Second Quarter 2016 Earnings Conference Call

Larry Merlo
President & Chief Executive Officer

Dave Denton
Executive Vice President &
Chief Financial Officer

August 2, 2016

CVSHealth

Forward-looking Statements

During today's presentation, we will make forward-looking statements within the meaning of the federal securities laws. By their nature, all forward-looking statements have risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons as described in our SEC filings, including the risk factors section and cautionary statement disclosures in those filings.

During this call, we will also use some non-GAAP financial measures when talking about our company's performance, including free cash flow and Adjusted EPS. In accordance with SEC regulations, you can find the definitions of these non-GAAP items, as well as reconciliations to comparable GAAP measures, on the investor relations portion of our website.

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Business Review

Larry Merlo

President &

Chief Executive Officer

August 2, 2016

Second Quarter: Continued Strength in 2016

	Q2 2016	Change vs. Q2 2015
Consolidated net revenues	$43.7 billion	17.6%
Consolidated operating profit (1)	$2.4 billion	6.5%
Adjusted EBITDA	$3 billion	9.8%
Adjusted EPS (2)	$1.32	8.3%
Free Cash Flow (3)	$1.1 billion	111.7%

Refer to pages 37 - 38 for end notes.

PBM Business:

Another Terrific Selling Season

2017: Significant Gross and Net New Business; Strong Retention

- Gross wins of **~ $7.4 billion**
  - Does not include individual Med D PDP impact
- Net new business of **~ 4.6 billion**
- ~ **7%** of gross wins relate to the previously-discussed transition of the Coventry commercial business, acquired by Aetna in 2013
- Completed ~ 75% of renewals for 2017
- Retention rate of **97.5%** (4)
- We have continued to win while maintaining price discipline

2018/2019: Timing of FEP Contract

- FEP specialty business has Request for Information for January 2018
- FEP retail and mail order businesses have been extended until January 2019, which comprises more than 70% of our total FEP revenues of approximately $9 billion

Refer to pages 37 - 38 for end notes.

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PBM Business:

Competitive Dynamics of Selling Season

- Facts and realities can easily be lost or overlooked amidst attention paid to a few client shifts
- Our key points of differentiation driving success remain:
  - **Access:** We have multiple patient touch-points through our unique suite of assets – retail pharmacy, mail, specialty, infusion, MinuteClinic, and now long-term care
  - **Impact:** We are the only company with ability to impact patients, payors, and providers
  - **Maintenance Choice**: Truly integrated program delivers financial, convenience, and clinical benefits to clients and members
    - Our Health Engagement Engine is the enabler
    - Products like Maintenance Choice cannot be easily replicated through a partnership or alliance
  - **Specialty:** We have the broadest capabilities to holistically manage specialty
    - Revenues increased **22.9%** in Q2
  - **Drug Trend:** Our Insights tool delivers real-time solutions to our clients and is unmatched in proactively managing drug trend
  - **Scale and Purchasing Strategies:** Unsurpassed and continue to drive meaningful value for our clients

PBM Business:

Formulary Update

- Our 2017 formulary management strategy continues to address emerging cost drivers with new, market-leading enhancements
  - Will be creating opportunities for additional client and member savings through an indication-based formulary
  - On quarterly basis, products with significant cost inflation that have readily-available, clinically-appropriate, and more cost-effective alternatives may be evaluated and potentially removed from the formulary
- Effective January 1, 2017 we expect to remove **35** products from our standard formulary, including **10** hyperinflationary drugs, affecting less than **1.5%** of plan members
- From 2012 through 2017, our rigorous approach to formulary management will help generate total savings of **more than $9 billion** for clients without disrupting member care

PBM Business:
SilverScript Update

- Captive lives: ~ 4.1 million
- Captive EGWP lives: ~ 1.2 million
- Health plan lives: ~ 6.4 million
- Total Med D lives currently served: ~ 11.8 million
- SilverScript qualified in **32 of the 34 regions** for 2017 in preliminary CMS benchmark results
  - Strong benchmark results should enable us to retain vast majority of auto-assignees we currently serve; can also win new lives

Retail/LTC Business:

Q2 Pharmacy Revenue and Script Growth

- Total same-store sales increased **2.1%**
- Pharmacy same-store sales increased **3.9%**
  - Negative impact of ~ 355 bps due to recent generic introductions
- Pharmacy same store prescription volumes increased **3.5%** on a 30-day equivalent basis[5], continuing to outperform overall market growth
- Retail pharmacy market share increased ~ 230 bps versus Q2 2015, to **23.9%**
  - Driven by inclusion of Target pharmacies as well as underlying share growth

Refer to pages 37 - 38 for end notes.

Retail/LTC Business:

Target Pharmacy & Clinic Integration

- Integration completed ahead of schedule
- All 1,667 pharmacies and 79 clinics have been converted to CVS systems, programs and interior branding
- One of our smoothest integrations ever
  - Appreciate strong communication and collaboration with our Target partners
- Expect to increase awareness and utilization of CVS at Target
  - Ramping up patient care programs
  - Media, marketing and member engagement campaigns

Retail/LTC Business:

Omnicare Continues to Perform Well

- Performance in line with expectations
- Integration efforts progressing as planned
  - Expect to complete majority of Omnicare integration activities by year-end
- Working with our LTC clients to address currently unmet needs of their residents with goal of improving patient care and driving operational efficiencies
  - In Q1, rolled out pilot to speed delivery of first fills and emergency needs to long-term care facilities; now fill nearly half of all emergency scripts using a CVS pharmacy
  - In Q2, began piloting transition of care program to better serve patients as they transition across different care settings
  - Continue to pilot integrated service offerings to Assisted and Independent Living communities, offering residents enhanced prescription delivery options based on preference and acuity level

Retail/LTC Business:

Q2 Front Store Revenue and Gross Margin

- Front store comps decreased 2.5%
  - Down **1.7%** after adjusting for negative impact of Easter holiday
- Softer traffic partially offset by notable increase in basket size
  - Pulled back on promotional spend for lower-value, promotionally-oriented customers
- Front store margins increased notably in Q2
- Front store spend and margin <u>increased</u> for our most valuable customers
  - In personalization, continue to deliver value-based offering derived from longitudinal shopping habits, while increasing engagement through app and email capabilities
- Front store accounts for ~ **11%** of enterprise revenues

Retail/LTC Business:
Front Store Strategies

- Focused on mix shift towards higher-margin health, beauty, and store brand categories
  - Continuing with store resets to improve Health and Beauty leadership
- Will continue to scale healthy food selection, optimize key categories in the Health quadrant, and elevate beauty offerings while improving shopability
- Store Brands share of front store sales was **21.8%** in Q2, up by ~ 85 bps from prior year Q2
  - Continuing on trajectory toward **25%** goal

Retail/LTC Business:

Retail Pharmacy Real Estate Update

Stores at end of Q1	9,674
Opened	22
Acquired	-
Closed	(10)
Stores at end of Q2	9,686
Net new retail drugstores	12
Relocations	9
Square footage growth	0.2%
Retail pharmacies	9,598 [6]

Refer to pages 37 - 38 for end notes.

Retail/LTC Business:

CVS MinuteClinic

- Target integration completed in 79 clinics; providers adjusting well to MinuteClinic scope of services and Epic electronic health record system
- Operate **1,136** clinics across 33 states and Washington, D.C.
- Revenues **up 15.2%** vs. same quarter a year ago, including Target
- Use of "Hold my place in line" on-line queuing tool continues to grow
  - By end of quarter, 13% of all MinuteClinic visits were booked through this tool
  - Positive customer feedback
  - Further enhancements underway to improve the customer experience

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Financial Review

Dave Denton

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Financial Update:
Capital Allocation

- Paid ~ **$459 million** in dividends in Q2
  - Dividend payout ratio of **35.5%**
    - Artificially high due to loss on debt extinguishment incurred in second quarter as well as ongoing integration costs associated with recent acquisitions
  - On comparable basis, payout stands at **31.1%**
  - On track to reach **35%** targeted payout ratio by 2018
- In Q2, repurchased **~ 18.5 million** shares for **~ $1.9 billion,** or **$102.32** per share
- **$4 billion** repurchases for year essentially complete
- In Q2, returned ~ **$2.4 billion** to shareholders; **~ $4.9 billion** year-to-date
- Continue to expect to return **more than $5 billion** to our shareholders in 2016 through a combination of dividends and share repurchases

Financial Update:
Free Cash Flow

- In Q2, generated ~ **$1.1 billion** of free cash [3]
- Year-to-date, produced more than **$2.9 billion** of free cash
- Increasing free cash flow guidance to range of **$6.3 billion to $6.6 billion** [3][7] from previous range of $5.3 billion to $5.6 billion in 2016
  - In addition to overall improvements, primarily reflects timing in Medicare Part D SilverScript business as well as overall improvements
    - Healthier members and lower utilization than what was assumed when we submitted our bids are leading to changes in the timing of our cash flows as we expect to continue to be in a payable position with CMS at the end of the year

Refer to pages 37 - 38 for end notes.

Financial Update:
Debt Refinancing

- In Q2, issued **$3.5 billion** in debt used to refinance ~ **$3.1 billion** of outstanding debt through tender transaction
  - Loss on early extinguishment of debt of **$542 million** during the quarter
- Also, retired additional **$1.1 billion** by calling certain debt, and as a result will be recording a **$102 million loss** on the early extinguishment of debt during the third quarter
- Resulting interest expense benefit expected to be **~ $50 million** in 2016

Refer to pages 37 - 38 for end notes.

Q2 2016 Income Statement:

Earnings per Share

- Q2 Adjusted EPS of **$1.32** [(2)], 1¢ above high end of guidance range
  - Up **8.3%** [(2)] over LY
- GAAP diluted EPS of **$0.86**
- Retail/LTC segment delivered solid earnings within expectations
- PBM segment posted profit growth above high end of guidance
- Outperformance primarily driven by better purchasing economics in the PBM

Refer to pages 37 - 38 for end notes.

Q2 2016 Income Statement:

Revenues: Consolidated, PBM

- Consolidated revenues of **$43.7 billion**, up **17.6%** vs. LY, above guidance range
- PBM revenues of **$29.5 billion**, up **20.7%** vs. LY
  - Growth driven by increased volume in pharmacy network claims from last year's successful selling season and growth in specialty pharmacy
    - PBM adjusted claims grew **18.7%** (5).
    - Specialty revenues up **22.9%** despite year-over-year decline in Hepatitis C sales
  - Partially offset by increase in GDR to **85.4%, up 155 bps** vs. Q2 2015
  - Top-line growth below expectations due to:
    - Lower-than-expected specialty revenue resulting from the continued year-over-year decline in Hepatitis C prescription volume due to lower new patient starts and fewer days of therapy

Refer to pages 37 - 38 for end notes.

Q2 2016 Income Statement:
Revenues: Retail/LTC

- Retail/LTC revenues of **$20 billion**, up **16.0%** vs. LY
  - Growth driven primarily by addition of Omnicare and the pharmacies within Target, as well as solid pharmacy same store sales
- Retail/LTC GDR of **86.1%,** up **~ 110 bps** vs. Q2 2015

Q2 2016 Income Statement:

Gross Profit Margin: Consolidated, PBM

- Consolidated gross margin of **16.1%,** down ~ 115 bps vs. LY
  - Gross profit dollars **up 9.7%** [8]
- PBM gross margin of **4.6%**, down ~ 45 bps vs. LY
  - Decrease primarily due to mix of business and continued price compression, partially offset by GDR improvement and favorable purchasing economics
- PBM gross profit dollars **up 10.2%**
  - Increase due to strong claims growth, membership growth in SilverScript, improvement in GDR, and favorable purchasing economics
  - Partially offset by continued price compression

Refer to pages 37 - 38 for end notes.

Q2 2016 Income Statement:

Gross Profit Margin: Retail/LTC

- Retail/LTC gross margin of **29.2%**, down ~ 165 bps vs. LY
  - ~ 40% of decline was mix-driven, due to the acquisitions
  - Continued reimbursement pressure
  - Positively offset by increasing GDR as well as increased front store margins as we continue to rationalize our promotional strategies and improve our mix of products sold
- Retail/LTC gross profit dollars **up 9.8%** [8]
  - Largely driven by addition of Omnicare and Target businesses

Refer to pages 37 - 38 for end notes.

Q2 2016 Income Statement:

Operating Expenses and Margin

- Consolidated: expenses were **10.5%** of revenues (9)
- PBM: expenses were **1.1%** of revenues … ~ 10 bps YOY improvement
  - Driven by additional sales leverage from volume increases
- Retail/LTC: expenses were **20.3%** of revenues (9) … ~ 85 bps YOY improvement
  - Driven by leverage from revenue growth, and the addition of Omnicare, which carries lower SG&A relative to sales
- Corporate expenses increased ~ $25 million (10) to **$220 million**, slightly better than expectations

Refer to pages 37 - 38 for end notes.

Q2 2016 Income Statement:

Operating Profit and Margin

- Consolidated
  - Operating profit increase of **6.5%** [1]
  - Operating margin of **5.6%** [1], down ~ 60 bps vs. LY
  - EBITDA of $3 billion, up **9.8%** vs. LY
- PBM
  - Operating profit increased **10.5%**
  - Operating margin of **3.5%**, down ~ 35 bps vs. LY
- Retail/LTC
  - Operating profit increased by **6.2%** [11]
  - Operating margin of **8.9%** [11], down ~ 80 bps vs. LY

Refer to pages 37 - 38 for end notes.

Q2 2016 Income Statement:

Below-the-line

- Net interest expense of **$280 million**, up ~ $150 million [12] vs. LY
  - Driven by debt issues in the third quarter of 2015 to fund the acquisitions
- Effective tax rate [13] of **39.3%** in Q2
- Weighted-average share count of **1.1 billion** shares

Refer to pages 37 - 38 for end notes.

Guidance: 2016 Full-year (14)

Healthy Enterprise Growth: Raising and Narrowing Adjusted EPS

	Full-year 2016
Net Revenue Growth	17.0% to 17.75%
Adjusted EPS (15) *Year-over-year Growth (16)*	**$5.81 to $5.89** *12.5% to 14.25%*
GAAP Diluted EPS (17)	$4.92 to $5.00

Refer to pages 37 - 38 for end notes.

Guidance: 2016 Full-year (14)

Strong PBM Outlook

	Full-year 2016
Net Revenue Growth	21.0% to 22.0%
Total Adjusted Claims (5)	*1.35 billion to 1.40 billion*
Gross Profit Margin	Moderate decline
Operating Expense *(% of revenue)*	Modest improvement
Operating Profit Growth ***Operating Profit Margin***	13.5% to 15.5% *Down 20 bps to 30 bps*

Refer to pages 37 - 38 for end notes.

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Guidance: 2016 Full-year [14]

Solid Outlook in Retail/LTC

	Full-year 2016
Net Revenue Growth	13.0% to 13.75%
Same-store Sales	*1.75% to 2.5%*
Same-store Adjusted Scripts [5]	*3.5% to 4.5%*
Gross Profit Margin [18]	Significant decline
Operating Expense [19] *(% of revenue)*	Moderate improvement
Operating Profit Growth [20]	6.75% to 8.0%
Operating Profit Margin	*Down 50 bps to 60 bps*

Refer to pages 37 - 38 for end notes.

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Guidance: 2016 Full-year [14]

Consolidated Income Statement

	Full-year 2016
Corporate Segment Expense [21]	$870 million to $875 million
Intercompany Eliminations *(% of combined segment revenues)*	~ 11.6%
Gross Profit Margin [18]	Significant decline
Operating Expense [22] *(% of revenue)*	Notable improvement
Operating Profit Margin [23]	Down 40 bps to 50 bps

Refer to pages 37 - 38 for end notes.

Guidance: 2016 Full-year (14)

Consolidated Income Statement

	Full-year 2016
Net Interest Expense	$1.07 billion to $1.08 billion
Effective Tax Rate	~ 39.0%
Weighted Average Shares	~ 1.08 billion
Consolidated Amortization	~ $795 million
Consolidated D&A	~ $2.5 billion

Refer to pages 37 - 38 for end notes.

Guidance: 2016 Full-year [23]

Increasing Free Cash Flow

(billions)	Full-year 2016
Operating Cash Flow [3]	$8.8 to $9.1
Gross Capital Expenditures ***Sale-leaseback proceeds*** [24]	*~ ($2.8) to ($2.7)* *$0.3 to $0.2*
Net Capital Expenditures	~ ($2.5)
Free Cash Flow [3] ***Year-over-year Growth***	**$6.3 to $6.6**

Refer to pages 37 - 38 for end notes.

Guidance: 2016 Q3 (14)

Enterprise Revenue and Earnings Per Share

	Q3 2016
Net Revenue Growth	16.50% to 17.75%
Adjusted EPS (25) *Year-over-year Growth* (26)	**$1.55 to $1.58** *21.0% to 23.75%*
GAAP Diluted EPS (17)	$1.38 to $1.41
Operating Profit Growth (25)(27)	14.75% to 17.50%

Refer to pages 37 - 38 for end notes.

Guidance: Timing Factors Affecting Profits in 2016 Q3 and Q4

Expect Strong Back Half of Year

- As we said at Analyst Day, the cadence of profit delivery throughout the year is back half-weighted and is affected by:
  - Introduction and timing of break-open generics
  - Timing of profitability in our Med D business
  - Timing of the benefits from our strategies to drive profitability in the front end
  - Timing of share repurchases and certain tax benefits
- As in years past, timing of Med D profits in third quarter remains difficult to forecast since this is the time period where the risk sharing corridor is usually least effective at providing risk sharing protection; thus changes in any current estimates such as utilization significantly impacts our timing of profits between the third and fourth quarters
  - This forecasting challenge is compounded by significant growth in this business
- Favorable resolution on certain tax items (noted previously) are currently forecast to occur in the fourth quarter
  - If those come earlier, that will benefit the third quarter at the expense of the fourth quarter

Refer to pages 37 - 38 for end notes.

Guidance: 2016 Q3 (14)

Segment Performance

		Q3 2016
Retail Pharmacy	**Net Revenue Growth**	11.5% to 13.0%
	Same store sales	*1.0% to 2.25%*
	Same store adjusted scripts	*3.0% to 4.0%*
	Operating Profit Growth (28)	10.0% to 12.0%
Pharmacy Services	**Net Revenue Growth**	21.25% to 22.50%
	Operating Profit Growth	20.25% to 24.25%

Refer to pages 37 - 38 for end notes.

Endnotes

1. Consolidated operating profit excludes $81 million and $21 million of acquisition-related transaction and integration costs during the three months June 30, 2016 and June 30, 2015, respectively. The costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target.
2. Adjusted EPS for the three months ended June 30, 2016 excludes $81 million of acquisition-related integration costs, $542 million from loss on extinguishment of debt, and $197 million of amortization of intangible assets. Adjusted EPS for the three months ended June 30, 2015, excludes $131 million of amortization of intangible assets and $57 million of acquisition-related bridge financing and transaction costs.
3. For the three months ended June 30, 2016 and June 30, 2015, includes $81 million and $57 million, respectively, of pre-tax acquisition-related bridge financing, transaction and integration costs. For the three months ended June 30, 2016, includes $542 million from loss on extinguishment of debt.
4. Client retention rate is defined as: 1 less (projected 2017 lost revenues from known terminations occurring after January 1, 2017, divided by estimated 2017 PBM revenues) expressed as a percentage. Both terminations and PBM revenues exclude the individual PDP business.
5. Includes the adjustment to convert 90-day, non-specialty prescriptions to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal 30-day prescription. PBM retail claims are not adjusted.
6. Including 7,931 CVS Pharmacy stores that operated a pharmacy and 1,667 pharmacies located within Target stores. Excludes onsite pharmacy stores.
7. Includes estimated acquisition-related integration costs in future periods.
8. Consolidated cost of revenues and Retail/LTC cost of revenues for the three months ended June 30, 2016, have been adjusted to exclude $6 million of acquisition-related integration costs.
9. Consolidated operating expenses and Retail/LTC operating expenses for the three months ended June 30, 2016, have been adjusted to exclude $75 million of acquisition-related integration costs.
10. Corporate operating expenses for the three months ended June 30, 2015, have been adjusted to exclude $21 million of acquisition-related transaction costs.
11. Retail/LTC operating profit for the three months ended June 30, 2016, excludes $81 million of acquisition-related integration costs.
12. Net interest expense for the three months ended June 30, 2015 has been adjusted to exclude $36 million of acquisition-related bridge financing.
13. For the quarter ended June 30, 2016, the exclusion of the non-GAAP adjustments from income before income tax provision ($197 million of amortization of intangible assets, $81 million of acquisition-related integration costs and the $542 million from loss on extinguishment of debt) resulted in a 20 basis point reduction in the effective income tax rate, from 39.5% to 39.3%.
14. Excludes estimated acquisition-related integration costs in future periods.

Endnotes

15. Adjusted EPS for the year ending December 31, 2016, excludes $81 million of acquisition-related integration costs, and a $644 million from loss on extinguishment of debt, as well as approximately $795 million of amortization of intangible assets. Estimated acquisition-related integration costs for future periods are not included in guidance.
16. Adjusted EPS for the year ended December 31, 2015 excludes $220 million of acquisition-related transaction and integration costs, a $90 million charge related to a disputed 1999 legal settlement, $52 million of acquisition-related bridge financing, and $611 million of amortization of intangible assets.
17. Includes a $102 million loss on extinguishment of debt expected to be incurred during the three months ended September 30, 2016.
18. Retail/LTC cost of revenues for the year ending December 31, 2016, excludes $10 million of acquisition-related integration costs incurred during the six months ended June 30, 2016.
19. Retail/LTC operating expenses for the year ending December 31, 2016, excludes $132 million of acquisition-related integration costs incurred during the six months ended June 30, 2016.
20. Retail/LTC operating profit for the year ending December 31, 2016, excludes $142 million of acquisition-related integration costs incurred during the six months ended June 30, 2016.
21. Corporate operating expenses for the year ending December 31, 2016, excludes a $3 million charge related to a disputed 1999 legal settlement incurred during the three months ended March 31, 2016.
22. Consolidated operating expenses for the year ending December 31, 2016, excludes $132 million of acquisition-related integration costs and a $3 million charge related to a disputed 1999 legal settlement incurred during the six months ended June 30, 2016.
23. Consolidated operating profit for the year ending December 31, 2016, excludes $142 million of acquisition-related integration costs and a $3 million charge related to a disputed 1999 legal settlement incurred during the six months ended June 30, 2016.
24. CVS Health finances a portion of its store development program through sale-leaseback transactions. Use of sale-leaseback financing is subject to change, as we evaluate a variety of financing vehicles for future development; this may also result in changes to our definition of free cash flow.
25. Excludes estimated acquisition-related integration costs and approximately $195 million of amortization of intangible assets.
26. For the quarter ended September 30, 2015, excludes $143 million of acquisition-related bridge financing, transaction and integration costs and $160 million of amortization of intangible assets.
27. For the quarter ended September 30, 2015, excludes $127 million of acquisition-related transaction and integration costs.
28. For the quarter ended September 30, 2015, excludes $12 million of acquisition-related integration costs.