First Quarter 2016 Earnings Conference Call

Larry Merlo
President & Chief Executive Officer

Dave Denton
Executive Vice President &
Chief Financial Officer

May 3, 2016

CVS Health

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

May 3, 2016

First Quarter: Strong Start to 2016

	Q1 2016	Change vs. Q1 2015
Consolidated net revenues	$43.2 billion	18.9%
Consolidated operating profit (1)	$2.2 billion	5.0%
Adjusted EPS (2)	$1.18	4.0%
Free Cash Flow (3)	$1.8 billion	14.1%

Refer to pages 35 - 36 for end notes.

PBM Business:
Selling Season Updates

2016 Has Grown

- Gross wins of **$15.2 billion** and net wins of **$13.1 billion**, both up about **$400 million** from our last update
  - Vast majority of increase relates to new health plan client, increasing revenues in both 2016 and 2017
- Retention rate of **97.3%** (4)

2017 Off to Very Good Start

- Completed just over a third of client renewals, typical for this time of year
- Integrated model continues to resonate strongly, leading to some nice wins
- More RFPs and potential revenues in the marketplace than this time last year
  - RFPs ebb and flow and large early number of RFPs could be due to timing

Refer to pages 35 - 36 for end notes.

PBM Business:

Clients Looking to CVS Caremark For Solutions

- Held client forum last month, attended by nearly 900 people
- Top concern was cost management, with service running a close second
  - CVS Caremark has delivered on both fronts
- We offer proactive cost management solutions that anticipate trend-impacting market changes
  - Clients are adopting more aggressive strategies to mitigate trend drivers (e.g., formulary design, specialty management)
- We are offering clients the most comprehensive suite of formulary choices to achieve savings goals and minimize member disruption

PBM Business:

Specialty Pharmacy Top of Mind for Clients

- Specialty drug management emphasized in plan design elections, as clients look for solutions to manage specialty in both pharmacy and medical benefits
- Growing interest in infusion and site-of-care management services as well as medical claims management services
- Innovations include indication-specific pricing, where cost to payor is aligned with a drug’s effectiveness for a specific indication
- In Q1, specialty revenues increased **23%,** and our volumes continue to outpace the market

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Retail/LTC Business:
Target Pharmacy & Clinic Integration

- Integration proceeding according to plan
- As of April 30, about **half** of the **1,670** acquired pharmacies have been converted
  - As planned, store conversions expected to be completed by end of the summer
- Additional core pharmacy offerings (e.g., Specialty Connect, ExtraCare Pharmacy Rewards, our digital tools) available as each pharmacy conversion is complete
- Maintenance Choice was available to all CVS Caremark members at Target pharmacies at transaction's close
- We remain very enthusiastic about this opportunity to drive growth

Retail/LTC Business:

Omnicare Performance Met Expectations

- Benefiting from some of the anticipated cost and sourcing synergies
- Combining operational infrastructures and further developing programs to improve work-streams and enhance delivery service
  - Expect to complete majority of Omnicare integration activities by year end
- Several initiatives underway to enhance how we serve seniors along their continuum of care
  - Piloted and rolled out the use of CVS pharmacy locations as an extension of Omnicare pharmacies, to speed delivery of first fills or emergency order scripts in Skilled Nursing facilities
  - Piloting integrated service offering to Assisted and Independent Living communities offering residents enhanced medication delivery options based on their preference and acuity level
    - Pending pilot results, this program will begin to roll out later this year

Retail/LTC Business:

Q1 Pharmacy Revenue and Script Growth

- Total same-store sales increased **4.2%**
  - Positive impact of ~ 125 bps due to additional day in 2016 related to leap year
- Pharmacy same-store sales increased **5.5%**
  - Negative impact of ~ 360 bps due to recent generic introductions and ~ 50 bps related to softer flu season
  - Positive impact of ~ 130 bps due to additional day in 2016 related to leap year
- Pharmacy same store prescription volumes increased **5.9%** on a 30- day equivalent basis[5], continuing to outperform overall market growth
  - Negative impact of ~ 35 bps related to softer flu season
  - Positive impact of ~ 130 bps due to additional day in 2016 related to leap year
- Retail pharmacy market share increased ~ 245 bps versus Q1 2015, to **23.9%**
  - While primary driver of share growth is addition of Target pharmacies, we continued to experience strong organic share growth

Refer to pages 35 - 36 for end notes.

Retail/LTC Business:

Pharmacy Drivers and Innovations

- Clinical outreach programs strengthened by integration with digital tools
  - Help improve adherence and provide patients helpful reminders
  - Nearly 19 million people receive text alerts from CVS to enhance service experience
- ScriptSync at Retail driving medication adherence and satisfaction
  - Since launch, more than **two-thirds** of patients offered ScriptSync have adopted the service
  - With nearly **350,000** patients enrolled in Q1, we now have more than **1 million** patients enrolled since launch in the third quarter of last year

Retail/LTC Business:

Q1 Front Store Revenue and Gross Margin

- Front store comps increased **0.7%**
  - Positive impact of ~ 105 bps related to extra day from leap year
  - Positive impact of ~ 80 bps due to shift of Easter holiday
  - Negative impact from later flu immaterial to quarter
- Continued to pull back on broad-based promotion, leading to fewer visits from lower-value customers
- Front store margins increased notably in Q1, benefiting from rationalization of promotional strategies and growth of higher-margin health and beauty businesses
- Continue to test, learn and refine strategies to achieve optimal balance between traffic and profitable growth
  - While store traffic overall is down, loyal customers are shopping frequently and driving front store sales and margins

Retail/LTC Business:

Front Store Strategies

- Store Brands share of our front store sales was **21.9%** in Q1, up by 100 bps from prior year Q1
- Significant opportunities remain to expand share of store brand products by:
  - Building on core equities in health and beauty
  - Seeking opportunistic growth in other areas where we can provide customers a superior value
- CVS Express: Integrates Curbsides' market-leading technology into CVS Pharmacy app – industry's first retail solution
  - Customers make mobile, in-app purchases from CVS Pharmacy and have products delivered directly to them when they pull up to the store
  - Currently available in San Francisco, Charlotte and Atlanta
  - Pending successful pilot, goal is to roll out to majority of markets
  - Embodies digital mission of CVS Health to make healthy lifestyles more accessible and convenient

Retail/LTC Business:

Retail Pharmacy Real Estate Update

Stores at end of Q4	9,655
Opened	24
Acquired	-
Closed	(5)
Stores at end of Q1	9,674
Net new retail drugstores	19
Relocations	14
Square footage growth	0.2%
Retail pharmacies	9,594 [6]

Refer to pages 35 - 36 for end notes.

Retail/LTC Business:
CVS/minuteclinic

- Target integration completed in **24** clinics; expect balance of clinics to convert by end of summer
- Operate **1,136** clinics across 33 states and Washington, D.C.
- Revenues **up 17.7%** vs. same quarter a year ago, including Target
- Online queuing tool launched nationally at MinuteClinic in late March
  - Enhances convenience by allowing patients to view wait times and digitally hold their place in line
  - MinuteClinic continues to advance in innovative ways to increase convenience and access to care

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Financial Review

Dave Denton

Executive Vice President & Chief Financial Officer

May 3, 2016

CVSHealth

Financial Update:

Capital Allocation

- Dividend increased by **21%** per share
- Paid ~ **$470 million** in dividends in Q1
  - Dividend payout ratio of **31.9%**
  - Still on track to reach **35%** targeted payout ratio by 2018
- In Q1, repurchased **~ 22.4 million** shares for **~ $2.1 billion,** or **$98.52** per share
- In Q1, returned **$2.5 billion** to shareholders
- Continue to expect to repurchase additional **$1.8 billion** worth of stock, completing the planned **$4 billion** in repurchases for the full year
- In 2016, expect to return **more than $5 billion** to shareholders through dividends and share repurchases

Financial Update:
Free Cash Flow

- In Q1, generated ~ **$1.8 billion** of free cash [3]
- Continue to expect to produce free cash of between **$5.3 and $5.6 billion** [3] [22] in 2016

Refer to pages 35 - 36 for end notes.

Q1 2016 Income Statement:
Earnings per Share

- Q1 Adjusted EPS of **$1.18** (2), 1¢ above guidance range
  - Up **4.0%** (2) over LY
- GAAP diluted EPS of **$1.04**
- Retail/LTC segment delivered strong earnings within expectations
- PBM segment posted profit growth above the high end of guidance
- Outperformance primarily driven by stronger-than-expected volumes and better purchasing economics in the PBM

Refer to pages 35 - 36 for end notes.

Q1 2016 Income Statement:

Revenues

- Consolidated revenues of **$43.2 billion**, up **18.9%** vs. LY, above guidance range
- PBM revenues of **$28.8 billion**, up **20.5%** vs. LY, above guidance range
  - Growth driven by increased volume in pharmacy network claims and growth in specialty pharmacy
    - PBM adjusted claims grew **19.4%** [5]
  - Partially offset by increase in GDR to **85.2%, up 170 bps** vs. Q1 2015

Refer to pages 35 - 36 for end notes.

Q1 2016 Income Statement:
Revenues

- Retail/LTC revenues of **$20.1 billion**, up **18.6%** vs. LY, just below guidance range
  – Growth driven primarily by addition of Omnicare and the Target pharmacies and clinics, as well as solid pharmacy same store sales
  – While script unit growth remained strong, the mix of brand drugs differed from our plan, resulting in lower average script price
    - We have seen **no** change in level of branded drug inflation
    - Simply a mix issue that affects the weighted average script price
  – Front store revenues impacted by promotional strategies in non-core seasonal categories (i.e., less emphasis on lower-value customers, more emphasis on profitable sales mix)
  – Retail/LTC GDR of **85.7%,** up **~ 125 bps** vs. Q1 2015

Q1 2016 Income Statement:
Gross Profit Margin

- Consolidated gross margin of **15.6%**, down ~ 135 bps vs. LY
  - Gross profit dollars **up 9.5%** (7), in line with expectations
- PBM gross margin of **3.8%**, down ~ 45 bps vs. LY
  - Decrease primarily due to mix of new business and price compression, partially offset by GDR improvement and favorable purchasing economics
- PBM gross profit dollars **up 7.4%**
  - Increase due to strong volumes, specialty pharmacy, improvement in GDR and favorable purchasing economics
  - Partially offset by continued price compression

Q1 2016 Income Statement:
Gross Profit Margin

- Retail/LTC gross profit dollars **up 10.2%** (7)
- Retail/LTC gross margin of **29.0%**, down ~ 225 bps vs. LY
  - ~ 40% of decline was mix-driven, due to inclusion of Omnicare and the Target businesses
  - Continued reimbursement pressure
  - Positively impacted by increase in GDR, as well as increased front store margins due to continued rationalization of promotional strategies and improved mix of products sold

Q1 2016 Income Statement:

Operating Expenses and Margin

- Consolidated: expenses were **10.4%** of revenues (8)
- PBM: expenses were **1.1%** of revenues … ~ 10 bps YOY improvement
  - Driven by additional sales leverage
- Retail/LTC: expenses were **19.9%** of revenues (9) … ~ 120 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 ~ $20 million to **$209 million** (10), slightly better than expectations

Refer to pages 35 - 36 for end notes.

Q1 2016 Income Statement:

Operating Profit and Margin

- Consolidated
  - Operating profit increase of **5.0%** [1]
  - Operating margin of **5.2%** [1], down ~ 70 bps vs. LY
- PBM
  - Operating profit increased **6.6%**
  - Operating margin of **2.7%**, down ~ 35 bps vs. LY
- Retail/LTC
  - Operating profit increased by **6.4%** [11]
  - Operating margin of **9.1%** [11], down ~ 105 bps vs. LY

Refer to pages 35 - 36 for end notes.

Q1 2016 Income Statement:

Below-the-line

- Net interest expense of **$283 million**, up ~ $149 million vs. LY
  - Driven by debt associated with the acquisitions
- Effective tax rate (12) of **39.3%** in Q1
- Weighted-average share count of **1.1 billion** shares

Refer to pages 35 - 36 for end notes.

Guidance: 2016 Full-year [13]

Healthy Enterprise Growth

	Full-year 2016
Net Revenue Growth	17.5% to 19.0%
Adjusted EPS [14] *Year-over-year Growth [15]*	**$5.73 to $5.88** *11.0% to 14.0%*
GAAP Diluted EPS	$5.24 to $5.39

Refer to pages 35 - 36 for end notes.

Guidance: 2016 Full-year (13)

Strong PBM Outlook

	Full-year 2016
Net Revenue Growth	21.75% to 23.25%
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***	11.0% to 13.25% *Down 30 bps to 40 bps*

Refer to pages 35 - 36 for end notes.

Guidance: 2016 Full-year [13]

Solid Outlook in Retail/LTC

	Full-year 2016
Net Revenue Growth	13.0% to 14.25%
Same-store Sales	*1.75% to 3.0%*
Same-store Adjusted Scripts [5]	*3.5% to 4.5%*
Gross Profit Margin [16]	Significant decline
Operating Expense [17] *(% of revenue)*	Moderate improvement
Operating Profit Growth [18]	6.25% to 8.25%
Operating Profit Margin	*Down 50 bps to 60 bps*

Refer to pages 35 - 36 for end notes.

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Guidance: 2016 Full-year [13]

Consolidated Income Statement

	Full-year 2016
Corporate Segment Expense [19]	$860 million to $870 million
Intercompany Eliminations *(% of combined segment revenues)*	~ 11.4%
Gross Profit Margin [25]	Significant decline
Operating Expense [26] *(% of revenue)*	Notable improvement
Operating Profit Margin [27]	Down 45 bps to 55 bps

Refer to pages 35 - 36 for end notes.

CVSHealth

Guidance: 2016 Full-year (13)

Consolidated Income Statement

	Full-year 2016
Net Interest Expense	$1.13 billion to $1.14 billion
Effective Tax Rate	~ 39.0%
Weighted Average Shares (21)	~ 1.08 billion
Consolidated Amortization	~ $800 million
Consolidated D&A	~ $2.5 billion

Refer to pages 35 - 36 for end notes.

Guidance: 2016 Full-year [22]

Substantial Free Cash Flow

(billions)	Full-year 2016
Operating Cash Flow [3]	$7.6 to $7.9
Gross Capital Expenditures	*~ ($2.6) to ($2.5)*
Sale-leaseback proceeds [20]	*$0.3 to $0.2*
Net Capital Expenditures	~ ($2.3)
Free Cash Flow [3] ***Year-over-year Growth***	**$5.3 to $5.6**

Refer to pages 35 - 36 for end notes.

Guidance: 2016 Q2 [13]

Enterprise Revenue and Earnings Per Share

	Q2 2016
Net Revenue Growth	18.5% to 20.0%
Adjusted EPS [23] ***Year-over-year Growth*** [24]	**$1.28 to $1.31** *4.75% to 7.50%*
GAAP Diluted EPS	$1.17 to $1.20

Refer to pages 35 - 36 for end notes.

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Guidance: 2016 Q2 (13)

Segment Performance

		Q2 2016
Retail Pharmacy	**Net Revenue Growth**	15.5% to 17.0%
	Same store sales *(28)* ***Same store adjusted scripts***	*1.25% to 2.5%* *3.0% to 4.0%*
	Operating Profit Growth	5.0% to 7.0%
Pharmacy Services	**Net Revenue Growth**	22.0% to 23.25%
	Operating Profit Growth	4.0% to 8.0%

Refer to pages 35 - 36 for end notes.

Endnotes

1. Consolidated operating profit for the three months ended March 31,2016, excludes $61 million of integration costs related to the acquisitions of Omnicare, Inc. and the pharmacies and clinics of Target Corporation, and a $3 million charge related to a disputed 1999 legal settlement.
2. Adjusted EPS for the three months ended March 31, 2016 excludes $61 million of acquisition-related integration costs, a $3 million charge related to a disputed 1999 legal settlement, and $199 million of amortization of intangible assets. Adjusted EPS for the three months ended March 31, 2015, excludes $129 million of amortization of intangible assets.
3. For the three months ended March 31, 2016, includes $54 million of pre-tax acquisition-related integration costs.
4. Client retention rate is defined as: 1 less (projected 2016 lost revenues from known terminations occurring after January 1, 2016, divided by estimated 2016 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.
6. Including 7,897 CVS Pharmacy stores that operated a pharmacy and 1,672 pharmacies located within Target stores. Excludes onsite pharmacy stores.
7. Consolidated cost of revenues and Retail/LTC cost of revenues for the three months ended March 31, 2016, have been adjusted to exclude $4 million of acquisition-related integration costs.
8. Consolidated operating expenses for the three months ended March 31, 2016, have been adjusted to exclude $57 million of acquisition-related integration costs and a $3 million charge related to a disputed 1999 legal settlement.
9. Retail/LTC operating expenses for the three months ended March 31, 2016, have been adjusted to exclude $57 million of acquisition-related integration costs.
10. Corporate operating expenses for the three months ended March 31, 2016, have been adjusted to exclude $3 million charge related to a disputed 1999 legal settlement.
11. Retail/LTC operating profit for the three months ended March 31, 2016, has been adjusted to exclude $61 million of acquisition-related integration costs.
12. For the quarter ended March 31, 2016, the exclusion of the non-GAAP adjustments from income before income tax provision ($199 million of amortization of intangible assets, $61 million of acquisition-related integration costs and the $3 million charge related to a disputed 1999 legal settlement) resulted in a 10 basis point reduction in the effective income tax rate, from 39.4% to 39.3%.
13. Excludes estimated acquisition-related integration costs in future periods.
14. Adjusted EPS for the year ending December 31, 2016, excludes $61 million of acquisition-related integration costs, and a $3 million charge related to a disputed 1999 legal settlement incurred during the three months ended March 31, 2016, as well as approximately $800 million of amortization of intangible assets. Estimated acquisition-related integration costs for future periods are not included in guidance.

Endnotes

15. 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.
16. Retail/LTC cost of revenues for the year ending December 31, 2016, excludes $4 million of acquisition-related integration costs incurred during the three months ended March 31, 2016.
17. Retail/LTC operating expenses for the year ending December 31, 2016, excludes $57 million of acquisition-related integration costs incurred during the three months ended March 31, 2016.
18. Retail/LTC operating profit for the year ending December 31, 2016, excludes $61 million of acquisition-related integration costs incurred during the three months ended March 31, 2016.
19. 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.
20. 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.
21. Estimates for weighted-average share count and EPS assume completion of approximately $4.0 billion in share repurchases in 2016 as part of a $10.0 billion share repurchase program authorized by CVS Health's board of directors in December 2014.
22. Includes estimated acquisition-related integration costs in future periods.
23. Excludes estimated acquisition-related integration costs and approximately $195 million of amortization of intangible assets.
24. For the quarter ended June 30, 2015, excludes $36 million of acquisition-related bridge financing and transaction costs and $131 million of amortization of intangible assets.
25. Consolidated cost of revenues for the year ending December 31, 2016, excludes $4 million of acquisition-related integration costs incurred during the three months ended March 31, 2016.
26. Consolidated operating expenses for the year ending December 31, 2016, excludes $57 million of acquisition-related integration costs and a $3 million charge related to a disputed 1999 legal settlement incurred during the three months ended March 31, 2016.
27. Consolidated operating profit for the year ending December 31, 2016, excludes $61 million of acquisition-related integration costs and a $3 million charge related to a disputed 1999 legal settlement incurred during the three months ended March 31, 2016.
28. The Easter shift in Q2 is expected to have approximately a 20 basis point impact on retail comp growth.