Third Quarter 2016 Earnings Conference Call

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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, Adjusted EPS, EBITDA and Adjusted EBITDA. 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.

Third Quarter Business Update

CVS Health

Solid Results in Third Quarter

	Q3 2016	Change vs. Q3 2015
Consolidated net revenues	$44.6 billion	15.5%
Consolidated operating profit [1]	$2.9 billion	17.3%
Adjusted EBITDA [2]	$3.5 billion	16.6%
Adjusted EPS [3]	$1.64	28.0%
Free Cash Flow [4]	$3.7 billion	186.9%

Refer to pages 42 - 44 for end notes.

PBM Business:

Another Strong Selling Season

2017: Significant Gross and Net New Business; Strong Retention

- Gross wins of ~ **$7.6 billion**
  - Does not include individual Med D PDP impact
- Net new business of ~ **4.4 billion**
  - Sequentially $0.2 billion lower due to health plan clients exiting the public exchanges
- ~ 3**%** of gross wins relate to the previously-discussed transition of the Coventry commercial business, acquired by Aetna in 2013
- Retention rate of ~ **97%** (5)
- We have continued to win while maintaining price discipline

Refer to pages 42 - 44 for end notes.

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Retail/LTC Business:

Q3 Pharmacy Revenue and Script Growth

- Total same-store sales increased **2.3%**
- Pharmacy same-store sales increased **3.4%**
  - Negative impact of ~ 340 bps due to recent generic introductions
- Pharmacy same store prescription volumes increased **3.0%** on a 30-day equivalent basis (6)
  - At low end of expectations, reflecting the slowing script growth trend in overall market and a soft seasonal business
- Retail pharmacy market share increased more than 200 bps versus Q3 2015, to **23.8%,** using the new IMS methodology for both 2015 and 2016
  - Driven by the addition of Target pharmacies along with underlying core CVS share growth

Refer to pages 42 - 44 for end notes.

Retail/LTC Business:

Target Pharmacies & Clinics and Omnicare

CVS at Target:

- Despite script shortfall, overall performance in line with expectations
- Expect to increase awareness and utilization of CVS at Target
  - Strong Maintenance Choice performance with the enhanced access for existing Maintenance Choice members
  - Ramping up patient care programs
  - Media, marketing and member engagement campaigns
- Remain confident in ability to increase traffic over time

Omnicare:

- Performance in line with expectations
- Integration efforts progressing as planned
  - Continue to expect to complete majority of Omnicare integration activities by year-end
- A number of integrated offerings are being piloted in Assisted and Independent Living communities

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Retail/LTC Business:

Q3 Front Store Revenue and Gross Margin

- Front store comps decreased **1.0%**
- Softer traffic largely offset by an increase in basket size
  - Pulled back on promotional spend for lower-value, promotionally-oriented customers
- Front store margins improved significantly in Q3
- Front store spend and margin increased 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

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 ~ **23%** in Q3, up by ~ 115 bps from prior year Q3
  - Continuing on trajectory toward **25%** goal

Retail/LTC Business:

Retail Pharmacy Real Estate Update

Stores at end of Q2	9,686
Opened	48
Acquired	-
Closed	(6)
Stores at end of Q3	9,728
Net new retail drugstores	42
Relocations	11
Retail pharmacies	9,638 [7]

Refer to pages 42 - 44 for end notes.

Retail/LTC Business:
CVS MinuteClinic

- Operate **1,136** clinics across 33 states and Washington, D.C.
- Revenues **up** ~ **23%** vs. same quarter a year ago, including Target
- Use of on-line wait times or "Hold My Place in Line" on-line queuing tool continues to grow
  - Recent survey indicated **33%** of patients are using these tools

Retail/LTC Business:

Enterprise Digital: Creating a Connected Health Experience

- Mobile Prescription Pickup allows patients to pick up their prescriptions in a fast and private way
  - Nearly 2 million scripts have been filled using MPP since launch
- Enhanced version of SilverScript.com launched in August uses responsive design to provide optimal viewing and interaction experience
  - Anticipate this will grow book of business through mobile enrollments
- CVS Specialty now enables patients to receive a balance due message, register, make a payment and refill a prescription easily from a desktop or mobile device
  - Creates a more user-friendly experience, and also helps drive adherence
- CVS Curbside officially launched in September in 40 markets in over 4,000 stores
  - Strong 4-Star satisfaction rating
- CVS Pay is an easy, fast, and secure payment method available to customers for both Front Store and Pharmacy transactions
  - Industry leading capability to do split tender payments with FSA and HSA

Third Quarter 2016 Financial Review

Financial Update:
Capital Allocation

- Paid ~ **$455 million** in dividends in Q3
  - Dividend payout ratio of **34.7%** (27)
    - Artificially high due to loss on debt extinguishment incurred in second and third quarters as well as ongoing integration costs associated with recent acquisitions
  - On track to reach **35%** targeted payout ratio by 2018
- In Q3, repurchased **~ 0.4 million** shares for **~ $40 million,** or **$97.44** per share
  - **$4 billion** repurchases complete for the year
- In Q3, returned ~ **$495 million** to shareholders; **~ $5.4 billion** year-to-date
- Expect to return **nearly $6 billion** to our shareholders in 2016 through a combination of dividends and share repurchases

Financial Update:

Free Cash Flow

- In Q3, generated **$3.7 billion** of free cash [(4)]
- Year-to-date, produced **$6.6 billion** of free cash [(4)]
- Increasing free cash flow guidance to range of **$6.8 to $7.0 billion** [(4)(8)] from previous range of $6.3 billion to $6.6 billion in 2016
  - The increase in free cash flow is primarily driven by timing in Medicare Part D operations as a result of favorable utilization, inflation and health of the membership compared to SilverScript's annual bid

Refer to pages 42 - 44 for end notes.

Q3 2016 Income Statement:
Earnings per Share

- Q3 Adjusted EPS of **$1.64** (3), up **28%, 6¢** above high end of guidance range
  - **5¢** relates to lower tax rate, primarily due to resolution of certain tax matters previously anticipated to occur in Q4
  - **1¢** relates to below the line items
- GAAP diluted EPS of **$1.43**
- PBM segment posted profit growth slightly above high end of guidance mostly due to Med D profitability
- Retail/LTC segment at lower end of expectations

Refer to pages 42 - 44 for end notes.

Q3 2016 Income Statement:

Revenues: Consolidated, PBM

- Consolidated revenues of **$44.6 billion**, up **15.5%** vs. LY
- PBM revenues of **$30.4 billion**, up **19.2%** 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 **18.9%** (6)
    - Specialty revenues up ~ **15%**
  - Partially offset by increase in GDR to **85.4%, up ~ 160 bps** vs. Q3 2015
  - Top-line growth below expectations due to:
    - Impact of Hep C and the lower-than-expected network volume related to seasonal scripts

Refer to pages 42 - 44 for end notes.

Q3 2016 Income Statement:

Revenues: Retail/LTC

- Retail/LTC revenues of **$20.1 billion**, up **12.5%** vs. LY
  - Growth driven primarily by addition of Omnicare and the pharmacies within Target, as well as pharmacy same store sales
- Retail/LTC GDR of **85.8%,** up **100 bps** vs. Q3 2015

Gross Profit Margin: Consolidated, PBM

- Consolidated gross margin of **16.8%,** down ~ 45 bps vs. LY
  - Gross profit dollars **up 12.6%** (9)
- PBM gross margin of **5.9%**, up ~ 15 bps vs. LY
  - Increase primarily due to favorable generic dispensing
- PBM gross profit dollars **up 22.4%**
  - 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 42 - 44 for end notes.

Q3 2016 Income Statement:

Gross Profit Margin: Retail/LTC

- Retail/LTC gross margin of **29.3%**, down ~ 70 bps vs. LY
  - ~ 30% of decline was mix-driven, due to the acquisitions
  - Continued reimbursement pressure
  - Declines partially 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%** (9)
  - Largely driven by addition of Omnicare and Target businesses

Refer to pages 42 - 44 for end notes.

Q3 2016 Income Statement:

Operating Expenses and Margin

- Consolidated: expenses were **10.3%** of revenues [10]
- PBM: expenses were **1.1%** of revenues … ~ 10 bps YOY improvement
  - Driven by additional sales leverage from volume increases
- Retail/LTC: expenses were **20.2%** of revenues [10] … ~ 55 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 ~ $22 million [11] to **$216 million**, lower than expected

Refer to pages 42 - 44 for end notes.

Q3 2016 Income Statement:
Operating Profit and Margin

- Consolidated
  - Operating profit increased **17.3%** (1)
  - Operating margin of **6.5%** (1), up ~ 10 bps vs. LY
  - EBITDA of $3.5 billion, up **16.6%** vs. LY
- PBM
  - Operating profit increased **25.3%**
  - Operating margin of **4.8%**, up ~ 25 bps vs. LY
- Retail/LTC
  - Operating profit increased **10.3%** (12)
  - Operating margin of **9.1%** (12), down ~ 20 bps vs. LY

Refer to pages 42 - 44 for end notes.

Q3 2016 Income Statement:

Below-the-line

- Net interest expense of **$253 million**, up ~ $8 million [13] vs. LY
  - Driven by debt issues in the third quarter of 2015 to fund the acquisitions
  - Year-to-date 2016, retired **$4.2 billion** of debt and recorded **$643 million loss** on the early extinguishment of debt
- Effective tax rate [14] of **37.6%** in Q3
  - Lower tax rate primarily due to resolution of certain tax matters previously anticipated to occur in Q4
- Weighted-average share count of ~ **1.1 billion** shares

Refer to pages 42 - 44 for end notes.

Marketplace Changes

Recent Marketplace Actions

- Very recently, there have been a number of unexpected marketplace actions that will have a negative impact on our Q4 2016 results and a more meaningful impact on our outlook for 2017
  - In total, we believe these network actions will result in **more than 40 million** retail prescriptions shifting out of our stores on an annualized basis
    - For example, new restricted network relationships between Walgreens and Prime Therapeutics, as well as the Department of Defense Tricare program
    - DOD Tricare members already notified; we expect to begin seeing these prescriptions migrate out of our stores
  - Prime network changes impact CVS Pharmacy's participation in selected fully-insured networks in several key states and in many cases make CVS Pharmacy a non-preferred provider for Medicare Part D
  - Scripts we expect to lose will tend to be our most profitable scripts
    - Given our ability to leverage fixed costs with incremental volume, our last script is our most profitable script
  - Margin compression is a factor in this business
    - Strategy of driving more share through CVS channels is key to achieving retail growth objectives
    - Unexpected loss of share will make this difficult in the short-term

2016 Guidance Review

2016 Guidance Update

- FY 2016 lowered midpoint by 5 cents per share
  - Takes into account recent competitor actions restricting us from pharmacy networks as well as current trends in the retail business
    - Trends in retail include the slowing script growth in the overall market and a soft seasonal business affecting the pharmacy and the front store
  - The EPS range is wider given the market uncertainties
- Timing shift related to lower tax rate benefited Q3 by approximately 5 cents per share, primarily due to resolution of certain tax matters
  - These matters previously anticipated to occur in Q4
- Q4 enterprise revenue and operating profit growth driven primarily by PBM growth
- Q4 total same store sales and adjusted script comps sequential decline reflects the impact of the network changes and retail trends

Guidance: 2016 Full-year [15]

Lowering Midpoint of Adjusted EPS By 5 Cents

	Full-year 2016
Net Revenue Growth	16.0% to 16.5%
Adjusted EPS [21] *Year-over-year Growth* [22]	**$5.77 to $5.83** *11.75% to 13.0%*
GAAP Diluted EPS	$4.84 to $4.90
Operating Profit Growth [19][23]	7.5% to 8.5%

Refer to pages 42 - 44 for end notes.

Guidance: 2016 Full-year [19]

Increasing Free Cash Flow

(billions)	Full-year 2016
Operating Cash Flow [4]	$9.1 to $9.3
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 [4] *Year-over-year Growth*	**$6.8 to $7.0**

Refer to pages 42 - 44 for end notes.

Guidance: 2016 Q4 (15)

Guidance Reflects Recent Marketplace Changes And Current Retail Trends

	Q4 2016
Net Revenue Growth	12.25% to 14.0%
Adjusted EPS *Year-over-year Growth* (17)	**$1.64 to $1.70** *7.0% to 10.75%*
GAAP Diluted EPS	$1.52 to $1.58
Operating Profit Growth (15)	2.0% to 5.5%

Refer to pages 42 - 44 for end notes.

Guidance: 2016 Q4 (15)

PBM Outlook Remains Strong

	Q4 2016
Net Revenue Growth	18.75% to 20.5%
Gross Profit Margin	Moderate decline
Operating Expense *(% of revenue)*	Modest improvement
Operating Profit Growth ***Operating Profit Margin***	9.5% to 11.5% *Down 30 bps to 35 bps*

Refer to pages 42 - 44 for end notes.

Guidance: 2016 Q4 (15)

Retail/LTC Outlook Has Softened

	Q4 2016
Net Revenue Growth	4.0 to 5.75%
Same-store Sales	*Flat to down (1.75%)*
Same-store Adjusted Scripts [6]	*1.0% to 2.0%*
Gross Profit Margin	Moderate decline
Operating Expense *(% of revenue)*	Flat to down
Operating Profit Growth [18]	(1.25%) to 2.25%
Operating Profit Margin	*Down 35 bps to 55 bps*

Refer to pages 42 - 44 for end notes.

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Guidance: 2016 Q4 [15]

Consolidated Income Statement

	Q4 2016
Corporate Segment Expense	$225 million to $220 million
Gross Profit Margin	Significant decline
Operating Expense *(% of revenue)*	Notable improvement
Operating Profit Margin [18]	Down 50 bps to 65 bps

Refer to pages 42 - 44 for end notes.

Guidance: 2016 Q4 (15)

Consolidated Income Statement

	Q4 2016
Net Interest Expense	~ $245 million
Effective Tax Rate	~ 39.2%
Weighted Average Shares	~ 1.07 billion
Consolidated Amortization	~ $205 million
Consolidated D&A	~ $600 million

Refer to pages 42 - 44 for end notes.

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2017 Preliminary Outlook

Preliminary Outlook: 2017 Full-year (15)

Enterprise Outlook for 2017

	Full-year 2017
Adjusted EPS [25] *Year-over-year Growth* [21]	**$5.77 to $5.93** *(0.5%) to 2.5%*
GAAP Diluted EPS [24]	$5.16 to $5.33
PBM EBIT Growth	~ 8%
Retail/LTC EBIT Growth	~ (8%)

Refer to pages 42 - 44 for end notes.

Preliminary 2017 Outlook

Factors Affecting Growth

- PBM segment:
  - Strong selling season
  - Specialty expected to deliver strong growth
  - SilverScript business expected to continue to perform very well
- Retail/LTC segment:
  - Significant headwind of more than 40 million scripts from network changes
  - Year-over-year accretion from Omnicare and Target slightly slower than anticipated. Currently expect year-over-year accretion of about **17 cents**, which includes impact on CVS pharmacies within Target related to network changes**,** compared to initial forecast of 26 cents
  - Continued margin decline from reimbursement pressure and mix of business
  - Offsets to margin pressure are lumpy, as they relate to the anticipated timing of generics along with the timing of share gains, so 2017 will be challenging
- Accounting impacts: settlement of the Company's largest defined benefit pension plan impacting income and GAAP EPS

Preliminary 2017 Outlook

Continue to Drive Shareholder Value

- Significant cash generation capabilities are a real asset
- Continue to increase dividend annually
- Continue share repurchases after considering strategic acquisition opportunities
  - Board approved **$15 billion** share repurchase authorization
  - Combined with what we have left in our prior authorization, we now have **$18.7 billion available** for buybacks
  - Adjusted EPS estimates for 2017 assumes the completion of **$5 billion** in share repurchases

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Long-term Outlook

Long-term Outlook

Targeting 10% Adjusted EPS Growth

- Adjusted EPS growth target of approximately **10%**, on average
  - Some years may be higher, while some years may be lower
  - Recognizes the fact that maintaining **10% to 14%** growth off of a much larger base is becoming more challenging
- Expect to generate **$7 billion to $8 billion** in free cash flow annually, on average
  - Significant opportunities to drive shareholder value through disciplined capital allocation practices
- Will provide more details at Analyst Day

Plan for Healthy Operating Profit Growth

1. Leverage enterprise capabilities and CVS Pharmacy's compelling value proposition to partner more broadly with other PBMs and health plans
2. Focus on driving growth through new PBM product introductions that capitalize on benefits inherent in our unique integrated model
3. Launch multi-year enterprise operations improvement initiative that will generate significant annual savings, beginning in 2017 and accelerating beyond
4. Utilize strong cash generation to return value to shareholders, maintaining financial discipline and investing in the right opportunities to drive long-term growth

Endnotes

1. Consolidated operating profit excludes $65 million and $127 million of acquisition-related transaction and integration costs during the three months ended September 30, 2016 and 2015, respectively. The costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target.
2. Adjusted EBITDA for the three months ended September 30, 2016 and 2015, excludes $58 million and $127 million, respectively, of acquisition-related transaction and integration costs. Depreciation for the three months ended September 30, 2016, includes $7 million of acquisition-related integration depreciation. The transaction and integration costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target.
3. Adjusted EPS for the three months ended September 30, 2016, excludes $197 million of amortization of intangible assets, a $101 million from loss on early extinguishment of debt and $65 million of acquisition-related integration costs. Adjusted EPS for the three months ended September 30, 2015, excludes $160 million of amortization of intangible assets, $127 million of acquisition-related transaction and integration costs and $16 million of acquisition-related bridge financing costs.
4. The three months ended September 30, 2016 and 2015, include $65 million and $127 million, respectively, of pre-tax acquisition-related transaction and integration costs. The three months ended September 30, 2016, also include a $101 million loss on early extinguishment of debt. The three months ended September 30, 2015, also include $16 million of acquisition-related bridge financing costs. The nine months ended September 30, 2016, include $207 million of pre-tax acquisition-related integration costs, a $643 million loss on early extinguishment of debt and a $3 million charge related to a disputed 1999 legal settlement. The nine months ended September 30, 2015, include $147 million of pre-tax acquisition-related transaction and integration costs and $52 million of acquisition-related bridge financing costs.
5. Client retention rate is defined as: 1 less (estimated 2017 lost revenues from any known 2017 terminations plus annualization of any mid-year 2016 terminations, divided by estimated 2017 PBM revenues) expressed as a percentage. Both terminations and PBM revenues exclude the individual PDP business.
6. 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 pharmacy network claims are not adjusted.
7. Including 7,967 CVS Pharmacy stores that operated a pharmacy and 1,671 pharmacies located within Target stores. Excludes onsite pharmacy stores.
8. Includes estimated acquisition-related integration costs in future periods.
9. Consolidated cost of revenues and Retail/LTC cost of revenues for the three months ended September 30, 2016, have been adjusted to exclude $5 million of acquisition-related integration costs.

Endnotes

10. Consolidated operating expenses and Retail/LTC operating expenses for the three months ended September 30, 2016, have been adjusted to exclude $60 million and $47 million, respectively, of acquisition-related integration costs. Consolidated operating expenses and Retail/LTC operating expenses for the three months ended September 30, 2015, have been adjusted to exclude $127 million and $12 million, respectively, of acquisition-related transaction and integration costs.
11. Corporate operating expenses for the three months ended September 30, 2016, have been adjusted to exclude $13 million of acquisition-related integration costs. Corporate operating expenses for the three months ended September 30, 2015, have been adjusted to exclude $115 million of acquisition-related transaction and integration costs.
12. Retail/LTC operating profit for the three months ended September 30, 2016 and 2015, excludes $52 million and $12 million, respectively, of acquisition-related integration costs.
13. Net interest expense for the three months ended September 30, 2015 has been adjusted to exclude $16 million of acquisition-related bridge financing.
14. For the quarter ended September 30, 2016, the exclusion of the non-GAAP adjustments from income before income tax provision ($197 million of amortization of intangible assets, $65 million of acquisition-related integration costs and the $101 million from loss on early extinguishment of debt) resulted in a 20 basis point increase in the effective income tax rate, from 37.4% to 37.6%.
15. Excludes estimated acquisition-related integration costs in future periods.
16. Consolidated operating profit for the quarter ended December 31, 2015, excludes $72 million of acquisition-related transaction and integration costs and a $90 million charge related to a disputed 1999 legal settlement.
17. Adjusted EPS for the quarter ended December 31, 2015 excludes $72 million of acquisition-related transaction and integration costs, a $90 million charge related to a disputed 1999 legal settlement, and $191 million of amortization of intangible assets.
18. Retail/LTC operating profit for the quarter ended December 31, 2015, excludes $52 million of acquisition-related integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target.
19. Consolidated operating profit for the year ending December 31, 2016, excludes $207 million of acquisition-related integration costs and a $3 million charge related to a disputed 1999 legal settlement incurred during the nine months ended September 30, 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.

Endnotes

21. Adjusted EPS for the year ending December 31, 2016, excludes $207 million of acquisition-related costs, a $643 million loss on early extinguishment of debt, $798 million of amortization of intangible assets and a $3 million charge related to a disputed 1999 legal settlement. Estimated acquisition-related integration costs for future periods are not included in guidance. Includes the completion of $4 billion in share repurchases in 2016.
22. 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 costs, and $611 million of amortization of intangible assets.
23. Consolidated operating profit for the year ended December 31, 2015, excludes $220 million of acquisition-related transaction and integration costs and a $90 million charge related to a disputed 1999 legal settlement.
24. GAAP Diluted EPS for the year ending December 31, 2017 Includes an estimate of the previously announced settlement of the Company's largest frozen defined benefit pension plan and the expected tax impact of the adoption of new share-based compensation accounting guidance.
25. Adjusted EPS for the year ending December 31, 2017, excludes an estimate of the previously announced settlement of the Company's largest frozen defined benefit pension plan and the expected tax impact of the adoption of new share-based compensation accounting guidance.
26. Source of prescription growth data is IMS Health and CVS Health internal data.
27. The dividend payout ratio is defined as the sum of the dividends paid for the last four quarters, divided by the sum of net income for the last four quarters. Dividends paid and net income are both included on the consolidated statements of cash flows.