executing well against our rebate guarantee commitments in our Caremark business. We remain confident that 2026 will be another year of meaningful progress as we continue to deliver on the tremendous amount of earnings opportunity ahead of us.

With that, we will now open the call to your questions. Operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Justin Lake with Wolfe. If you would like to un-mute yourself and ask your question.

Justin Lake

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. I wanted to ask first about the Medicare Advantage rates coming out for 2027, your thoughts on those? And then how that you think that fits within the previously discussed trajectory of MA margins getting to the 3% ballpark by 2028?

J. David Joyner

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

A

All right. Thanks, Justin. Good morning. Before I turn it over to Steve, let me – I think it's important to reflect on at least the last couple of years. As you know, the rates have not been supportive of the elevated medical trends. And I think our team has proven, at least now in two consecutive years, that we've been able to manage, prioritizing margin over growth. And so I couldn't be more proud of the team in terms of their focus on making sure that they're restoring the performance of this business.

And I also just want to reinforce the commitment to Medicare Advantage. I think the team has done a great job working closely with the administration on giving feedback and having constructive dialogue in terms of making continued improvement in the program offerings.

So with that, Steve, you want to give some guidance on the rates?

Steven H. Nelson

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

A

Sure. Thanks, David. Good morning, Justin. Yeah, I just want to add my personal acknowledgment of the strong partnership we've had with CMS. Appreciate the progress we made from advanced notice to final notice. They definitely listened and notwithstanding the shortfall relative to trend, appreciate the partnership there.

Look, we're off to a strong start in our Medicare Advantage business. You can see that the year-over-year improvement is really encouraging. And as David said, we've been laying down the foundation for this business over the past two years. So, we took a very disciplined strategy into our 2026 planning, strong execution during AEP, which resulted in improved geographic mix, product mix, membership landed in line with our expectations. And we have leading star scores. We're going to carry those into 2027 as well.

So, look, we're going to take the same disciplined approach going into 2027, and feel confident that we can continue the momentum and, again, make meaningful progress towards target margins in 2027. And yeah, I'll just reaffirm our confidence in hitting target margins in 2028.

Brian O. Newman

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

A

And Justin, maybe I'll just reassert what Steve was getting at. We've got tremendous earning power at Aetna, and we see a pathway back to target margins, as you mentioned, by 2028. Our goal remains to get back to target margins as quickly possible. And I think the start of this year reinforces our trajectory.

Operator: Our next question comes from Michael Cherny with Leerink Partners. If you would like to un-mute yourself and ask your question.

Michael Cherny

Analyst, Leerink Partners LLC

Q

Good morning. Thanks for taking the question. Maybe if I can just dive in a bit on HSS. Obviously, a big focus point heading into the year as you work through the rebate guarantees. It's great to see the outperformance even adjusting for the timing. Is it possible to go a little bit more into some of the timing dynamics?

And then, as you think about the build for the year and what's embedded in guidance, have you seen any changes either from a competitive perspective, from a manufacturer perspective that would influence the views one way or the other, especially given what's obviously been a number of headlines out of D.C. and other places relative to the future value and the importance of the PBM? Thanks so much.

Brian O. Newman

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

A

Yeah. Maybe I'll start, Prem, and then hand it over to you. As I mentioned in my prepared remarks, AOI in the quarter reflected some timing benefit in Q1. However, I think importantly, when you adjust for the pull forward, HSS actually modestly exceeded our expectations. So, it was really driven by the underlying execution. With the rebate guarantee pressure, it was tracking broadly in line with our expectations. So, it's still early in the year, but I think maintaining our full-year guide is the prudent approach at this stage. Prem, you want to fill in some color?

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

A

Yeah. So, thanks for the question, Mike. And as you know, in 2025, as Brian said, we assumed the trends would persist and create some incremental pressure in 2026, and that was reflected in our 2026 expectations. The team is really focused on resolving this with our clients, and they're executing really well against our 2026 rebate guarantee commitments. And it's really kind of driven by what I would say is focus and making sure we have disciplined execution around this area in our book. So, as we look at the back-half of this year, we're pleased with the rebate guarantee performance to date, and our expectations is that this is reflected in our 2026 outlook with no surprises.

On your second question on what I would say is the dynamics around the industry. Look, our clients' biggest challenge still today is that the trends of pharmacy drugs are still too high, and they're pressured with this. Over 90% of our clients' costs are coming from 10% of the branded drugs. So, the PBMs continue to play a really important role in driving competition and creating value. And from our perspective and our active dialogue, we just had our client forum, their biggest ask of us is, how do we continue to make sure that we create that competition and we create affordability in the PBM for their clients and their members?

And secondly, what we're hearing and what we've been focused on over time is really around continuing to create transparency. And as you know, we launched TrueCost over two years ago, which is our PBM offering, where we continue to provide that transparency to our customers.

And the last thing I'll say is the model's evolving with some of the changes with the regulations, with the CAA and other things. We're going from rebate guarantees to drug-level rebate -specific drug level rebates, pricing guarantees, where we're focused on ensuring that our clients get the value and their members get that. And we've said this before, but just as you recall, our Aetna fully insured business over the last eight years have had point-of-sale rebates where we're passing that transparency to consumers. So, we remain on our front foot to drive the evolution and the change in the space. And we remain hyper-focused on creating affordability and driving down cost inside of the PBM.

Operator: Thank you. Our next question comes from Stephen Baxter with Wells Fargo. If you would like to open your line and ask your question.

Stephen Baxter

Analyst, Wells Fargo Securities LLC

Q

Yeah, hi. Thank you very much. I just wanted to ask a little bit about the approach to the HCB guidance at this stage. It looks like most of the guidance range, at least to us, feels like it could be potentially attributed by the net favorable PYD you saw in the quarter, which is obviously good to see. It implies you've taken a pretty conservative approach to current year cost trend.

So I guess, first, maybe we'd love to hear a little bit more about the pockets of outperformance you've actually seen so far that you discuss in the slides, and then whether to think those are kind of across the board or more notable in certain businesses. And then, at this stage, have you actually made any changes to how you're booking current year cost trend into the P&L? Thank you.

Brian O. Newman

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

A

Thanks very much for the question. Maybe I'll start on the guidance question, and then, Steve, turn it over to you for some color. I would say, very pleased with our performance across Aetna, and obviously encouraged by the Q1 early results. We did benefit, as I mentioned previously, from some favorable prior-year development that was primarily in the government business. We saw some pockets of core outperformance, and that was driven by strong medical cost management, which has not been reflected in our updated guidance. And really that's because it's only the first quarter, it's early in the year.

So we did also see some outperformance on non-medical cost items such as net investment income, NII, and fees. And while encouraging, I think given where we are in the year, early in the year, Q1, our full-year outlook maintains that same respectful and prudent view that we talked about most of last year. So overall, pleased with where we're at at this point, confident in our ability to deliver the full-year. And maybe Steve, you can provide some more color on the business.

Steven H. Nelson

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

A

Sure. Thanks, Brian. Good morning, Steven. Look, we – as David and Brian have said, a really strong start to the year and great year-over-year performance and improvement in across Aetna driven by government business, which is encouraging. But we saw really strong performance across all the lines of business at Aetna. Our commercial business has been strong. We've been investing in that, and we saw really nice growth in a very disciplined pricing environment. So really pleased with that. That was – that growth was across all parts of our commercial business and came from better retention in force and also some nice new wins.

Our Medicare business that we talked about, strong performance there, great start. And Medicaid also, we've been executing really well on rate advocacy, and we're starting to see those rates line up with acuity. And so strong partnership with the states and encouraged by the start and feel good about the outlook there as we think about the rest of the year.

So we've been very focused, as David and Brian have talked about, on returning the business to target margin in the second year of that multi-year journey. And so, like where we are, but we've also been focused on returning Aetna to leading capabilities. We've been moving from a transaction kind of orientation to a consumer solutions orientation. So we've been investing in technology, AI, and been driving some really nice results there. David highlighted what we've done in prior auth, the industry-leading statistics really.

And then as you think about the opportunities to really go after affordability, we think that in addition to the strong medical cost management fundamentals that we have, we're really leaning into navigation and partnerships with providers in a distinctive way. We think a better informed, more engaged, empowered member is a better healthcare consumer. And we think when we combine all that together, that's actually going to reduce total cost of care. So we're excited about -that.

And it's not just us saying that we're getting some really nice external validation that we're on the right track from our clients and members, but also, awards such as Press Ganey named us their inaugural Health Plan of the Year. So just really encouraged by kind of the overall positioning of Aetna, in addition to returning the business to target margin. So we have incredible team, a culture of execution and accountability, and strong start. And we have confidence in the rest of the year and even beyond.

Operator: Our next question comes from Andrew Mok with Barclays. If you would like to un-mute your line and ask your question.

Andrew Mok

Analyst, Barclays Capital, Inc.

Q

Hi, good morning. A question on capital deployment. With respect to AI, you're still reinvesting meaningfully across the enterprise, but you talked about the immense opportunity to drive systemic change. So one, can you help us understand the level and pace of AI investments you're making this year? And how we should think about the inflection point when AI shifts from net investment to net benefit on the P&L?

And then relatedly, it looks like net leverage in the quarter finished in the low 3s, which I believe is better than the BBB leverage target. If so, when do you expect to turn share repurchase back on? Thanks.

Brian O. Newman

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

A

So maybe I'll take the second question first, and then we can rotate in. So as we think about share repo, we started down this path a couple of years ago and are making a lot of good progress towards our objectives. And candidly, I'm really proud of the team, the performance they've delivered. We remain focused, however, on strengthening our balance sheet, and that's by reducing leverage. So a lot of good progress, but we'll continue to evaluate the impact of the improving financial performance and leverage throughout 2026, as well as what you're hinting at, the potential implications of capital deployment opportunities later this year. So right now that's not baked into the 2026 guide, but we'll evaluate as we go through. David, you want to pick up?

J. David Joyner

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

A

Yeah. So, Andrew, I think it's a great question in terms of the investments or the reinvestments we're making into our business, in particular around technology. We see this really as an inflection point in our business. And I've talked with our own team about the fact that we're moving from a consumer-based healthcare company to a consumer-based healthcare technology company. And we think we're really at the center of being able to leverage technology to engage the consumer.

Steve mentioned it in terms of how we're looking at it at Aetna. We're doing the same thing across our pharmacy assets. And I think this is really an important time for us to stand above the rest of the industry in terms of our investment in technology, how we're investing in the consumer experience, and trying to connect all the various stakeholders across the system. So maybe I'll let Steve and Prem talk specifically about how it's impacting their businesses. So Steve, you want to start first?

Steven H. Nelson

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

A

Sure. Thanks, David. Good morning, Andrew. Yeah. For Aetna, we think about it in three buckets. One is in terms of investment in AI and broader technology. One is really going deliberately at cost structure and improving efficiency. And so this is – think about this as investing in just the fundamentals of the business; accuracy, reducing rework, better forecasting, better analytics, pricing discipline. I mean, it all comes from advanced analytics and capabilities there. So that's one bucket.

Second bucket, which is really important, is it's improving the way we do our work, so our colleagues can spend more time on things that matter, and that's really important to our colleagues. We just – and we need to equip our colleagues and our workforce and make sure that they're ready for this and they can really leverage it. So we just went through it, [ph] and (00:37:25) took all our leaders through an AI academy. We're launching an AI academy in a couple of weeks with all of our colleagues across Aetna. And we're going to be doing that across the enterprise. So that's kind of the second bucket.

The third bucket, which I'm also really excited about, I mentioned earlier, is investing in the capabilities and better experience, more empowerment, better insights, better navigation for our members. Things like informed choice, our Smart Compare products, our care pathways, they all help our members be better consumers of healthcare, and that's because of the leading technology we've developed in AI and our digital tools. So again, really excited actually about the progress we've made very quickly and what that's – what that means to our members, our clients, and honestly, not just total cost of care, but actually better health outcomes. Prem?

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

A

Yeah. Thanks, Steve, and thanks, David. Just a couple other things, Andrew. I think first and foremost, technology and AI are at the core of a lot of our businesses. And if you think about the assets that we have, we have to be industry leading, and we have to leverage technology to operate in these businesses. And if you think about the progress we've made in PCW or the work that we're doing in HSS, they are all founded in our, what I'd say is, industry-leading capabilities as it relates to technology and AI.

Secondly, as we mentioned at Investor Day, we are launching Health100, and that is really powered in the premise of our ability to engage consumers in a very different way. And we're excited about how AI is going to help us accelerate and create unique solutions for members. We know that if we can get engaged members into

the healthcare ecosystem, we will be able to drive better results, and better results drives better outcomes and lower costs for our clients.

And so we are focused there. We're continuing – we're happy about the progress we're making as it relates to Health100. And so I'd say more to come as it relates to this. But this is a core founding principle in the way we operate this company in all of our businesses and how we do work for our colleagues, and really enable our colleagues to serve our customers.

J. David Joyner

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

A

Yeah. Andrew, maybe just one final note. Prem mentioned the client forum that we had a couple of weeks ago on the Caremark side. And I think it's a good scorecard for us to figure out if are we heading in the right direction. And we had 500 of our largest customers attending, and we showcased the technology and investments that we're making in the business, in particular around Health100. And their answer was somewhat surprising. They said, what took you so long? Because there's such frustration with the fragmentation of how healthcare is delivered and how it actually impacts the engagement for the members, employees, and/or the consumer.

And so the fact that we're standing up and actually connecting the various stakeholders, and actually making it easier for the consumer to engage is something that our customers actually are looking for. I think it's something that our consumers have been asking for, and I think we're uniquely positioned to be able to execute on that strategy.

Operator: Thank you. Our next question comes from Lisa Gill, JPM. If you'd like to un-mute yourself and ask your question.

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Q

Thanks very much, and good morning. I wonder if we could just spend a couple of minutes talking about the current regulatory environment. We obviously have PBM legislation that's passed on a national level, but I'm thinking about states like Tennessee that look to do something similar to what we saw in Arkansas.

So really two questions here. One, how are you navigating that? And two, kind of dovetailing into an earlier question and David, what you just talked about with your client forum, will we see meaningful changes due to some of these potential changes that could happen in trying to separate the different components of pharmacy, whether we think about specialty or the retail versus the PBM?

J. David Joyner

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

A

Yeah. Lisa, it's a very good question, and I'll do my best to frame out how we're navigating both the changes at the federal and state level. But maybe let me take it just a step back. We've known these changes were coming. That's in large part why we launched TrueCost more than two years ago, is because we knew that there was a drive or a push towards getting to net cost economics, essentially making sure that the consumer is getting the benefit of the discounts, and that we change the pricing paradigm from these average gross prices to net price. So that is well understood inside of our business. I think it's well understood among our customers. And we've been on that journey for the last two years.

Now, the good news is, if you look at least at the federal level, we there – we're basically reinforcing the path that we're on. And the good is we see both the CAA as well as the work we're doing, trying to reach a settlement with the FTC. There is now going to be clarity in terms of the rules that we're going to operate under. So I think the good news is that the industry will now have a new set of rules of which they're going to transition to. We think it also gives some durable reimbursement relief on the independent pharmacies, which I know has been a pain point in particular in some of these states that you mentioned.

And then lastly, I think the most important piece, while we've been at it for two years, we still have more time ahead. So we're looking obviously to make this transition over the course of the next couple of years. And I think to the question that you asked, do I think that there will be change? Yes. I think these broader federal changes is going to actually create a set of rules and a structure that the entire industry will move to, that I think will actually accelerate the adoption among our customers. So, that's where I see as a positive.

The frustration, obviously, is that every state's kind of running separately. And I think our clients, if I go back to the client forum, they wanted us to focus on two things. One is cost still remains the single biggest issue from a budget standpoint, whether it be the GLP-1s or the rising cost of specialty, they still want us to continue to drive costs down and actually improve the experience for the members.

And secondly, with all of the changes underway, whether it be at the federal or the state level, they want more predictability. They want more assurances about how they're going to budget over the course of the long run. So, that's in large part what we're trying to do as an organization now, and I'll have Prem speak a little bit to the Tennessee specifics, and maybe even more broadly how we're reacting in the marketplace for our customers.

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

A

Yeah. Lisa, thanks for the question. And from a Tennessee perspective, we're disappointed with the direction that Tennessee has chosen. They really put politics and political interest over things that are much more rational. But the reality is the legislation's going to raise costs for the state. It's going to threaten access of pharmacy, which we already know there's challenges with some pharmacy deserts in specific parts. And it creates complexity and challenges with our specialty pharmacy and the specialty pharmacy industry and the way those businesses operate.

There's many issues that were already covered, and if you think about the CAA or the negotiations we're working on with the FTC, that are already covered in federal legislation. So, the good news is we have time. It doesn't take effect until the middle of 2028. We're evaluating our options, which include potentially taking legal action like we did in other states. And we're also looking at other options as well. We'll continue to discuss and have active dialogue with the folks in Tennessee as it relates to this. But in the meantime, our pharmacies will operate as normal, and we're grateful for all the great work that they do every single day.

To your second question, and you know the PBM industry really well, Lisa, I'd say a few things. One, when you think about what our clients said and what David said earlier, affordability is still at the core of what we drive, and our role is a critical role inside of the pharmacy supply chain to create competition and drive down costs for medications.

And I'll give you a specific example. If you think about GLP-1s, which is one of our clients' biggest challenges, it's one of our clients' biggest trend drivers. If you think about GLP-1s, right now, we were very deliberate last year in creating competition in this category and helping reduce costs for our clients. But the affordability challenge is very real. About only half of our clients cover GLP-1s for weight loss. It's an indication that our clients need more

solutions and innovative solutions that PBMs bring to market for their customers. And it's a reality that we face in driving that competition and bringing down cost.

And from a specialty perspective, half of the revenues right now in the pharmacy benefit are in our specialty book of business. We're running a world-class operation that's focused on driving down cost, leveraging biosimilars and generics to create value for our customers and really focused on that front. So all in all, we play a critical role with our customers to drive down this cost. We're pivoting the model to make it much more transparent as part of TrueCost of what David said, and moving in the model in which the regulatory environment is shifting. But we feel good about where we are, we feel good about our market solutions, and we feel good about kind of the changes that we're making to continue to create the competition needed to drive down cost for our customers.

Brian O. Newman

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

A

And then, just maybe, Prem, I'll follow on and close it out with an earnings comment. Lisa, we remain confident in our ability to deliver mid-teens EPS CAGR through 2028. At our Investor Day back in December, we talked about multiple pathways to achieve that growth. And while Tennessee outcome wasn't contemplated at the time of our Investor Day, we do have the scale, diversification, execution to absorb this and deliver on our commitments. Thanks for the question.

Operator: Thank you. Our next question comes from Elizabeth Anderson. If you would like to un-mute yourself and ask your question.

Elizabeth Anderson

Analyst, Evercore ISI

Q

Hi. Good morning, guys. Thanks so much for the question. I was wondering – I had a sort of two-part question. One, you've mentioned Oak Street doing better in the quarter. So, I was wondering if you could talk about that and sort of the impact you think that will have on the remainder of the year?

And then two, obviously, you called out some core outperformance on the HCB segment. I imagine part of that could have been some transitory elements in terms of weather and flu. So, any callouts you could make on that side to sort of better understand sort of the core improvement that you also called out there? Thank you.

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

A

Yeah. So, from an Oak Street perspective, look, we believe value-based care is the future and our asset in Oak Street's the right asset. We continue to focus on a differentiated care model with better care and really focused on patient engagement and lower medical cost in that model. And as you recall, last year we had a very specific set of actions we were taking to improve the trajectory of this business. It was founded in making sure we had the right membership and disciplined growth. It was ensuring that we – what I would say is adapted and reacted to V28, and that adoption is on track. We continue to work with our payer partners to make sure we have the right contracts in place to run this business and optimize it.

And lastly, we have to continue to make our clinical-led model and optimize that model as we go forward. So, to date, we're pleased with our Oak Street performance in 2026. We recognize the need to continue to make progress in future years, but we feel good about where we are with Oak Street and what we've done so far.

Operator: Thank you.

J. David Joyner

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

I think...

A

Operator: Our next question...

J. David Joyner

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

...the question...

A

Operator: Sorry, go ahead.

J. David Joyner

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

I think Steve was going to answer the second part of the HCB question around flu or some of the other...

A

Steven H. Nelson

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

Weather and flu, like it's been all in line with our expectations and nothing really to call out. We, again, had a really strong medical management and proactive efforts lined up with these and don't see anything that's material there.

A

Operator: Thank you. Our next question comes from George Hill with Deutsche Bank. If you'd like to un-mute yourself and ask your question.

George Hill

Analyst, Deutsche Bank Securities, Inc.

Yeah. Good morning, guys, and thanks for taking the question. I kind of wanted to come back to pharmacy and the GLP-1 market. And I guess I wanted to ask, again, a multiparter, like how focused are you guys on retaining share in that space? How has the margin profile progressed in that space given the move on to the cost-plus model? And related to the cost-plus model, at the start of this quarter, we saw all the prices of a bunch of drugs come down because of IRA or MFN. Historically, they might have been money-losing drugs for the pharmacy side of the business. But as the spreads narrow, as the prices come down, I'd just be interested in understanding how the margin profile is evolving? It's a big question about the evolving margin profile on branded drugs under the cost-plus model. But I think you can kind of put together where I'm going. Thank you.

Q

J. David Joyner

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

Yeah. Thanks, George. I'll take the first part and let Prem talk a little bit about some of the impacts on retail. This is – this remains probably the most talked about category, whether it be among consumers and/or payers. So, to all the things we've said earlier, as a PBM and as a payer, we're very much focused on managing the cost of this category, which is why we've introduced competition in the formulary, which is why we're wrapping around a robust set of weight management solutions on the category.

A

So it is important to us for a whole host of reasons because we've got to deliver value for our customers to show and demonstrate that we're having a meaningful impact on the overall health status of their population, and ultimately making sure that we're driving an affordable solution on the pharmacy side.

As Prem mentioned earlier, we still have a lot of clients that are actually discontinuing coverage for the obesity products of GLP-1s. And this is where when you ask the question how important is it, I think we actually have one of the most robust and/or holistic solutions to GLP-1s because we've built an extensive and compelling direct-to-consumer solution for patients in the GLP-1 category. Whether it be our partnerships with the NovoCare and/or just in general, as you're seeing the shift from on-benefit to off-benefit, CVS Pharmacy remains a very viable solution and distribution channel for the category.

So, and to your point, where it was a headwind several years ago, our migration to the CostVantage price model has neutralized that. So while we're not losing money, we're not overearning on the category either, but ultimately it allows us to basically participate on every drug in a fair and value-based approach that creates that. So maybe if you want to just speak a little bit just to the basis point growth...

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

Yeah.

A

J. David Joyner

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

...that we've seen.

A

Prem S. Shah

Executive Vice President & Group President, CVS Health Corp.

Yeah. So just to add a few other things. So first off as David alluded to, we have 9,000 – approximately 9,000 local community pharmacies where we can serve members. And if you think about the GLP-1 market, there's really two markets, right? One is the insured or the payer market that is available when there is access and coverage, and the second is the DTC market for these types of lifestyle medications where patients are looking for an alternative option.

A

And so on the payer side, David covered it well. I'll just a couple of the comments on the DTC side. We continue to work to make sure that in our stores, that the patients have access to the affordable prices of these medications there, and we're seeing the benefits of that in our retail business in terms of the way we've orchestrated and done our tech stack to drive the workflows to drive these prices down. And we're seeing that if you look at the specific category in GLP-1 share growth, we've had a 200-basis point improvement in share growth in the entire category from this. So that's from our ability to kind of win new customers in the DTC market, but as well as continuing to serve our payer customers in a model.

And as it relates to kind of margin per script, that question you asked, this is exactly what CostVantage was intended to do and why we launched it. We allow our payer customers to enjoy the benefits of our industry-leading cost of goods on every script. And we earn a fair margin as it relates to that. So, from our perspective this is working as intended and we feel really good about the cost-based pricing and CostVantage model in the marketplace.

J. David Joyner

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

A

Yeah. Maybe one last thing as it relates to the net cost model on the PBM side. So we focused a lot on what happens at retail, but the good news is the TrueCost model is a net cost model. So the consumer, the member, the employees will actually see a really competitive price compared to what they're seeing in the cash marketplace. So that's just another example where we're trying to drive more transparency for the consumer to make informed decisions about what the most cost-effective solution and pharmacy channel is for them.

Operator: Thank you. Our next question comes from Scott Fidel with Goldman Sachs. If you would like to unmute your line and ask your question.

Scott Fidel

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks. Good morning. I wanted to maybe toggle over to the commercial business and really sort of two questions there around that. The first would be just on commercial group risk, if you could maybe give us an update on how medical cost trends are progressing there? And then also on the enrollment side, how retention and sales are tracking as well? And then maybe also just a little early insight into how things are progressing for the commercial fee-based large group selling season for 2027? Thanks.

J. David Joyner

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

A

All right, Steve, that's all you.

Steven H. Nelson

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

A

Okay. Thanks. No, thanks for the question. As I said earlier, commercial business is strong and continues to perform really well. We saw a nice growth, as I said earlier, across all parts of the business, including fully insured, where we had really disciplined pricing. So it just means that our product suite, our innovative approach to not only provide better navigation and more empowerment, our leading technology, all those tools and products are really resonating with our clients and our members and driving some nice results. So pleased with the performance in the early part of 2026. I have really good confidence in this business the rest of the year.

As we think about 2027, the pipeline looks strong and we think we're really well positioned. We've been investing in our products and returning Aetna to this idea of being an absolute leader in healthcare, not just in the transactions, but in our solutions. And so that's where we're investing. And so I've mentioned some of the products earlier around better navigation and – but we also are leaning into advocacy, where we can actually meet our members where they are in their journey and help them all the way through.

And then we've also been leaning into provider payer partnerships, which we think is going to reduce friction and create a more seamless experience for our members. And we have 18 million members in our commercial book, so that's really meaningful to our clients there. So, we think we have some leading solutions and we're going to just continue to get stronger there. And so really excited about the outlook for the commercial business.

J. David Joyner

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

All right. Thank you, Steve. And I think this concludes the call for this morning. Before we wrap, just a couple of things I want to point out. One is, we think this is a really strong start to the year. We believe we're well-positioned, and we'll continue to build the momentum throughout the year. I want to thank the management team for their continued performance and execution against the plan.

And I also want to thank our colleagues for the work that they do every day. Their focus on executing against the strategic imperatives on serving consumers is what's driving progress that you heard about today. So, again, thank you for your time and look forward to seeing you next quarter.

Operator: Thank you for joining CVS Health's first quarter 2026 earnings call. This concludes today's conference call. You may now disconnect.

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