Fourth Quarter 2016 Earnings Conference Call

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CVS Health

Revised 2/9

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. 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.

Fourth Quarter Business Update

CVS Health

2016 Was a Strong Year

	Full-Year 2016	Change vs. 2015
Consolidated net revenues	$177.5 billion	15.8%
Consolidated operating profit (1)	$10.6 billion	8.3%
Adjusted EBITDA (2)	$13.0 billion	10.0%
Adjusted EPS (3)	$5.84	13.2%
Free Cash Flow (4)	$8.1 billion	25.1%

Refer to pages 47 - 51 for end notes.

Fourth Quarter: Continued Solid Results

	Q4 2016	Change vs. Q4 2015
Consolidated net revenues	$46.0 billion	11.7%
Consolidated operating profit (5)	$3.0 billion	4.6%
Adjusted EBITDA (6)	$3.6 billion	5.3%
Adjusted EPS (7)	$1.71	11.8%
Free Cash Flow (8)	$1.5 billion	(51.0%)

Refer to pages 47 - 51 for end notes.

Recent Issues of Investor Interest:

Direct and Indirect Remuneration (DIR)

- DIR is an important component of the Medicare Part D program
  - Includes any rebates, discounts, or other price concessions unknown at the point of sale
  - Is ultimately utilized to reduce the net cost of the Med D program
- DIR performance network-based fees charged to pharmacies are allowed under CMS regulation
  - Fully passed through from the PBM to its clients, fully disclosed as part of annual bid process, and ultimately used and reflected to help lower member premiums
  - Member premiums over a five-year period have increased at a 1.7% CAGR, reflecting positive impact on controlling costs
- CVS Caremark does not keep or profit from performance network-based DIR
  - CVS Pharmacy and CVS Specialty participate in the same performance network programs being called into question

Recent Issues of Investor Interest:

Direct and Indirect Remuneration (DIR)

- Network pharmacy providers are proactively informed of, and educated on, program details including their forecasted financial impact in advance of program implementation

- Suggestion that Part D plans favor high-priced drugs in order to more quickly drive beneficiaries through the benefit and into catastrophic coverage is erroneous. Our data proves this
  - Percentage of beneficiaries reaching the coverage gap and ultimately catastrophic coverage has decreased over the past several years and is a relatively small percentage of our overall population

- DIR performance network-based fees do not represent a material risk to CVS Health
  - Given its effectiveness at helping to lower premiums, we don't think DIR is likely to go away
  - Hypothetically, if DIR were to go away, there would be a level playing field on which we would remain quite competitive

Recent Issues of Investor Interest:

Potential Changes to Health Care System

- It is important to provide affordable coverage for all Americans, which both Democrats and Republicans have acknowledged
- At this point, extremely difficult for us to comment on the possible scenarios that may play out in the coming months
- CVS Health can pivot to address policy changes, help reduce health care costs, and bring meaningful solutions to the marketplace

Recent Issues of Investor Interest:

Drug Pricing Rhetoric

- Any suggestion that PBMs are causing drug prices to rise is erroneous
- *PBMs are the solution, not the problem*
  - Numerous evaluations from the FTC, Congressional Budget Office, and other government agencies have consistently concluded that PBMs operate in a highly efficient market and drive real savings
  - Our CVS Caremark solutions have helped to reduce client costs from an unmanaged gross trend of 11.8% to a managed trend of 3.3% YTD through September of 2016
  - A recent industry study showed that every dollar invested in PBM services returned $6 in savings for our clients and members

Recent Issues of Investor Interest:

Impact of Corporate Tax Reform

- We are at the highest end of corporate tax payers given our domestic profile, with an effective rate around **39%**
- The details of tax reform will matter, but today nothing has been reduced to writing despite much discussion
- A fairer tax code that includes a meaningful reduction in the effective corporate tax rate would allow CVS to unlock even greater economic opportunities

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PBM Business:
Another Strong Selling Season

2017: Gross and net wins slightly higher than at Analyst Day

- Gross wins of **~ $7.9 billion**
  - Does not include individual Med D PDP impact
- Net new business of **~ 4.4 billion**
  - Retention rate of **~ 97%** (9)
- Successful welcome season
  - Processed significantly more transactions this year, and client satisfaction showed continued improvement across all business lines
  - Investments made in quality, automation and customer focus delivering measurable value to clients year after year
- **~ 23 billion** up for renewal in 2018, comparable with prior years from a percent of business perspective
  - Pretty early to gauge the full extent of RFP opportunities in the 2018 selling season
  - Strong service history, size and scale, and unique suite of capabilities give us the tools we need to be successful in retaining business - and winning in the marketplace as opportunities arise

Refer to pages 47 - 51 for end notes.

PBM Business:

Specialty Still Top of Mind for Clients

- CVS Specialty offers comprehensive set of programs to effectively manage specialty trend
- Revenue growth of **12%** year-over-year in Q4
- CVS Specialty continues to outpace market and gain share

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PBM Business:

SilverScript is Clear Leader in Med D Space

- Successfully retained position as **#1** PDP sponsor
  - Added ~ **130,000 individual PDP lives during open enrollment**
  - Including ~**100,000** lives acquired from Torchmark, and EGWP lives, we serve more than 5.5 million captive PDP lives, up ~ **10%** over January of 2016
    - Includes roll off of EGWP lives managed for CalPERS and ERS of Texas on 1/2017
  - Including Med D lives CVS Caremark manages for our health plan clients, we have **12.3 million lives** under management

Medicare Part D Lives Served by CVS Caremark [32]

(millions)

	January '16	December '16	January '17	Jan YOY Growth
Individual	3,934.5	4,402.7	4,532.0	15.2%
EGWP	1,076.4	1,224.9	987.4	(8.3%)
Total captive lives	**5,010.9**	**5,627.6**	**5,519.4**	**10.1%**
Non-captive lives	6,288.2	6,439.5	6,769.2	7.6%
Total lives	**11,299.1**	**12,067.1**	**12,288.7**	**8.8%**

Refer to pages 47 - 51 for end notes.

Retail/LTC Business:

Q4 Pharmacy Revenue and Script Growth [22]

- Pharmacy same store prescription volumes increased **2.0%** on a 30-day equivalent basis [10]
- Total same-store sales decreased **0.7%**
- Pharmacy same-store sales increased **0.2%**
  - Negative impact of ~ 380 bps due to recent generic introductions
  - Negatively impacted by Tricare scripts beginning to migrate out of our stores in Q4, in line with our expectations

Refer to pages 47 - 51 for end notes.

Retail/LTC Business:

Target Pharmacies & Clinics

- Now that the integration is behind us, script performance at Target has improved versus prior quarters
  - Driven by strength of patient care programs and Maintenance Choice
- Exhibiting a solid operational foundation, providing high customer service levels
- We are making good progress since completing the integration activities and are moving in the right direction

Retail/LTC Business:
Omnicare

- Continue to target the significant growth opportunities we see in the Assisted Living and Independent Living markets

- Launched some programs in these settings during 2016, and others are being piloted in early 2017
  - More on these programs in the coming quarters

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Retail/LTC Business:

Generic Epinephrine

- Through our partnership with Impax, the authorized generic Adrenaclick is now available at all CVS Pharmacy locations at a cash price of about **$110** for a two-pack
  - **80% lower** than the price of the brand competition in the market
- This is consistent with the fact that increasing competition within therapeutic drug classes is a way to reduce the cost of prescription drugs, and we are using our capabilities and scale to do just that

Retail/LTC Business:

Q4 Front Store Revenue and Gross Margin

- Front store comps decreased **2.9%**
  - Due to softer customer traffic combined with our continued focus on increasing personalization
- Front store sales account for **~ 11%** of enterprise revenues
- Personalization efforts are allowing us to invest our promotional spend in a differentiated way producing margin flow-through
  - Front store gross margin improved in Q4 versus last year
- Have started to further reduce mass promotion in 2017 to better serve our loyal customers and continue driving profitable front store sales

Retail/LTC Business:

Front Store Strategies

- Continued to focus on growing our beauty, healthcare and personal care businesses
- Recognizing the growing presence of the digital market, we've been focused on enhancing our online and digital capabilities to create an integrated health and pharmacy experience
- CVS Curbside allows customers to order products on their mobile devices and pick them up at a CVS store without getting out of their car
  - Currently available in 4,000 CVS Pharmacy stores
- Also introduced CVS Pay, which allows customers to pick up prescriptions, use ExtraCare, and pay for front store items all with one scan of their CVS App
- Will continue to roll out store resets to improve our Health and Beauty leadership
- Store Brands remain an area of strength and significant opportunity
  - **23.7%** of front store sales in Q4, **up ~ 160 bps** from prior year Q4

Retail/LTC Business:

Real Estate Update

Stores at 2015 year-end	9,655
Opened	130
Acquired	9
Closed	(47)
Stores at 2016 year-end	9,747
Net new stores	92
Relocations	50
Retail pharmacies	9,654 [11]

Stores at Q3 end	9,728
Opened	44
Acquired	1
Closed	(26)
Stores at Q4 end	9,747
Net new stores	19
Relocations	16

Refer to pages 47 - 51 for end notes.

Retail/LTC Business:

CVS MinuteClinic

- Operate **1,139** clinics across 33 states and Washington, D.C.
- Q4 revenues **up** ~ **24%** vs. same quarter a year ago, including clinics within Target stores
- Visit volume is steadily increasing in the Target clinics post-conversion

Actions to Return to Healthy Growth

Actions to Return to Healthy Growth

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Actions to Capitalize on Market Dynamics

1. Partner More Broadly
   - Partnership with Optum
     - We look forward to discussing other long-term opportunities to bring together complementary capabilities that provide greater convenience and value to our clients and customers
   - Have begun to offer a menu of services to other PBMs, including exclusive capabilities such as MinuteClinic services, infusion and long-term care capabilities
2. New, Integrated PBM Products
   - Continue to innovate to bring new, integrated PBM products to market that capitalize on the benefits inherent in our unique integrated model, while meeting the ongoing needs of our clients and members
3. Enterprise Streamlining Initiative
   - Through the initiative, expect to achieve nearly $3 billion in cumulative savings by 2021
4. Return Value to Shareholders
   - We remain confident that we can achieve solid operating profit growth across the enterprise in the years ahead
   - Substantial cash flow affords us opportunities to bolster that growth, either through strategic acquisitions to supplement our existing asset base or through value-enhancing share repurchases

Fourth Quarter 2016 Financial Review

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Financial Update:

Capital Allocation

- Paid ~ **$456 million** in dividends in Q4; **$1.8 billion** in 2016
  - Dividend payout ratio of **34.6%** (12) in 2016
    - This ratio is artificially high due to the integration costs related to Omnicare and Target, as well as other items described in our non-GAAP reconciliations on our website
    - On track to reach **35%** targeted payout ratio by 2018
- In 2016, repurchased **~ 48 million** shares for **~ $4.5 billion**, or **$96.78** per share
- Repurchased **~ 6.1 million** shares in Q4 for **$461 million,** or **$75.20** per share
- In 2016, returned a very significant **~ $6.3 billion** to shareholders through dividends and share repurchases
- With **$18.2 billion** left in authorizations, expect to repurchase **$5 billion** in 2017
- In 2017, expect to return **more than $7 billion** to shareholders through dividends and share repurchases
- In January, entered into two accelerated share repurchase transactions totaling **$3.6 billion**, and repurchased **36.1 million** shares at a price of **$80.34 per share,** representing 80% of the total value of the transactions, which will close by the third quarter

Refer to pages 47 - 51 for end notes.

Financial Update:
Free Cash Flow

- In Q4, generated **$1.5 billion** of free cash [8]
- In 2016, produced **$8.1 billion** of free cash [4], exceeding high end of guidance by **$1 billion**
  - Outperformance was primarily driven by timing of PBM cash receipts and payables
  - Improved cash cycle by nearly **3 and a half days** driven by improved inventory and payables management
- For 2016, gross capital expenditures were **~ $2.2 billion**
  - **~ $145 million** lower than 2015 due to our expected reduction in store openings as we integrated the Target pharmacies
  - With **$230 million** in sale-leaseback proceeds, net capex for year was ~ $2 billion

Refer to pages 47 - 51 for end notes.

Q4 2016 Income Statement:

Earnings per Share

- Q4 Adjusted EPS of **$1.71** [7], up **11.8%, 1¢** above high end of guidance range
  - Excludes amortization, the impact of integration costs related to the Omnicare and Target acquisitions, adjustments to legal reserves in connection with certain legal settlements and an asset impairment charge for store rationalization in connection with our enterprise streamlining initiative
- GAAP diluted EPS of **$1.59**
- On an adjusted basis, results within the PBM slightly above expectations; Retail/LTC in line with our expectations

Refer to pages 47 - 51 for end notes.

Q4 2016 Income Statement:
Revenues: Consolidated, PBM

- Consolidated revenues of ~ **$46 billion**, up **11.7%** vs. LY
- PBM revenues of **$31.3 billion**, up **17.9%** vs. LY
  – Growth driven by increased volume in pharmacy network claims as well as growth in specialty pharmacy
    - Slightly below our guidance range, primarily due to lower inflation and drug mix versus expectations
  – Partially offset by increase in GDR to **85.4%, up ~ 170 bps** vs. Q4 2015

Refer to pages 47 - 51 for end notes.

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Q4 2016 Income Statement:

Revenues: PBM

- PBM adjusted claims grew **19.9%** [33]; finished year with 1.39 billion claims, at top end of expectations
- In 2017, changing methodology for counting pharmacy network claims
  - 90-day prescriptions filled within our pharmacy networks will be adjusted to 30-day equivalents
  - With change, PBM adjusted claims grew **24.6%** in Q4

Refer to pages 47 - 51 for end notes.

Q4 2016 Income Statement:

Revenues: PBM Claims Processed

Pharmacy Claims Processed
(millions)

		2015					2016				
		Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Old Method (33)	**Mail Choice**	20.3	21.3	21.9	22.2	85.7	21.7	22.2	22.4	23.2	89.5
	Network	230.8	228.8	229.1	237.5	926.2	283.1	280.5	282.6	294.3	1,140.5
	Total	251.2	250.1	251.0	259.6	1,011.9	304.8	302.7	305.0	317.5	1,230.0
	Total Adjusted	287.8	288.4	290.3	299.5	1,166.0	343.7	342.5	345.3	359.0	1,390.5
	YoY growth						***19.4%***	***18.7%***	***18.9%***	***19.9%***	***19.3%***
	Mail Penetration Rate	*19.8%*	*20.7%*	*21.1%*	*20.7%*	*20.6%*	***17.6%***	***18.1%***	***18.1%***	***18.0%***	***18.0%***
New Method (34)	**Adjusted mail choice**	57.3	60.0	61.5	62.3	241.1	61.0	62.3	63.0	65.2	251.5
	Adjusted network	268.1	267.9	269.7	279.0	1,084.7	340.9	340.9	345.7	360.2	1,387.7
	Total Adjusted	325.4	327.9	331.2	341.3	1,325.8	401.9	403.2	408.7	425.4	1,639.2
	YoY growth						***23.5%***	***23.0%***	***23.4%***	***24.6%***	***23.6%***
	Mail Penetration Rate	*17.6%*	*18.3%*	*18.6%*	*18.3%*	*18.2%*	***15.2%***	***15.5%***	***15.4%***	***15.3%***	***15.3%***

Refer to pages 47 - 51 for end notes.

Q4 2016 Income Statement:
Revenues: Retail/LTC

- Retail/LTC revenues of **$20.8 billion**, up **4.7%** vs. LY
  - Growth driven primarily by strong pharmacy same store script growth partially offset by a decline in front store same store sales
- Retail/LTC GDR of **85.2%,** up **120 bps** vs. Q4 2015

Q4 2016 Income Statement:

Gross Profit Margin: Consolidated, PBM

- Consolidated gross margin of **16.6%** (13)**,** down ~ 115 bps vs. LY, and consistent with expectations, primarily driven by mix shift, as lower margin PBM is growing faster than Retail/LTC
- PBM gross margin of **5.2%**, down ~ 40 bps vs. LY
  - Decrease primarily attributable to continued price compression and timing of Med D margin partially offset by the improved cost of sales management
- PBM gross profit dollars **up 9.6%**
  - Increase primarily due to increase in volumes, improvement in GDR and favorable rebate and purchasing economics
  - Partially offset by continued price compression
  - Outperformed versus expectations due to lower utilization within the Med D PDP as well as cost of sales

Refer to pages 47 - 51 for end notes.

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Gross Profit Margin: Retail/LTC

- Retail/LTC gross margin of **29.8%** (13), down ~ 40 bps vs. LY
  - Decrease primarily driven by continued pressure on reimbursement rates and lower drug price inflation
  - Partially offset by increase in GDR and strong front store margin improvement aided by continued rationalization of promotional strategies and improved product mix
- Retail/LTC gross profit dollars **up 3.4%** (13)

Refer to pages 47 - 51 for end notes.

Q4 2016 Income Statement:

Operating Expenses and Margin

- Consolidated: expenses were **10.0%** of revenues (14)
- PBM: expenses were **1.1%** of revenues (15) … ~ 25 bps YOY improvement
  - Driven by efficiency improvements
- Retail/LTC: expenses were **19.5%** of revenues (16) … relatively flat YOY
- Corporate expenses increased ~ $20 million (17) to **$236 million**, above expectations
  - Driven by higher severance costs associated with our continued focus on cost improvement

Refer to pages 47 - 51 for end notes.

Q4 2016 Income Statement:

Operating Profit and Margin

- Consolidated
  - Operating profit increased **4.6%** (5)
  - Operating margin of **6.6%** (5), down ~ 45 bps vs. LY
  - EBITDA of $3.6 billion, up **5.3%** vs. LY
- PBM
  - Operating profit increased **13.3%**
  - Operating margin of **4.2%**, down ~ 20 bps vs. LY
- Retail/LTC
  - Operating profit increased **0.8%** (18)
  - Operating margin of **10.3%** (18), down ~ 40 bps vs. LY

Refer to pages 47 - 51 for end notes.

Q4 2016 Income Statement:
Below-the-line

- Net interest expense of **$242 million**, down ~ $34 million vs. LY
  - Driven by paying down debt and a lower average interest rate on the debt that remains outstanding
- Effective tax rate [19] of **38.5%** in Q4; **38.6%** for 2016
  - Lower than expected for the quarter and the year due to certain permanent items that were recognized in the fourth quarter
- Weighted-average share count of ~ **1.1 billion** shares

Refer to pages 47 - 51 for end notes.

2017 Guidance Review

Guidance: 2017 Full-year
Enterprise Outlook

	Full-year 2017
Net Revenue Growth	2.5% to 4.25%
Operating Profit Change [27] *Operating Profit Margin* [27]	(5.25%) to (2.5%) *Moderate decline*
Adjusted EPS [20] *Year-Over-Year Change* [20]	**$5.77 to $5.93** *(1.25)% to 1.5%*
GAAP Diluted EPS [21]	$5.02 to $5.18

Refer to pages 47 - 51 for end notes.

Guidance: 2017 Full-year

Healthy Growth in PBM

	Full-year 2017
Net Revenue Growth	7.5% to 9.5%
Total Adjusted Claims [34]	*1.76 billion to 1.78 billion*
Gross Profit Margin	Modest decline
Operating Expense *(% of revenue)*	Modest improvement
Operating Profit Growth	5.75% to 8.75%
Operating Profit Margin	*Flat to down*

Refer to pages 47 - 51 for end notes.

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Guidance: 2017 Full-year

Retail/LTC Outlook

	Full-year 2017
Net Revenue Change	(3.25%) to (1.75%)
Same-store Sales [22] ***Same-store Adjusted Scripts*** [10] [22]	*(4.25%) to (2.75%)* *(0.25%) to 0.75%*
Gross Profit Margin	Flat to up
Operating Expense [23] *(% of revenue)*	Moderate deterioration
Operating Profit Change [24] ***Operating Profit Margin***	(9.5%) to (7.0%) *Notable decline*

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Refer to pages 47 - 51 for end notes.

Guidance: 2017 Full-year

Consolidated Income Statement

	Full-year 2017
Corporate Segment Expense (25)	$890 million to $900 million
Intercompany Eliminations *(% of combined segment revenues)*	~ 12%
Gross Profit Margin	Notable decline
Operating Expense (26) *(% of revenue)*	Flat to up

Refer to pages 47 - 51 for end notes.

Guidance: 2017 Full-year

Consolidated Income Statement

	Full-year 2017
Net Interest Expense	~$1.01 billion to $1.02 billion
Effective Tax Rate	~ 39%
Weighted Average Shares	~ 1.04 billion
Consolidated Amortization	~ $825 million
Consolidated D&A	~ $2.5 billion

Guidance: 2017 Q1

Enterprise Revenue and Earnings Per Share

	Q1 2017
Net Revenue Growth	1.0% to 2.75%
Adjusted EPS [28] ***Year-over-year Growth*** [28]	**$1.07 to $1.13** *(9.75%) to (4.75%)*
GAAP Diluted EPS [29]	$0.82 to $0.88

Refer to pages 47 - 51 for end notes.

Guidance: 2017 Q1

Segment Performance

		Q1 2017
Retail/LTC	Net Revenue Change	(5.0%) to (3.25%)
	Same store sales (22) *Same store adjusted scripts* (10) (22)	*(6.0%) to (4.25%)* *(2%) to (1%)*
	Operating Profit Change (30)	(17.5%) to (14.5%)
Pharmacy Services	Net Revenue Change	6.25% to 8.0%
	Operating Profit Change	Flat to 2%

Refer to pages 47 - 51 for end notes.

Guidance: 2017 Full-year

Free Cash Flow

(billions)	Full-year 2017
Operating Cash Flow	$7.7 to $8.6
Gross Capital Expenditures	*($2.0) to ($2.4)*
Sale-leaseback proceeds *(31)*	*$0.3 to $0.2*
Net Capital Expenditures	($1.7) to ($2.2)
Free Cash Flow	**$6.0 to $6.4**
Year-over-year Change	***(25%) to (20%)***

Refer to pages 47 - 51 for end notes.

Endnotes

1. Consolidated operating profit excludes $291 million and $220 million of acquisition-related transaction and integration costs during the year ended December 31, 2016 and 2015, respectively. The costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target. Excludes a $90 million charge related to a disputed 1999 legal settlement during the year ended December 31, 2015. Excludes a $3 million charge related to a disputed 1999 legal settlement during the year ended December 31, 2016. Excludes an $88 million reversal of a legal accrual in connection with a legal settlement during the year ended December 31, 2016 and a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative.
2. Adjusted EBITDA for the year ended December 31, 2016 and 2015, excludes $261 million and $220 million, respectively, of acquisition-related transaction and integration costs. Depreciation for the years ended December 31, 2016 and 2015, includes $30 million and $11 million of acquisition-related integration depreciation, respectively. The transaction and integration costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target. The year ended December 31, 2016 also excludes an $88 million reversal of legal accrual in connection with legal settlement and a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative.
3. Adjusted EPS for the year ended December 31, 2016, excludes $795 million of amortization of intangible assets, $291 million of acquisition-related integration costs a $643 million from loss on early extinguishment of debt, an $88 million reversal of legal accrual in connection with a legal settlement, a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative, and $3 million related to a disputed 1999 legal settlement. Adjusted EPS for the year ended December 31, 2015, excludes $611 million of amortization of intangible assets, $220 million of acquisition-related transaction and integration costs, a $90 million charge related to a disputed 1999 legal settlement, and $52 million of acquisition-related bridge financing costs.
4. For the years ended December 31, 2016 and 2015, net income, a component of net cash provided by operating activities, includes the non-GAAP adjustments referenced in endnote #3.
5. Consolidated operating profit excludes $84 million and $72 million of acquisition-related transaction and integration costs during the three months ended December 31, 2016 and 2015, respectively. The costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target. Excludes a $90 million charge related to a disputed 1999 legal settlement during the three months ended December 31, 2015. Excludes an $88 million reversal of legal accrual in connection with legal settlement and a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative.

Endnotes

6. Adjusted EBITDA for the three months ended December 31, 2016 and 2015, excludes $76 million and $72 million, respectively, of acquisition-related transaction and integration costs. Depreciation for the three months ended December 31, 2016 and 2015, includes $8 million and $11 million of acquisition-related integration depreciation, respectively. The transaction and integration costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target. The three months ended December 31, 2016 also excludes an $88 million reversal of legal accrual in connection with legal settlement and a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative, and a $3 million charge related to a disputed 1999 legal settlement. The three months ended December 31, 2015 also excludes a $90 million charge related to a disputed 1999 legal settlement, and $52 million of acquisition-related bridge financing costs.
7. Adjusted EPS for the three months ended December 31, 2016, excludes $202 million of amortization of intangible assets, $84 million of acquisition-related integration costs, an $88 million reversal of legal accrual in connection with legal settlement and a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative. Adjusted EPS for the year ended December 31, 2015, excludes $191 million of amortization of intangible assets and $72 million of acquisition-related transaction and integration costs, and a $90 million charge related to a disputed 1999 legal settlement.
8. For the quarters ended December 31, 2016 and 2015, net income, a component of net cash provided by operating activities, includes the non-GAAP adjustments referenced in endnote #7.
9. Client retention rate is defined as: 1 less (estimated lost revenues from any known terminations plus annualization of any mid-year terminations, divided by estimated PBM revenues for that selling season year) expressed as a percentage. Both terminations and PBM revenues exclude Medicare Part D SilverScript individual products.
10. 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.
11. Including 7,980 CVS Pharmacy stores that operated a pharmacy and 1,674 pharmacies located within Target stores. Excludes onsite pharmacy stores.
12. 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.
13. Consolidated gross profit and Retail/LTC gross profit for the three months ended December 31, 2016, have been adjusted to exclude $31 million of acquisition-related integration costs.

Endnotes

14. Consolidated operating expenses have been adjusted to exclude $53 million of acquisition-related integration costs during the three months ended December 31, 2016. Excludes $72 million of acquisition-related transaction and integration costs during the three months ended December 31, 2015. The costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target. Excludes a $90 million charge related to a disputed 1999 legal settlement during the three months ended December 31, 2015. Excludes a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative, and an $88 million reversal of a legal accrual in connection with a legal settlement during the three months ended December 31, 2016.
15. PBM operating expenses have been adjusted to exclude $88 million for a reversal of a legal accrual in connection with a legal settlement during the three months ended December 31, 2016.
16. Retail/LTC operating expenses have been adjusted to exclude $56 million and $235 million of acquisition-related integration costs during the three months and year ended December 31, 2016, respectively. Excludes $52 million and $64 million of acquisition-related integration costs during the three months and year ended December 31, 2015, respectively. The costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target. Excludes a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative during both the three months and year ended December 31, 2016.
17. Corporate operating expenses have been adjusted to exclude income of $3 million and expense of $10 million of acquisition-related integration costs during the three months and year ended December 31, 2016, respectively. Excludes $20 million and $156 million in acquisition-related transaction and integration costs during the three months and year ended December 31, 2015, respectively. The costs relate to the acquisitions of Omnicare and the pharmacies and clinics of Target. Excludes a $3 million charge related to a disputed 1999 legal settlement during the year ended December 31, 2016. Excludes a $90 million charge related to a disputed 1999 legal settlement during both the three months and year ended December 31, 2015.
18. Retail/LTC operating profit for the three months ended December 31, 2016 and 2015, excludes $87 million and $52 million, respectively, of acquisition-related integration costs. Excludes a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative during the three months ended December 31, 2016.
19. For the quarter ended December 31, 2016, the exclusion of the non-GAAP adjustments from income before income tax provision ($202 million of amortization of intangible asset, $84 million of acquisition-related integration costs, an $88 million reversal of a legal accrual in connection with legal settlement and a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative) resulted in a 50 basis point increase in the effective income tax rate, from 38.0% to 38.5%.

Endnotes

20. Adjusted EPS for the year ended December 31, 2016, excludes $795 million of amortization of intangible assets, a $643 million from loss on early extinguishment of debt, $291 million of acquisition-related integration costs, $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative, a $3 million charge related to a disputed 1999 legal settlement, and an $88 million reversal of a legal accrual in connection with legal settlement. Adjusted EPS for the year ending December 31, 2017, excludes an estimated $825 million in amortization, a $225 million charge for lease obligations in connection with store rationalization related to our enterprise streamlining initiative, $195 million related to the previously announced loss on settlement of defined benefit plan and $35 million in acquisition-related integration costs.
21. GAAP Diluted EPS for the year ending December 31, 2017 includes the estimated items in endnote #20.
22. Same store sales and prescriptions exclude revenues from MinuteClinic, and revenue and prescriptions from stores in Brazil, long-term care operations and from commercialization services.
23. Retail/LTC operating expenses for the year ended December 31, 2016, excludes $235 million of acquisition-related integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target, and a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative. Operating expenses for the year ending December 31, 2017 excludes an estimated $35 million in acquisition-related integration costs and an estimated $225 million charge for lease obligations in connection with store rationalization related to our enterprise streamlining initiative.
24. Retail/LTC operating profit for the year ended December 31, 2016, excludes $281 million of acquisition-related integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target, and a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative. Operating profit change for the year ending December 31, 2017 excludes an estimated $35 million in acquisition-related integration costs and an estimated $225 million charge for lease obligations in connection with store rationalization related to our enterprise streamlining initiative.
25. Corporate segment expense for the year ending December 31, 2017 excludes a $195 million loss on settlement of defined benefit pension plan.
26. Consolidated operating expenses for the year ended December 31, 2016, excludes $245 million of acquisition-related integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target, a $3 million charge related to a disputed 1999 legal settlement, a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative, and an $88 million reversal of a legal accrual in connection with legal settlement. Operating expenses for the year ending December 31, 2017 excludes an estimated $35 million in acquisition-related integration costs, an estimated $225 million charge for lease obligations in connection with store rationalization related to our enterprise streamlining initiative, and a $195 million loss on settlement of defined benefit pension plan.

Endnotes

27. Consolidated operating profit for the year ended December 31, 2016, excludes $291 million of acquisition-related integration costs related to the acquisitions of Omnicare and the pharmacies and clinics of Target, a $34 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative, a $3 million charge related to a disputed 1999 legal settlement, and an $88 million reversal of a legal accrual in connection with legal settlement. Operating profit for the year ending December 31, 2017 excludes an estimated $35 million in acquisition-related integration costs, an estimated $225 million charge for lease obligations in connection with store rationalization related to our enterprise streamlining initiative, and a $195 million loss on settlement of defined benefit pension plan.
28. Adjusted EPS for the quarter ended March 31, 2016, excludes $199 million of amortization of intangible assets, $61 million of acquisition-related integration costs, and a $3 million charge related to a disputed 1999 legal settlement. Adjusted EPS for the quarter ending March 31, 2017, excludes an estimated $200 million in amortization, a $220 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative, and $15 million in acquisition-related integration costs.
29. GAAP Diluted EPS for the year ending December 31, 2017 includes the estimated items in endnote #25.
30. Retail/LTC operating profit for the three months ended March 31, 2016, excludes $61 million of acquisition-related integration costs. Operating profit for the three months ending March 31, 2017 exclude an estimated $15 million in acquisition-related integration costs and an estimated $220 million asset impairment charge in connection with 2017 planned store closures related to our enterprise streamlining initiative.
31. 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.
32. Source: Centers for Medicare & Medicaid Services.
33. Includes the adjustment to convert 90-day, non-specialty mail-choice prescriptions to the equivalent of three 30-day prescriptions.
34. Beginning in Q1 2017, 90-day prescriptions filled within our pharmacy networks will be adjusted to the equivalent of three 30-day prescriptions.