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CVS Health Corp. (CVS)

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to CVS Health's Second 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 second quarter 2026 earnings call and webcast. I'm Larry McGrath, Executive Vice President of Capital Markets at CVS Health. 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 filed 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 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. I'm proud to share that this quarter, each of our operating segments grew earnings and delivered performance that exceeded our expectations. We generated adjusted operating income of $5.2 billion and adjusted earnings per share of $2.58. These results reflect a clear and deliberate enterprise-wide focus on building trust by executing against our commitments to consumers, colleagues, and shareholders.

Building on this strong performance so far this year, we are raising our full year 2026 adjusted earnings per share guidance by $0.60 to a range of $7.90 to $8.10. We're also updating our full year expectation for cash flow from operations to at least $11.5 billion, a meaningful increase of $2 billion from our prior guidance. These expectations reflect the core principles of our guidance philosophy, credible targets, disciplined execution, and clear opportunities for outperformance. Brian will provide more details on our updated guidance, as well as some early high level preliminary commentary for 2027 later in the call.

Across CVS Health, our focus remains on helping people more easily access affordable care, navigate the healthcare system, and engage in their health. One clear example of how we're doing this is through our work supporting patients utilizing GLP-1s for weight loss.

As demand for these therapies continue to grow, consumers are increasingly focused on three things: affordability; access; and convenience. CVS Health is a leader in all three. For employers looking to provide coverage for their workforce, Caremark continues to lead the industry by taking formulary actions that will increase availability of these drugs at a lower cost. However, despite these efforts, affordability challenges mean not all employers can cover GLP-1s for weight loss.

As more consumers seek access to these therapies outside of traditional benefit designs, CVS Health's comprehensive direct-to-consumer platform provides a trusted, convenient, and affordable pathway to care.

MinuteClinic's 24/7 virtual weight management offering is the lowest cost option in the industry, connecting eligible patients with a licensed clinician for just $29. Through our manufacturer relationships and CVS Pharmacy's omnichannel fulfillment capabilities, eligible patients can access GLP-1 therapies for as little as $149 through cash pay options in the way that's most convenient to them. We're also simplifying navigation and making it easier for patients to find the most affordable option available to them.

Later this year, through our new partnership with Eli Lilly, eligible Zepbound and Foundayo patients will be able to access cash pay pricing for same-day pickup directly through CVS Health's app or in our stores. This builds on our existing relationship with Novo to dispense oral and injectable Wegovy, making CVS Pharmacy a convenient, affordable destination for all FDA-approved GLP-1s.

As more consumers begin these therapies, the role of our nearly 30,000 pharmacists is an important differentiator for us. They help patients manage common side effects, answer questions, and ensure they stay on therapy. These trusted pharmacist relationships and our omnichannel capabilities are especially important for seniors.

With the launch of Medicare Bridge last month, CVS Pharmacy is helping seniors navigate the program and access these therapies more easily. At the same time, we're creating a new source of prescription volume as affordability barriers come down. Across CVS Health, we are best positioned to improve affordability, expand access, enhance the consumer experience and capture the opportunities ahead, regardless of how consumers choose to access GLP-1s.

Our work with GLP-1s is one example of how we can bring our assets together around the consumer need. More broadly, that same focus on simplicity, access and engagement is driving our consumer technology strategy. Last month, we began the targeted launch of our Health100 platform, including Haio, our new AI-powered assistant. Haio is designed to simplify the consumer experience and help people engage more effectively in their care journey. Early feedback has been encouraging, and we are excited to expand access later this year.

Simplifying healthcare for consumers also requires making the system easier for the providers who care for them. That is why becoming the partner of choice for providers is such an important priority for us. We spend a great deal of time listening to providers and understanding where they experience the most friction in the healthcare system.

Consistently, we hear the same themes: reducing prior authorization burdens; streamlining claims; and improving access to real-time patient information. Our recent national provider survey reinforced those priorities and confirmed that we are making meaningful progress. Those insights are also helping reinforce the actions we're taking across our businesses to simplify interactions and improve experiences.

We've recently launched a new AI-enabled Claims Assist Manager, which will reduce our processing time by over 20% and accelerate payment for providers on hundreds of millions of claims every year. We're also expanding the Aetna Clinical Collaboration program that we announced last year.

This program embeds our nurses directly into the facilities to work alongside hospital staff during critical care transitions. It also helps create a more connected experience for both providers and members through improved coordination and communication.

Together, these efforts are making us easier to work with and helping strengthen our position in the market. Those same principles, better connectivity, less friction, and faster access to information are also guiding the work we're doing in our Care Delivery business.

We've implemented technology infrastructure changes to modernize our platforms and accelerate data sharing and connectivity with providers and payer partners. We continue to expand and refine our use of AI and analytics to reduce provider administration burden and support better, more connected care for patients.

This includes appropriate use of AI to analyze over 1 billion pages of clinical records to enable more personalized and coordinated care. As we drive towards improved performance in this business, technology enhancements such as these are instrumental in positioning us for long term success.

Across these efforts, we're building capabilities that further differentiate CVS Health in the marketplace. While we position ourselves for the future, we're not losing sight of the need to deliver best-in-class performance across each of our businesses.

At Aetna, we put an industry-leading team in place and the deliberate, coordinated actions we've discussed over the last two years continue to improve both our results and positioning. We're strengthening our clinical programs, improving the way we operate, and maintaining a disciplined approach to cost management and pricing.

What you see now is the cumulative impact of these actions starting to come through clearly in our results. So far this year, we've delivered more than $2 billion of year-over-year improvement in adjusted operating income, reflecting both our commitment to restoring this business to its full potential and the consistency of execution behind it.

In our Caremark business, we've been leading the transition towards greater transparency for several years, especially at the pharmacy counter, where consumers can feel the impact of high priced drugs.

With recent legislation and regulatory developments, including our proposed settlement with the FTC, we expect the transition to net cost price models to accelerate while preserving the value PBMs deliver to clients, members, and the entire healthcare system.

Our teams remain intensely focused on executing this transition. At the same time, we continue to build on the strength of CVS Specialty, the leading specialty pharmacy in this country. Success in this critically important, fast growing category requires the ability to bring together clinical expertise, data and analytics, and personalized engagement to support complex patients across their full therapy journey.

And that's exactly what we do. Building on that foundation, our focus on technology, automation, embedding AI into our processes have made CVS Specialty the most tech-enabled specialty pharmacy in the industry.

Our tools and processes are designed to identify patients earlier, initiate therapy faster, and support them continuously to help improve adherence and outcomes. While others in the industry are working towards achieving the standard of 80% adherence, CVS Specialty consistently operates above 90%.

At CVS Pharmacy, we continue to build momentum, grow volumes, and deliver strong results. Our improving performance reflects both the impact of deliberate actions we've taken to position this business for long term success, and the discipline with which we are executing every day.

Healthcare is local and best delivered by trusted, caring, and tech-enabled colleagues that are part of the communities they serve. This is why maintaining pharmacy access across the country is so important. We, along with others, are challenging unconstitutional laws in states like Arkansas and Tennessee that will make care more expensive, less accessible, and more complicated for patients. Our teams are working hard to achieve the best possible outcome as this develops.

At the same time, we are strengthening our omnichannel and engagement capabilities to meet consumers where they are, creating more seamless experience across our stores and digital platforms. This is how we help ensure

that we continue to support the millions of Americans that depend on CVS Pharmacy and maintain our position as the best run national pharmacy in the country.

To summarize, we are doing what we said we would. We delivered strong results, exceeded our expectations, and raised our outlook for the year. More importantly, we're continuing to make meaningful progress towards becoming America's most trusted healthcare company.

Across each of our businesses, the deliberate actions we've taken are strengthening our position in the market and creating opportunities for distinction and long-term sustainable growth. We are seeing those efforts translate into better experiences for our consumers, providers and clients, while delivering stronger performance across CVS Health. We are encouraged by the momentum we're seeing and confident in our ability to continue delivering on our commitments.

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 will cover four key topics in my remarks this morning. First, an update on our second quarter results. Second, I'll discuss cash flow and the balance sheet. Third, I'll provide an updated financial outlook for 2026. And finally, I will share some early high level commentary on 2027.

As David just highlighted, our strong second quarter results demonstrate the discipline with which we are managing the enterprise and exemplify our say-do philosophy, as we continue to execute our strategic priorities and deliver on our commitments.

Let me start by highlighting some of our enterprise results in the quarter. We generated over $106 billion of revenue and delivered approximately $5.2 billion of adjusted operating income, increases of over 7% and 35%, respectively, from the prior year quarter. These increases were broad based as we experienced growth across both the top and bottom line in all of our operating segments. We delivered adjusted EPS of $2.58, a significant increase of over 40% from the prior year quarter. And finally, we generated year-to-date cash flow from operations of approximately $10.6 billion.

Turning now to each of our segments. In Health Care Benefits, we generated over $37 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.

Medical membership, as of quarter end of approximately 26 million members, remained consistent sequentially and declined approximately 700,000 members from the prior year quarter. The year-over-year decrease was primarily driven by our previously discussed exit from the individual exchange business, partially offset by growth in our commercial fee-based membership.

Adjusted operating income in the quarter was approximately $2.4 billion, and our medical benefit ratio was 87.4%, both of which improved meaningfully from the prior year quarter as we continue to execute on our margin recovery.

These results include the impact of changes in our individual exchange risk adjustment position associated with the 2025 plan year, as well as the impact of favorable prior year development. Together, these items contributed approximately $500 million or 140 basis points to our MBR in the quarter.

Excluding these items, our core performance in the quarter still exceeded our expectations. This core outperformance was largely concentrated in our Medicare business, where we continue to experience pockets of favorability as a result of strong medical cost management and disciplined pricing. Our Medicaid and Commercial businesses performed in line with our expectations during the quarter. We remain confident in the adequacy of our reserves.

Shifting now to our Health Services segment. During the quarter, we generated revenues of nearly $52 billion, an increase of over 11% from the prior year quarter. 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 over $1.7 billion, an increase of 10% from the prior year quarter, primarily driven by improved purchasing economics, pharmacy drug mix and modest improvement in our Health Care Delivery business. These increases were partially offset by pharmacy client price improvements.

At Caremark, we continue to make progress against our priorities. Within Caremark results in the quarter, there are a few items to call out. We experienced some pressure in our 340B business, as the environment for this program remains dynamic.

We also experienced a pull-forward of value previously expected to occur in the second half of the year. After adjusting for the pull-forward, our underlying results were in line with our expectation as outperformance across the broader Caremark business, including higher specialty generic penetration rates offset the pressure in 340B.

We are encouraged by our continued progress in our Health Care Delivery business, which performed in line with our expectations during the quarter. Total revenues grew nearly 23% compared to the same quarter last year, primarily driven by Oak Street Health.

Our Pharmacy & Consumer Wellness segment delivered an exceptional quarter and continues to build momentum. We generated revenues of nearly $34 billion, a slight increase from the prior year quarter, primarily driven by pharmacy drug mix, increased prescription volume, including contributions from the Rite Aid transaction we completed last year, and brand inflation. These increases were largely offset by regulatory-related price reductions on certain drugs, the impact of recent generic drug introductions, and pharmacy reimbursement pressure.

On a same-store basis, total revenues increased modestly in the quarter, and same-store pharmacy sales grew approximately 3%. These increases were driven by the revenue drivers I previously mentioned, including a 7% increase in same-store prescription volumes. Same-store front store sales increased 100 basis points versus the prior year quarter.

We delivered adjusted operating income of nearly $1.5 billion, an increase of over 10% from the prior year, primarily driven by core pharmacy strength and contributions from the Rite Aid transaction, partially offset by continued business investments and the impact of consumer dynamics.

Turning now to cash flow and the balance sheet. In the first half of the year, we generated cash flow from operations of approximately $10.6 billion. This result reflects strong earnings year-to-date, as well as the impact of improvements in working capital. We returned over $1.7 billion to our shareholders through our shareholder dividend year-to-date.

We ended the quarter with approximately $2.7 billion of cash at the parent and unrestricted subsidiaries. Our leverage ratio at the end of the quarter was approximately 3.5 times and we expect to drive further improvement as we continue to execute against our 2026 outlook.

Shifting now to our guidance for 2026, as David mentioned, we are increasing our full year 2026 guidance for adjusted EPS to a range of $7.90 to $8.10, an increase of $0.60 or 8% higher than our previous guidance. We now also expect our full year total revenues to be at least $414 billion.

In our Health Care Benefits segment, we now expect full year adjusted operating income to be in a range of $5.03 billion to $5.37 billion, an increase of over $1 billion relative to our prior guidance. This increase reflects a portion of our strong underlying core performance in the first half of the year, as well as the approximately $500 million cumulative impact of our net risk adjustment update and the prior year development experienced in the second quarter.

We now expect a full year MBR of 89.75%, plus or minus 25 basis points. This outlook continues to maintain a respectful and prudent view of medical cost trends in the second half of the year.

In our Pharmacy & Consumer Wellness segment, we now expect full year adjusted operating income of at least $6.4 billion, an increase of $220 million from our prior guidance. This reflects our strong performance in the quarter and our updated expectations for the remainder of the year, which includes the continuation of strong pharmacy performance.

We are also pleased to reiterate our full year adjusted operating income outlook for our Health Services segment. This outlook reflects continued strong performance across our Pharmacy Services businesses, offset by our updated view of 340B.

In aggregate, we now expect full year enterprise adjusted operating income to be in the range of $16.58 billion to $16.92 billion. We are also increasing our outlook for full year cash flow from operations to at least $11.5 billion, reflecting our updated earnings outlook as well as the impact of improvements in working capital.

As a reminder, our current outlook does not assume any share repurchases this year. We will continue to evaluate capital deployment opportunities as our leverage position improves. We expect second half EPS to be more weighted to the third quarter, reflecting typical seasonality.

We now expect the increase between our first quarter and fourth quarter MBR in our Health Care Benefits business to be slightly higher than 950 basis points after adjusting for the impact of prior year development in the first quarter. You can find additional details on the components of our updated 2026 guidance on our Investor Relations website.

As you can see, we are making meaningful progress, unlocking our embedded earnings power and continue to feel confident in the mid-teens adjusted EPS CAGR from 2025 through 2028 that we laid out at our recent Investor Day.

Consistent with our historical approach, we intend to share 2027 headwinds and tailwinds on our third quarter call and detailed full year guidance on our fourth quarter call. As you know, David and I have emphasized the importance of being open and transparent with our shareholders. This year, in the spirit of this commitment, we are pulling forward our commentary on 2027 by a quarter, as we wanted to discuss some dynamics in our businesses that we are aware of today.

We are seeing significant momentum in Aetna's margin recovery, including the more than $2 billion of improvement in adjusted operating income that we've already delivered this year. The actions we have taken to strengthen our foundation and improve our performance are working, and we expect this momentum to continue on our pathway back to target margins over the next couple of years.

In our Pharmacy Services business, we expect the previously discussed market dynamics in our 340B business to continue and result in a headwind in 2027. Additionally, we believe we will see membership declines in Caremark next year. There are two main reasons. First, while we are working through the transition to a pricing model grounded in the lowest net cost over the next few years, we need to make sure our current agreements reflect underwriting to appropriate risk and contracting structures, and we have taken a deliberate approach to our client renewals and the selling season.

As you are aware, we are already managing through industry dynamics that are having an impact on our legacy contracts. Second, product actions and market exits by some of our health plan customers will result in a membership impact. These headwinds will be partially offset by our industry-leading specialty pharmacy business, which continues to benefit from strong execution and secular trends in the market, including a robust generic portfolio in 2027.

Despite these near-term earnings pressures, we remain confident in the value our Pharmacy Services businesses deliver to clients and our ability to achieve fair margins consistent with historical levels in the industry over time. Elsewhere in Health Services, we remain on track driving improved results in our Health Care Delivery business.

We are also building strong momentum in our PCW business. You can already see this in the second consecutive year of mid-single-digit growth reflected in our updated guidance. We continue to differentiate ourselves in the market through our deliberate actions and intentional investments and have established CVS Pharmacy as the best-run national pharmacy. These actions are what allowed us to change the trajectory of this business, and we are excited to carry that momentum into 2027.

So, putting the pieces together across the enterprise, we remain confident in the mid-teens adjusted EPS CAGR from 2025 through 2028 that we outlined at our Investor Day. While we would not normally comment on 2027 consensus this early in the year, an outlook of at least $8.44, consistent with current consensus, appears reasonable at this juncture. This represents EPS growth of about 13% off an adjusted baseline of $7.46. This baseline reflects the midpoint of our updated EPS guidance and consistent with our guidance convention, excludes prior-year development and prior-year items in our individual exchange business, which we have exited.

Importantly, these expectations continue to be grounded in our guidance philosophy of establishing credible targets, delivering with disciplined execution, and highlighting opportunities for outperformance.

Before we open the call for questions, I want to reiterate how encouraged we are by our performance this quarter. We delivered year-over-year revenue and adjusted operating income growth across all our operating segments.

Our performance so far in 2026 is a testament to our intense focus and disciplined execution as we continue to do what we said we would do and highlights our ability to unlock the significant earnings opportunity of CVS Health.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll take our first question from Michael Cherny with Leerink Partners. Please unmute your line and ask your question.

Michael Cherny
Analyst, Leerink Partners LLC

Q

Good morning. Thanks for taking the question. Really nice job on the quarter. If we could, I'd love to dive in a bit more to the headwinds and tailwinds you discuss on preliminary basis for 2027, in particular around HSS. As you think about the dynamics of managing to some level of growth trajectory, how do you feel about the opportunities, whether it's conversion on formulary, whether it's specialty dynamics that are within your control? And how do you think about the pathway forward to offset and mitigate, in particular, the 340B headwinds, given that it does seem to be a moving target within [ph] DC (28:49) right now? Thank you.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.

A

Yeah. Thank you, Michael, and appreciate the comments on the quarter. I'm going to have – I'm going to do this in two parts. I'm going to have Brian give you kind of the broader financial view of the HSS. And then I'm going to have Prem give some color commentary on some of the specifics that you asked. So, Brian?

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

A

Thanks, David. And Mike, thanks for the question. And I'll take you back to Investor Day. And we always saw multiple pathways to achieving our target of a mid-teens EPS CAGR. And I think if you look at this year, Mike, based on the strength of our performance across the enterprise, we remain very confident in our commitment through 2028. So at a high level, that 2025 to 2028 remains intact.

And I think it's too early in our planning process for specifics on 2027, given some of the dynamics that we're seeing early in the year, we just wanted to provide some commentary and pull forward the conversation by about a quarter.

So I would reiterate, confident in our ability to generate highly attractive earnings growth at the enterprise level next year in 2027, I think a reasonable floor, Mike, for 2027, for adjusted EPS, should be, could be $8.44 and that's obviously consistent with current consensus. It would imply an EPS growth rate for us of about 13% off of that adjusted baseline of $7.46.

And just to remind you, the baseline reflects the midpoint of our updated EPS guide. And then consistent with our guidance convention, it excludes prior year development, PYD and any prior year items in our individual exchange business, which we've exited.

So one thing, I think, Mike, also worth emphasizing is the strong cash flow generation of the enterprise. It was demonstrated again this quarter. We continue to strengthen our balance sheet. And as a reminder, we've only reflected the offset of dilution in our long term expectations.

So, the expectations continue to be grounded in a guidance philosophy of establishing credible targets, delivering with disciplined execution and highlighting opportunities for outperformance. Prem, do you want to talk more about the dynamics within the business?

Prem S. Shah
Executive Vice President & Group President, CVS Health Corp.

A

Yeah. Thanks, Michael, for the question. Thanks, Brian. Just a couple of things, right. So we highlighted, two pressures that we're seeing right now.

One is from 340B and one is from the selling season. So on 340B, we're confident in our 2026 guide for Health Services due to the broader strength across the business. I'll talk about that in a second, but we did experience some pressure from 340B in the quarter, and now expect that to be a headwind as we go into next year.

With respect to the selling season, recall last year we had an incredible selling season where our pipeline was very active. We had over $6 billion in new sales from last year – or sorry for this year. That's meaningfully above our historical average.

As we went into 2027, we took a disciplined and prudent approach to the selling season to ensure that we had the right underwriting and contracts in place for the new business and renewals that we had. And at this point in the year, we're trending to a retention rate that's slightly lower than our historical performance, but more consistent with industry norms.

And, I'd say the second part of the selling season that's dynamic at this point is really around how our health plans are handling the selling season. And as our clients continue to assess the markets in which they operate, and that could also have implications on our membership.

And your question on how we plan on offsetting it, look, I think we have a tremendous specialty pharmacy business that continues to perform exceptionally well. When you talk to our PBM customers, they're focused on the things they've been focused on for many decades, what they expect out of us, which is, how do we help them lower the cost of goods for the memberships that they serve. And so our specialty pharmacy business and specialty generic pipeline is areas in which we continue to have very high generic adherence, as well as generic dispensing rates that's creating value for our customers.

And second, we continue to create innovative solutions like Cordavis, where we launched a biosimilar and that's generated over $1.8 billion of savings on just Humira for our customers. So we're continually focused on our clients' needs. And last I checked the industry, the brand trends and brand inflation continue to be really high.

And so we're focused on managing the trends for our clients, reducing the cost for our clients. And we think by doing that, we'll continue to deliver value for our customers. And we really do believe the ability to maintain margins with historical levels is how we see this business and this industry, it's been durable over the long term and we continue to believe that's the way this will be as we go forward.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.

A

Thank you, Brian and Prem. Maybe just one additional comment. As Brian said, we pulled forward the headwinds and tailwinds, so I appreciate the question. But I think the theme you're going to hear from us is going to continue to be around the tremendous momentum we have across CVS Health.

And I just want to reinforce a couple of thoughts here. One is, we took the right steps at Aetna. You see the results as they're coming through. So this is our second consecutive year of strong performance. We've talked about the strong performance in our retail business. So the deliberate and intentional investments that we've made both in our colleagues and technology and our pricing model has continued to make us the best national pharmacy in the country.

The tailwinds on the PS business is our specialty. So as Prem said, we're running the best specialty pharmacy in the country and like the tailwinds and trajectory of that business. What we haven't talked about is the investments in technology and AI specifically, which is allowing us to focus on the things that are creating friction in the marketplace, and we're trying to improve the healthcare experience, so a big push and a big investment in that area.

The GLP-1s, we're really proud of the fact that we're able to serve that market in multiple ways, both whether it be in the pharmacy benefit and or Aetna business, managing the underlying cost and/or serving the consumer in a cash or unfunded marketplace and the relationships that we're announcing with the manufacturers are allowing us to be a leader in that space.

As Brian mentioned, we have a strong balance sheet, continue to make progress in terms of strengthening and positioning ourselves in terms of creating a more disciplined capital deployment model.

So overall, I would say we definitely wanted to pull forward the headwinds, tailwinds early. But again, talking about the fact that we have some pressure in our PBM at the moment, more than offset by the strength that we have across the enterprise. So again, thanks for the question. And next question, please?

Operator: Our next question comes from Lisa Gill with JPMorgan. You may now unmute your line and ask your question.

Lisa C. Gill
Analyst, JPMorgan Securities LLC

Q

Thanks very much and good morning. Just really want to follow-up on the health benefits side of your business. Obviously, very strong performance in the quarter. Just had a couple of questions here.

One, can you maybe just talk about what you're seeing in the underlying trend, you mentioned that Medicare Advantage was better, but as we think about what Brian talked about for 2027, just your thoughts on the way that you bid for MA in 2027, thoughts on Medicare Part D in 2027 and how you see that playing out?

And then, David, just on your comments on GLP-1s, can this be a meaningful component to growth over time? Or is this just, taking all the elements of what CVS has to offer and bringing it to the market?

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.

A

Yeah. So thanks, Lisa, for the question. I'll have Steve talk specifically to the Health Care Benefits business and Medicare and Part D, and then I'll come back on the GLP-1.

Steven H. Nelson
Executive Vice President & President-Aetna, CVS Health Corp.

A

Good morning. Thanks, Lisa, for the question. Look, I'm going to start with just Aetna overall, just to give you a perspective. We have a great team executing at a high level, really encouraged about the progress across all three businesses. Medicaid is in line, rate advocacy, execution. Our commercial business has been strong, remains strong, seen growth in a highly disciplined pricing environment.

And then our Medicare businesses, as you asked specifically about, is ahead of our expectations. So, look, really pleased with the performance across the entire Aetna and the progress that we're making over the last couple of years.

Specifically on Medicare, as I – before I comment on kind of whatever I can on 2027, it's a little early to be specific, but let me give you a little context on the performance in 2026, because I think that'll help you understand some of my commentary around 2027.

But as we've laid down the foundation for this business over the last couple of years, we've made tremendous progress in the geographic footprint, our product mix, our ability to execute during AEP. And we've taken a lot of discipline into both previous bid cycles. And so that is playing out in 2026. We've seen less contraction in our membership than we expected. Favorable member mix, we have leading star scores. So it's all really coming together, our strong medical cost management approach has really been producing some really strong momentum in this business for 2026. And we expect that to continue.

As I think about 2027, as we contemplated the bids, we're taking that same focus to return the business to target margins and the same discipline, we assumed continuation of the elevated trend as we put our bids in. And we think this business combined with our leading star scores is going to be well positioned to make that continued progress towards the appropriate margins in 2027, but also delivering a great experience and good health outcomes for our members. So very encouraged about the individual Medicare Advantage business.

I'm just going to – before I comment on Part D, just highlight group Medicare Advantage too, because that has contributed meaningfully to the progress. Now with 2027 pricing in, we have renewed about 75% of our book. And so good progress there. And that's contributing to the return to target margin

On Part D, specifically, that business is operating, performing in line with our expectations. We took deliberate actions over the past couple of years to derisk that and simplify our product portfolio, and we contemplated that same approach and took that same discipline into our 2027 bids. So overall, really encouraged by the progress, the momentum is going to continue, we will make continued progress in 2027 as well.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.
A

Yeah. Thanks, Steve. And Lisa, with the two-parter, maybe a little lengthy response here, but let me give you the context for GLP-1. And I think we all know that GLP-1 serve the diabetes market, it remains a funded benefit for all of our customers at the moment.

And the question that we're dealing with is where we think the obesity category is headed. So that's why we continue to emphasize the fact that we can capture the GLP-1 volumes and our funded programs with Caremark and Aetna, and help manage the underlying costs.

At the same time, we see a lot of movement back into the cash or the unfunded marketplace, which is why we are emphasizing the ability to support in our direct-to-consumer platform, the ability to serve both the Lilly and Novo

products in that market. So Prem, maybe if you want to just give a little bit of color on kind of how we are thinking about GLP-1s and the impact it will have across some of your business.

Prem S. Shah
Executive Vice President & Group President, CVS Health Corp.
A

Yeah, just to add to what David said, I'd say a few things. First off, on the Caremark side, GLP-1s continue to be a trend driver and a challenging category for our customers.

So as we announced in May, we are expanding our formulary options again for GLP-1s while continuing to drive savings in the category for our funded customers. When you think about the open market, as David alluded to, I would say we may have been slightly slow to enter the cash-paying market or direct-to-patient market, and we've repivoted that program over the course of this year, I'm really proud of where we landed.

So first off, from a MinuteClinic perspective, we launched a new weight management offering in Q2 at $49 for a visit. We are announcing now that we are going to reduce the price of those weight management visits to $29 as we go forward. And secondly – and those visits are available 24/7 across the country or in our hundreds of MinuteClinics that we have across the country, so you can get access to that in either way.

And secondly, we're excited about our partnership, as David mentioned, both with Lilly with our new announcement to take care of more patients in the cash market, as well as our Novo product offering that we have there. So we continue to be able to serve all FDA-approved products. This is an opportunity that we see in PCW that generated some of the strength that you saw in the quarter and as well as you'll see in the back half of this year.

But it's a tremendous opportunity for us to create solutions that consumers are asking for and really leverage our 9,000 community pharmacy destinations and created in a manner in which consumers ask. So we're excited to bring this to market, we're excited about the opportunity it creates for our enterprise, but more importantly, the opportunity it creates to create access across the country.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.
A

All right. Operator, next question?

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

Justin Lake
Analyst, Wolfe Research LLC
Q

Thanks. Good morning. First, a quick follow-up on 2027: Is there any share repo or other capital deployment assumed in that $8.44, or is that still outside the guide, similar to the Investor Day framework?

And then my question is around the retail business strength. We know you're benefiting at the moment from script share gains from Rite Aid and others that might normalize over time. So I'm curious on your thoughts of the sustainability of the strong PCW growth as share gains might normalize going forward.

Maybe you can give us an update on the cost plus rollout, how you are seeing your ability to stabilize gross margins per script in the 2027 and beyond, and any other dynamics we should consider? Thanks.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.

All right. Perfect. Thank you. Justin. So, Brian, can you answer the share repo question and then turn it over to Prem for the color on the durability and strength of retail?

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

Sure, David. And thanks, Justin. Good morning. Similar to what we talked about at Investor Day, we're only assuming offsetting dilution in 2027, Justin, so nothing beyond that at this point. Obviously, you heard cash is improving. So, Prem, you want to fill in the rest of the color?

Prem S. Shah
Executive Vice President & Group President, CVS Health Corp.

Yeah. Thanks, Justin. So, proud to report that we're still the best run national pharmacy in the country. And I'm really proud of the strong results we've had.

And if you take a step back and just recall the multi-year journey we've had here, it's really been a three-pronged approach. It started with one, we had to fix our service in our stores. And I'm proud to report we have the best NPS levels that we've seen in many, many years. Powered by our technology, the solutions that we put in place, leveraging AI and leveraging, what I'd say is better consumer experiences through our digital applications.

And then number two, how do we empower our colleagues in our store to do more? And so we continue to leverage our 30,000 pharmacists to continue to provide clinical services across all of our stores.

Secondly, as you said, it was all about how do we kind of reduce or slow down the headwind we had from reimbursement pressure. And how do we solve the reimbursement problem we had in this business?

And if you go back a couple of years, we launched CVS CostVantage, our cost-based pricing into the market. And it was really intended to drive more sustainable pharmacy reimbursement in the country and help us align better with payers with the value we're creating as a local community pharmacy.

If you take a step back from that and you think about what it is that we give to payers, first and foremost, it's our industry-leading cost of goods that we pass through them and we continue to drive improvement for them, for our payer partners.

And they've benefited from this industry-leading cost of goods in a quicker way, in terms of the way that CostVantage works. This is also helping us get to a more consistent margin profile in this business. And as we – as you look at 2026, we took a prudent approach to how we thought about this. And we're excited about the encouraging progress that we're making relative to our expectations.

Lastly, as you said, we've always driven script growth in this business above market levels. Obviously, the Rite Aid was an incremental tailwind as you think about this year and the first half of this year. But our expectations for the business is that we'll continue to create unique solutions that customers want with highest service levels that allow us to grow, faster than market as it relates to this business.

And lastly, when we do that, we also create incremental operating leverage across our 9,000 stores that we have. And lastly, I'd be remiss not to mention we also had strong front store sales growth with about 100 basis points of front store sales growth amidst of a what I'd say is a challenging macro environment.

So all in this business continues to perform really well. The service levels are really strong. And I'd say the strategy we put in a few years ago, we're starting to see the fruits of that strategy.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.
A

Operator, next question?

Operator: Our next question comes from Stephen Baxter with Wells Fargo. You may now unmute your audio and ask your question.

Stephen Baxter
Analyst, Wells Fargo Securities LLC
Q

Hi. Thanks. I was hoping to get an update on the performance of the commercial risk business. Can you update us on how the margins in your guidance this year compared to what you target long term?

And then additionally, how the No Surprises Act and Independent Dispute Resolution process is impacting your cost trend and margins this year, and maybe some context on how that compares to what you saw last year? Thank you.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.
A

All right, Stephen, thank you. Thanks for the question. So Steve, you want to take that?

Steven H. Nelson
Executive Vice President & President-Aetna, CVS Health Corp.
A

Sure. Good morning, Stephen. Look, our commercial business has been a strong performer. Another good quarter for it. And it will continue to be strong. It's in line with our expectations. And look, we saw elevated trends early – back in 2024. And so we priced for that. And so we feel like we have a good forecasting models and we've been able to use pricing discipline there.

Despite the pricing discipline, we've seen strong growth across commercial in both our fully insured small business, but also our self-insured. And so that means that our innovative products, services, capabilities are clearly resonating. We're bringing industry-leading technology solutions, both on our website and our Aetna Health app, along with the opportunity to combine our offerings with Caremark. This creates really powerful solutions to our customers, and so that's resonated in the market and really like our position there.

And look, we're going to continue to lean into innovation and bringing solutions to our customers in this high-trend environment, it's frustrating to them, and we think we offer unique and distinctive solutions.

With respect to IDR, look, this is one component of trend. We've seen it, we've been watching it, we've accounted for it, so it's not catching us off guard. And we've taken actions. We've gone upstream with providers trying to bring certain providers into the network at reasonable rates, so we can get ahead of this dispute resolution. When

we do have a dispute, we're resolving it more quickly and appropriately. But as others have called out, it is definitely not playing out as intended.

No Surprises Act was put in for a reason to keep patients out of the middle and literally not surprise them. So we support that, but the dispute resolution process is clearly being abused by a small group of players. And so we look forward to working with administration and state regulators to resolve this because particularly our self-funded employers are very frustrated with this and so we need to work together to rectify this.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.
A

Operator, next question?

Operator: Our next question comes from Erin Wright with Morgan Stanley. You may now unmute your audio and ask your question.

Erin Wilson Wright
Analyst, Morgan Stanley & Co. LLC
Q

Great. Thank you so much. Can you speak to the timing and magnitude of the technology investments, how we should think about the cadence of those investments, but also – just for the balance of the year, but also into 2027?

And can you talk about that multi-pronged approach, you talked a little bit about some of that in the last question, but around AI and how you are an adopter as well as an enabler? How this could bring both cost saves and revenue opportunities for you, and how material those will be over the near and medium term? Thanks.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.
A

Yeah, Erin, thanks for the question. And obviously, a really important part of our strategy and direction as a broader enterprise. So I may have multiple people speak to how we're thinking about technology and AI, and then Brian will obviously cover the financial benefits that we expect to achieve.

So we believe we're at an inflection point. AI and technology is moving in a way that we believe we're moving from a consumer-based healthcare company to a consumer-based healthcare technology business. And we think the technology is going to be at the center of the core of our differentiation and our value proposition.

So we're going to be very clear though, given – some of the concerns around AI – we're going to be very focused about where we will and where we will not deploy AI. And you'll see that our model is going to be anchored very much in the human touch and protecting the privacy of the people in which we serve. So that will become the North Star for our business.

That said, we also made a commitment a year ago that we were going to invest $20-plus-billion in our technology efforts over the next decade. And this is going to be a very deliberate, and this is the consistent word you're hearing, a very responsible and deliberate process in terms of where we expect to get the appropriate ROI and the use cases that will help improve the experience and our ability to serve our customers.

So I'm going to have, Steve, maybe you can speak a little bit about the Aetna technology strategy. Prem will then follow up and then Brian will close with the financials.

Steven H. Nelson
Executive Vice President & President-Aetna, CVS Health Corp.

A

Great. Thanks, David. Look, I'm going to highlight four ways that we're deploying AI. And I'll just say, I echo what David said about being thoughtful and responsible, but yet very excited about the change. I think this is going to bring to our industry and the experience that we're trying to offer our members.

But first, of course, we're deploying AI to create a more efficient, faster, more accurate environment, particularly related to our claims payment and some of the transactional work that we do. David mentioned the claims assistant manager, which is revolutionizing how we provide payments more accurate and more timely to providers, which is really important. And we're also using it to work towards the best-in-class cost structure, it's very important to this business as we move into more efficient environment. So that's one area.

The second is we're leaning into our colleague experience. We think that AI, we can deploy it in a way that will create less friction for our own employees so they can better serve our members and spend more time with them, helping them navigate their healthcare journey.

So our A1 – our Aetna One Advocates, for example, used to spend 90 minutes preparing and reviewing a case to help a member. And now it takes them only two minutes. They can spend more time now with the member. And so this is really powerful. And then improving the member experience.

We can now help them along their care pathway. We can actually use our AI agents to help schedule appointments, creating less administrative burden on everyone. And I could go on and on, but a lot of deployment there in our website and our app have both embedded AI capabilities that make it an industry-leading capability.

So – and then last, we are really leaning into our provider relationships and our provider experience in a more meaningful way than ever before. So we're utilizing these tools to help reimagine the prior auth process, for example, 83% of our prior authorizations are approved in real time and over 95% within 24 hours.

And we're just utilizing and leaning into those tools to build trust with our providers. And it's working. We have more work to do, but I'm really encouraged by the early results of the application of AI across these four domains.

Prem S. Shah
Executive Vice President & Group President, CVS Health Corp.

A

Yeah. And Erin, maybe I'll just add a couple more comments. So first off, when you think about AI, there's two things that we're really focused on. One is how do you improve clinical quality?

And so when you look across our pharmacy assets, in our specialty pharmacy, we have one of the most tech-enabled and AI-driven specialty pharmacies in the country. We're improving the adherence rates to over 90% of these drugs, which help lower the cost of these highly expensive drugs, as well as improve the quality of care.

Secondly, in our retail pharmacies, we leverage AI in our Star's programs to help improve adherence and other things as well there to have the operational and the clinical benefit as relates to that.

Secondly, provider burden or pharmacist burden in this country is very real. And this helps to free up time for them to serve patients better. Over the course of the last couple of years, we've removed hundreds of millions of calls out of our retail pharmacy business and transferred them into conversational AI. And this has allowed us to

refocus a million hours of pharmacist hours to allow them to deliver better experiences and clinical care at the pharmacy counters.

And as I mentioned in my prior answer, this also generates better service and better service generates better results for our pharmacy businesses. So it's a really good example of how we're delivering it.

And then lastly, I'll say, we think we have a unique opportunity as we announced at Investor Day with Health100 to create a unique solution that integrates across any pharmacy, any provider, any PBM, et cetera that we can bring into the marketplace that really allows all consumers across the country to benefit from the integration of what we're bringing together and what we can bring to market. So, those are a few extra ways, along with what Steve said in terms of how we're leveraging technology and AI. Brian, over to you.

Brian O. Newman A
Chief Financial Officer & Executive Vice President, CVS Health Corp.

Thanks, Prem. Thanks, Erin, for the question. I'll just wrap with a couple of thoughts. And as you heard from Steve and Prem, we're deploying AI across the enterprise, and ultimately, it's enabling us to serve consumers in what I think is a more effective and differentiated way. But it's also showing up as real improvements in our operations, and it's helping ensure we're best-in-class across the business segments.

So over the last few years, as David said, we've generated actually some significant savings over $1 billion in OpEx savings reductions. And that's through the focus on both technology efficiencies and ultimately AI. So, we're committed to continuing the investment across businesses as I think about AI and emerging technologies, ultimately to improve the health of the consumers, and we'll keep you updated. But that's it.

J. David Joyner A
Chairman, President & Chief Executive Officer, CVS Health Corp.

All right. Thank you. Operator, next question?

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

Andrew Mok Q
Analyst, Barclays Capital, Inc.

Hi, good morning. I wanted to follow up on the 340B headwind. I believe this is the first time you've called this out since 2024, so I'd love to better understand what's driving the incremental pressure now. Is this driven by claims penetration, manufacturer contracting or reimbursement changes? And can you help us understand what's coming in better this year within HSS to offset the headwind? Thanks.

J. David Joyner A
Chairman, President & Chief Executive Officer, CVS Health Corp.

All right. So Prem, I'll let you take the headwinds, and Brian, you can cover the financials.

Prem S. Shah A
Executive Vice President & Group President, CVS Health Corp.

Yeah, Andrew, thanks for the question. And if you take a step back, 340B is a critical program that supports care for underserved populations, and we have a long history of supporting the program and supporting health systems.

And so if you think about the environment, it's a little dynamic right now. Pharma manufacturers are imposing restrictions on covered entities that led to some of the impact that we're seeing in the second quarter. That was, as I said earlier, fully offset by broader Caremark performance.

We're closely monitoring this environment and we continue to work with CEs to navigate the program dynamics. There's also another dynamic as large specialty drugs become generic that creates a little bit of pressure in the program as well. So we continue to remain focused on supporting these health systems, ensuring the value we provide, and ensuring that our clients continue to have the lowest possible net cost as we pass that through. So Brian, over to you for maybe a little bit more commentary.

Brian O. Newman
Chief Financial Officer & Executive Vice President, CVS Health Corp.
A

Yeah, just a couple of thoughts. We continue to feel confident in our full year outlook for [ph] HS (00:58:18). However, as we discussed, we do expect 340B pressure to be a headwind next year, just like we offset it this year.

We don't split out the various value pools in Caremark, but I've given you a floor from an EPS perspective for the enterprise for 2027. And I think what I'd reiterate is we've got multiple paths to deliver on our commitments to the investors. So, not commenting on 340B sizing specifically, but we're building up the plans as we go right now, and we'll come back to you in the third quarter call and give you some headwinds, tailwinds. And then we'll give you the detailed break on the fourth quarter call.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.
A

All right. Thank you, Brian. Okay. Operator, last question, please?

Operator: Our last question comes from Elizabeth Anderson with Evercore ISI. Please go ahead and ask your question.

Elizabeth Anderson
Analyst, Evercore ISI
Q

Hi, guys. Good morning and thank you so much for the question. You had talked a lot about the value creation activities being pulled forward in the first half of the year.

I know you talked a little bit about the technology side, but anything you can talk about in terms of like what that was operationally and does that give you a little bit more space to do additional things that you hadn't contemplated in the back half of the year? Or are you sort of thinking about that sort of the right place to be and sort of think about more of those as opportunities for 2027. Thank you.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.
A

Yeah. Okay, Elizabeth, I'm going to have Brian kind of speak a little bit about the timing of, and the performance this year. I'll just make sure I have understand the question correctly. This is about the technology and cost takeout, or is it the investments in some of the innovation?

Elizabeth Anderson
Analyst, Evercore ISI

Q

Both.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.

A

Okay. All right. So Brian, you want to just take the timing?

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

A

Yeah, we had some investments in capabilities and technology, and that continues. We have it across our business segments. We've been investing in colleagues and capabilities at PCW for some time. And we think we're seeing the fruits of that labor. We continue to do it. You saw some of it pop up in the corporate segment this past quarter.

So net-net, we feel good about the investments we're making. And to go along with the theme of the disciplined capital management, Elizabeth, I think we feel very confident about where we're investing the dollars and tracking the returns on them.

So you'll continue to see investments in the business, but that's captured in the full year beat and raise. And obviously, we put a floor on 2027. So, we have the investments currently that we've modeled in there.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.

A

Yeah. Thanks, Brian. And maybe just one last comment on technology in general. I think Steve and Prem did a nice job of how we're prioritizing and the results that we're seeing. But I think you're going to see us balance two parts of technology and AI. One is the efficiencies and the productivity that we spoke to. But equally as important is the growth aspect of the investments that we're making.

So that's why we're leaning in heavily to the consumer based healthcare technology business, the innovations that we're driving and the growth that we expect in large part, seeing some of this come through, even in the early signs of where we expect Health100 to ultimately grow and impact healthcare in this country.

J. David Joyner
Chairman, President & Chief Executive Officer, CVS Health Corp.

So thanks for the question. And this is, again, a great quarter. I want to thank the management team for the continued strong and excellent performance and focus on our business.

I also want to thank our colleagues for the hard work that they do every day, their dedication to the consumers and – is basically the foundation of everything that we discussed today.

I'm very proud of the progress we've made so far this year, but even more excited about the opportunities ahead. So thank you for joining the call and we'll see you next quarter.

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