Third Quarter 2017 Earnings Conference Call

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CVS Health

Forward-looking Statements

This presentation contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements reflect our current views related to our future financial performance, future events and industry and market conditions. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from what may be indicated in the forward-looking statements. We strongly encourage you to review the information in the reports that we file with the SEC regarding these specific risks and uncertainties, in particular those that are described in the Risk Factors section of our most-recently filed Annual Report on Form 10-K and the Cautionary Statement disclosures in our Form 10-Q.

This presentation includes non-GAAP financial measures that we use to describe our company's performance. In accordance with SEC regulations, you can find the definitions of these non-GAAP measures, as well as reconciliations to comparable GAAP measures, on the Investor Relations portion of our website.

Link to our Q3 non-GAAP reconciliations: http://bit.ly/2h8xFGZ

Third Quarter Business Update

Third Quarter: Continued Solid Results

	Q3 2017	Change vs. Q3 2016
Consolidated net revenues	$46.2 billion	3.5%
Adjusted operating profit	$2.5 billion	(13.1%)
Adjusted EBITDA	$3.1 billion	(10.5%)
Adjusted EPS	$1.50	(8.4%)
Free Cash Flow	$2.4 billion	(35.7%)

CVS Health

Hurricane Impact and Recovery

- Approximately **925** of our stores closed for some period of time; **11** remain closed
- Financial impact estimated to be **~ $55 million**; costs primarily in Retail/LTC to cover insurance deductibles
- In advance of the storms, our proprietary messaging platform helped ensure delivery of specialty and other medications for patients in transition
- More than **$10 million** in cash, products, and supplies has been raised and donated to support impacted communities

Agreement with Anthem to Support IngenioRx

- Signed 5-year agreement to provide services to support Anthem's new PBM, IngenioRx, beginning in January 2020
- We will manage claims processing and prescription fulfillment through mail order and specialty pharmacies
  - Services will be private labeled to IngenioRx to ensure a seamless experience for Anthem members
- Anthem very focused on improving patient health outcomes
  - Will rely on our expertise in patient messaging and engagement at point of sale through our multiple patient touchpoints
- Combined with our continuing success in winning new business, believe this contract is further validation of the important role that CVS Health's integrated and innovative pharmacy care model plays in today's health care system
  - 9,700 pharmacy locations, more than 1,100 walk-in clinics, 21 million users of our highly-rated CVS Pharmacy app, 50 million patients engaging with us through texts, and the ability to engage members through Coram as they transition from hospital to home

PBM Business:
2018 Selling Season Seeing Good Progress

- Gross wins of **~ $6.0 billion**
- Net new business of **~ $2.3 billion**
  - Does include the previously-announced loss of the FEP specialty contract
  - Does not include any impact from our individual Med D PDP
  - To date, completed ~ **90%** of our client renewals, roughly in line with last year at this point
  - Strong retention rate of ~ **97%** (1)

1. 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.

PBM Business:

Performance-based Pharmacy Network Anchored by CVS Pharmacy and Walgreens

- New 30,000-store performance-based pharmacy network that will be anchored by CVS Pharmacy and Walgreens, along with up to 10,000 community-based, independently-owned pharmacies
- The network is an innovative solution that utilizes a value-based management approach in order to achieve improved outcomes through adherence for five high-impact, highly-utilized drug classes
- Helps to provide cost savings through formulary compliance
- Available to our clients for implementation beginning in March of next year

PBM Business:
Specialty Pharmacy

- In Q3, specialty revenues increased **10.6%**
- The rate of revenue growth has slowed due to several factors:
  - Lower levels of inflation on specialty drugs, consistent with the marketplace
  - Increase in generic dispensing within specialty
    - Decreases revenue but benefits margin
  - Mix of drugs shifting towards lower-priced therapies as well as fewer scripts for Hep C
- Overall growth in specialty pharmacy remains strong, and our specialty business continues to expand and gain share

PBM Business:
Medicare Part D

- In total, Caremark currently serves ~ **12.5 million** Med D beneficiaries
  - **4.5 million** captive lives in our individual PDP, SilverScript
  - **1.0 million** captive EGWP lives
  - **7.0 million** lives through our health plan clients
- As mentioned last quarter, SilverScript qualified in **32 of the 34** regions in the preliminary benchmark results from CMS for 2018
- SilverScript achieved a 4-star performance rating from CMS for 2018 for third consecutive year
- Of the Med D lives under Caremark management, **83%** achieved a 4- or 5-star rating

Retail/LTC Business:

Q3 Pharmacy Revenue and Script Growth [1]

- Total same-store sales decreased **3.2%,** slightly better than expectations
- Pharmacy same-store sales decreased **3.4%**
  - Negative impact of **~ 435 bps** due to recent generic introductions
- Pharmacy same-store prescription volumes increased **0.3%** on a 30-day equivalent basis [2], slightly ahead of expectations
  - Previously discussed network changes restricting CVS Pharmacy from participating in certain networks had a negative impact of **~ 420 bps**
  - Adjusting for the network changes, same-store prescription volumes would have been **up 4.5%**

1. 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.
2. 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.

Retail/LTC Business:
Partnering With All Payors

- As we look to return to healthy growth, we continue to be very focused on partnering with all payors to drive volumes and capture share
  - Partnerships with Optum, Cigna, and Express Scripts have seen some uptake from clients and pipeline remains promising
- CVS Pharmacy preferred in several more Med D networks for 2018 plan year
  - Includes SilverScript Choice plan as well as the preferred networks of Aetna/First Health and Wellcare
  - Believe that being preferred in these networks will help us to further drive prescription volume in the growing Med D market

Retail/LTC Business:

Q3 Front Store Revenue and Gross Margin

- Front store comps decreased **2.8%**
  - Adjusting for the Easter shift, front store comps sequentially in line with Q2 comps
  - Reflects a number of factors, including decision to rationalize promotional strategies
- Personalization and promotional strategies have been successfully contributing to growth in front store profitability, as has our growth in store brands
- Store brands remain an area of strength and opportunity
  - Represented **23.2%** of front store sales in the quarter
    - Up **~ 25 basis points** vs. LY
- Front store gross margin once again improved in the quarter versus last year, despite the decline in front store comps

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Retail/LTC Business:
CVS MinuteClinic

- Operate **1,129** clinics across 33 states and Washington, D.C.
- Q3 revenues **up 0.7%** vs. LY
- MinuteClinic providers have now conducted **38 million** patient visits
- MinuteClinic continues to play a pivotal role in the Transforming Diabetes Care program launched by our PBM in Q1

Retail/LTC Business:

Real Estate Update

Locations at end of Q2	**9,700**
Opened	**56**
Closed	**(5)**
Retail locations at end of Q3 2017	**9,751**
Net new locations	**51**
Relocations	**5**
Retail locations with pharmacies	**9,703** [1]

1. Including 8,016 CVS Pharmacy stores that operated a pharmacy and 1,687 pharmacies located within Target stores. Excludes onsite pharmacy stores.

Retail/LTC Business:
Fighting the Opioid Abuse Epidemic

- In September we announced an expansion of our enterprise-wide innitiatives to fight the epidemic, leveraging national presence of CVS Pharmacy with capabilities of Caremark
- Over past few years, we've been focused on prevention, collection, and partnership
  - Collected and disposed of over 100 metric tons of unwanted medications
  - Worked with 43 states to expand access to opioid overdose-reversal drug naloxone without a prescription
  - 'Pharmacists Teach' program connects CVS pharmacists with schools to educate students about dangers of prescription drug abuse; nearly 300,000 students have been educated so far
- We will work with physicians, patients, plan sponsors, and other stakeholders to limit the supply of opioids dispensed for certain acute prescriptions to seven days, while continuing to ensure patients with critical needs have access to appropriate care

Third Quarter 2017 Financial Review

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Financial Update:

Capital Allocation

- Paid ~ **$511 million** in dividends in Q3; **$1.5 billion** year-to-date
  - 12-month trailing dividend payout ratio of **39.6%** (1)
  - Ratio is artificially high due to some expenses that are more temporary in nature, as described in our non-GAAP reconciliations on our website
  - On track to reach **35%** targeted payout ratio by the end of 2018
- In Q3, repurchased **5 million** shares for **$400 million**
- Year-to-date, repurchased **55 million** shares for **$4.4 billion**, or **$78.68** per share
- Year-to-date, returned **~ $6 billion** to shareholders through dividends and share repurchases
- In 2017, guidance includes expectation to return **more than $7 billion** to shareholders through dividends and share repurchases

1. 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.

Financial Update:

Free Cash Flow

- Year-to-date, have generated nearly **$7.0 billion** of free cash
  - Strong YTD performance, abnormally high due to a buildup of a payable to CMS associated with current Med D plan year as well as timing of receipts
  - In Q4, expect negative cash flow due to settling the CMS payable associated with the 2016 plan year that was built up last year
- Continue to expect to produce free cash of between **$6.0 billion and $6.4 billion** for 2017

Q3 2017 Income Statement:
Earnings per Share

- Q3 Adjusted EPS of **$1.50**, at the high end of guidance range
  - Retail/LTC segment declined more than expected, primarily driven by the effects of the recent hurricanes
    - Excluding the impact of the hurricanes, Retail/LTC's profit was within expectations
  - PBM posted profit growth within our expectations
  - Adjusted effective tax rate beat expectations
- GAAP diluted EPS of **$1.26,** above expectations
  - Negative impact of the hurricanes offset by lower-than-expected losses on the settlement of defined benefit pension plans, and a better tax rate

Q3 2017 Income Statement:

Revenues: Consolidated, PBM

- Consolidated revenues of ~ **$46.2 billion**, up **3.5%** vs. LY
- PBM revenues of **$32.9 billion**, up **8.1%** vs. LY
  - Growth was 40 bps below the low end of guidance, primarily driven by lower than expected volume
  - Year-over-year growth driven by increase in pharmacy network claims, brand inflation and growth in specialty pharmacy
  - Growth partially offset by increase in GDR to **87.0%, up ~ 100 bps** vs. LY, and price compression
- PBM adjusted claims grew **7.9%** [(1)] vs. LY
  - Adjusted mail choice grew 6.1%
  - Adjusted pharmacy network claims grew 8.3%

1. The pharmacy claims processed and the generic dispensing rate for all periods presented are adjusted to reflect 90-day prescriptions as the equivalent of three 30-day prescriptions.

Q3 2017 Income Statement:
Revenues: Retail/LTC

- Retail/LTC revenues of **$19.6 billion**, down **2.7%** vs. LY
  - Better than expectations due to stronger than expected pharmacy same store sales and script growth despite network changes
  - Retail/LTC GDR of **87.2%,** up **~ 140 bps** vs. LY

Q3 2017 Income Statement:

Gross Profit Margin: Consolidated, PBM

- Consolidated adjusted gross margin of **15.4%,** down ~ 135 bps vs. LY, primarily driven by mix shift, as lower-margin PBM is growing faster than Retail/LTC
- Consolidated adjusted gross profit dollars **decreased 4.9%**
  - Decrease primarily due to the loss of scripts from network changes in the Retail/LTC segment, as well as pricing and reimbursement pressure
- PBM gross margin of **5.0%**, down ~ 90 bps vs. LY
  - Decrease primarily driven by the ongoing timing of profits within Medicare Part D operations as members worked through their benefits more slowly this year versus last year
- PBM gross profit dollars **decreased 8.4%** vs. LY
  - Driven by shift in the timing of Medicare Part D profits into the fourth quarter

Q3 2017 Income Statement:

Gross Profit Margin: Retail/LTC

- Retail/LTC adjusted gross margin of **29.0%**, down ~ 25 bps vs. LY
  - Decrease primarily driven by lower reimbursement rates
  - Partially offset by increasing generic dispensing rate and increased front store margin
- Retail/LTC adjusted gross profit <u>dollars</u> **decreased 3.6%** vs. LY, mainly due to the loss of scripts from the network changes as well as continued reimbursement pressure

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Q3 2017 Income Statement:

Operating Expenses and Margin

- Consolidated: adjusted expenses were **10.0%** of revenues …~ 35 bps improvement vs. LY
- PBM: expenses were **0.9%** of revenues … ~ 25 bps vs. LY improvement
  - Operating expenses declined within the PBM by **$46 million**, primarily driven by realization of partially-reserved receivables
- Retail/LTC: adjusted expenses were **21.0%** of revenues … ~ 80 bps vs. LY deterioration
  - Driven by de-levering as a result of the loss of prescriptions related to the network changes and hurricane costs
- A portion of the increase in operating expense dollars year-over-year relates to investments we are making in process improvements and technology enhancements as part of our enterprise streamlining initiative
- Corporate adjusted expenses increased **$9 million** to **$223 million**, due to an increase in benefits costs and investments in strategic initiatives

Q3 2017 Income Statement:

Operating Profit and Margin

- Consolidated
  - Adjusted operating profit decreased **13.1%**, in line with expectations
  - Adjusted operating margin of **5.4%**, down ~ 105 bps vs. LY
- PBM
  - Operating profit decreased **7.2%**, in line with expectations
  - Operating margin of **4.1%**, down ~ 70 bps vs. LY
- Retail/LTC
  - Adjusted operating profit decreased **14.3%**, below expectations due to the hurricane impact
  - Adjusted operating margin of **8.0%**, down ~ 110 bps vs. LY

Q3 2017 Income Statement:

Below-the-line

- Net interest expense of **$245 million**, ~ $8 million lower than LY
  - Driven by debt reduction in prior year and a lower average interest rate on the debt that remains outstanding
- Adjusted effective tax rate of **37.9%**
  - Better than expectations, primarily driven by delta between our estimates of the discrete tax benefit from adopting the new share-based payment accounting and what we actually experienced during the quarter
    - The accounting change will continue to impact the tax rate going forward and fluctuate based on changes in both share price and in the discretionary actions of employees that can exercise vested options
- Weighted-average share count of ~ **1.0 billion** shares

2017 Guidance

Guidance: 2017 Full-year

Enterprise Outlook

	Full-year 2017
Net Revenue Growth	3.25% to 3.75%
Adjusted Operating Profit Change *Operating Profit Margin*	(5.75%) to (5.0%) *Moderate decline*
Adjusted EPS *Year-Over-Year Change*	**$5.87 to $5.91** *0.5% to 1.25%*
GAAP Diluted EPS	$4.98 to $5.02

Guidance: 2017 Full-year

Healthy Growth in PBM

	Full-year 2017
Net Revenue Growth	8.0% to 8.5%
Total Adjusted Claims	*1.77 billion to 1.79 billion*
Adjusted Gross Profit Margin	Modest decline
Adjusted Operating Expense *(% of revenue)*	Modest improvement
Adjusted Operating Profit Growth ***Operating Profit Margin***	6.0% to 6.5% *Flat to down*

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Guidance: 2017 Full-year

Retail/LTC Outlook

	Full-year 2017
Net Revenue Change	(2.75%) to (2.25%)
Same-store Sales (1) ***Same-store Adjusted Scripts*** (1) (2)	*(3.25%) to (2.75%)* *Flat to 0.25%*
Adjusted Gross Profit Margin	Modest improvement
Adjusted Operating Expense *(% of revenue)*	Notable deterioration
Adjusted Operating Profit Change ***Operating Profit Margin***	(10.25%) to (9.50%) *Notable decline*

1. 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.
2. 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.

Guidance: 2017 Full-year

Consolidated Income Statement

	Full-year 2017
Corporate Segment Adjusted Expense	$945 million to $950 million
Intercompany Eliminations *(% of combined segment revenues)*	~ 12%
Adjusted Gross Profit Margin	Notable decline
Adjusted Operating Expense *(% of revenue)*	Modest improvement

Guidance: 2017 Full-year

Consolidated Income Statement

	Full-year 2017
Net Interest Expense	~$1 billion
Adjusted Effective Tax Rate	~ 38%
Weighted Average Shares	~ 1.02 billion
Consolidated Amortization	~ $820 million
Consolidated D&A	~ $2.5 billion

Guidance: 2017 Q4

Enterprise Revenue and Earnings per Share

	Q4 2017
Net Revenue Growth	2.50% to 4.25%
Adjusted EPS ***Year-Over-Year Growth***	**$1.88 to $1.92** *10.0% to 12.5%*
GAAP Diluted EPS	$1.75 to $1.79

Guidance: 2017 Q4

Segment Performance

		Q4 2017
Retail/LTC	**Net Revenue Change**	(2.25%) to (0.5%)
Retail/LTC	***Same-Store Sales*** [1] ***Same-Store Adjusted Scripts*** [1] [2]	*(2.75%) to (1.0%)* *1.0% to 2.0%*
Retail/LTC	**Adjusted Operating Profit Change**	(3.5%) to (1.0%)
Pharmacy Services	**Net Revenue Change**	6.0% to 7.75%
Pharmacy Services	**Operating Profit Change**	21.5% to 23.5%

1. 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.
2. 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.

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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 ($2.5)*
Sale-leaseback proceeds [1]	*$0.3 to $0.3*
Net Capital Expenditures	($1.7) to ($2.2)
Free Cash Flow *Year-Over-Year Change*	**$6.0 to $6.4** ***(26%) to (21%)***

1. 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.

The CVS Health Value Proposition

We have always been focused on making pharmacy and everyday healthcare better for patients, but we know there's more to be done:

- Leveraging our comprehensive network to serve patients
  - 9,700 retail pharmacies in local communities across the country
  - Sophisticated mail order facilities
  - More than 30,000 clinical professionals
- **1 in 5 prescriptions** has some type of clinical intervention requiring pharmacist involvement
  - Despite complexity and variation of regulations across all states, D.C., and Puerto Rico, we've built streamlined connections – utilizing people and technology – for partners to significantly and safely reduce resolution waiting time

The CVS Health Value Proposition

- For patients who prefer to get medications immediately, walking into CVS Pharmacy is the fastest way
  - Our pharmacists are readily available to provide counseling, answer questions, and get a prescription into a patient's hands in 15 minutes
- For others, our mail order services provide a convenience that meets the needs of patients on maintenance medications
- For those with immediate need who are unable to make it to CVS, we will bring the pharmacy to their doorsteps
  - Starting next year, nationwide one-day delivery of scripts will be available from our stores
  - In select metro areas, same-day delivery of scripts will be available
  - Beginning December 4^{th}, free same-day delivery of scripts and a curated selection of front store products will be available in Manhattan
- With nearly 70% of the U.S. population living within 3 miles of one of our stores, CVS Pharmacy is the most convenient choice of delivery to your doorstep

The CVS Health Value Proposition

- Given that medication costs are a concern for all patients, we use deep connections with PBMs and insurance providers to help patients maximize their insurance benefit
  - Use clinical expertise to find lowest-cost therapeutically-equivalent option on their plans
  - **50%** of CVS Pharmacy scripts filled in our stores cost patients **$4 or less**
  - **75%** cost **$10 or less**
- We're investing in tools to make it easier for patients to navigate confusing health care market and improve understanding of benefit designs
- We apply manufacturer coupons to further reduce cost
  - On average, CVS Pharmacy patients realize **$55** in savings on each coupon-eligible prescription
- We aggressively source generic alternatives and use our scale to make care more affordable, as we did with Adrenaclick, a lower-cost alternative to EpiPen

The CVS Health Value Proposition

- We continue to invest in our digital properties
  - Our **highly-rated retail mobile app** helps consumers manage when and how they want to receive their medications, set reminders, and manage medications for their families all in one place
    - To date, the CVS Pharmacy app has been downloaded **21 million times**
  - **50 million** people are enrolled in our text message program, which enables them to easily refill their prescriptions through their mobile devices
    - Refilling is as easy as typing 'YES' to a refill reminder
- We have a solid foundation built on compelling scale, unsurpassed reach, and extensive pharmacy expertise. And we have a plan for how to do even more to make pharmacy and everyday healthcare even better.