Today's featured company is:

CVS Health®

Positioned for Growth in an Evolving Healthcare Market

CVS Health Corporation (NYSE:CVS) is a pharmacy innovation company helping people, businesses, and communities manage health in more affordable, effective ways. The company operates approximately 9,700 retail pharmacies and 1,100 walk-in medical clinics, is a leading pharmacy benefits manager with more than 89 million plan members, operates a dedicated senior pharmacy care business serving more than one million patients per year, and is the leader in the expanding specialty pharmacy business. The integrated CVS Health model increases access to quality care, delivers better health outcomes, and lowers overall healthcare costs.

- Ranked #7 on the 2016 Fortune 500 list
- Fourteen consecutive years of dividend increases
- The largest pharmacy in the United States based on total prescription revenue
- 2.3 billion adjusted prescriptions filled or managed annually

Click here to view the CVS Health Fact Sheet.
Click here to view the CVS Health Investor Presentation.

Advisor Access spoke with CVS Health's Executive Vice President and Chief Financial Officer **Dave Denton**.

Advisor Access: ***CVS Health has been focused on the theme of driving more affordable, accessible, and effective care. Can you talk about how you are executing on each of those objectives?***

Dave Denton: As the healthcare market continues to evolve, healthcare stakeholders are placing increased emphasis on making care more affordable, accessible, and effective. We believe no other company has the full suite of assets to deliver on each of these objectives. We've built the capabilities to integrate pharmacy care from the payer to the provider to the patient. Our proprietary integrated programs, such as Maintenance Choice®, Pharmacy Advisor®, and Specialty Connect®, remain unmatched in the marketplace. These programs are seamlessly integrated through our Health Engagement Engine™, providing better member experiences, greater adoption, and superior results.

We make healthcare more affordable through our pharmacy benefit manager, CVS Caremark, which offers a variety of cost management solutions to help clients more effectively manage their pharmacy spend. These assets and capabilities continue to drive real savings in the healthcare economy.

We make healthcare more accessible through our unmatched breadth of enterprise assets, which allow us to connect with patients across the care continuum. These assets include approximately 9,700 retail locations, more than 1,100 walk-in medical clinics through CVS MinuteClinic, a leading long-term care pharmacy provider in Omnicare, and a growing specialty pharmacy business. These assets enable face-to-face interactions with healthcare consumers, providing us with frequent opportunities to impact behavior and help improve outcomes.

"Our unmatched breadth of enterprise assets allows us to connect with patients across the care continuum."

And we can make care more effective by utilizing our powerful analytics capabilities, and through clinical programs that drive adherence, close gaps in care, and help improve health outcomes. Pharmacy care remains one of the most cost-effective ways to reduce overall healthcare spending, so it's critical we ensure patients stay on their prescribed therapies.

AA: ***Drug pricing has been in the news repeatedly over the last year. How is CVS approaching this issue?***

DD: One of the biggest and most complex challenges facing the healthcare system is the increasing cost of medications. Price inflation on established branded products, as well as new specialty products coming to market at elevated price points, are creating new challenges for plan sponsors and patients alike.

Some of the recent commentary circulating in the market has suggested that pharmacy benefit managers, or PBMs, are the cause of these rising prices. These suggestions are erroneous, as PBMs like CVS are the solution, not the problem.

As a PBM, our job is to help our clients—employers, health plans, and government entities—manage their drug trends while ensuring their members have appropriate access to clinical care. We have many cost management tools at our disposal to accomplish this goal, including prior authorization and utilization management, network strategies, generic programs, site-of-care management, and real-time trend surveillance.

Additionally, we offer formulary management solutions. We leverage competition within drug classes, along with our compelling scale and expertise, to negotiate with manufacturers for formulary placement. This process generates rebates, or discounts, which are used to drive down the net prices of medications for our clients. This process has saved them more than $9 billion in total since 2012.

Taken together, these PBM cost management tools have allowed us to keep our clients' drug trend—a measure of the annual increase in prescription drug costs and utilization—to a mere 3.2% increase in 2016. This compares to an unmanaged trend of 11.0%. Although manufacturers continue to attempt to push price increases through the supply chain, we have been very successful at mitigating these increases through our cost management solutions.

AA: ***Let's talk about how CVS has incorporated acquisitions, such as Omnicare and the Target pharmacies, into its business model.***

DD: The acquisition of Omnicare provided us with a new pharmacy dispensing channel, expanding our customer reach to a broader population of chronic care patients and seniors at an important time, as our population ages. By extending our high-quality, innovative pharmacy programs into this growth sector, we can provide enhanced continuity of care to patients and caregivers as they transition through the healthcare system.

"We are laser-focused on driving operational excellence."

The majority of our integration activities are now behind us, and we are laser-focused on driving operational excellence, and on introducing new, one-of-a-kind programs to better serve patients across Omnicare's nationwide footprint. For example, our enhanced transitions-of-care program improves the patient experience as they transition to different care settings, ensuring patients stay on their medications and helping reduce costly hospital readmissions.

The acquisition of the Target pharmacies and clinics significantly expanded our footprint, giving us a presence in regions including Seattle, Denver, Portland, and Salt Lake City. As we enter 2017, we are seeing prescription volumes growth improve quarter-to-quarter since we successfully completed the integration last summer. This has been driven largely by the strength of our patient care programs and the increased adoption of our unique adherence programs, such as Maintenance Choice. We continue to invest in these programs, as well as our outreach campaigns, to attract more Target guests and create new CVS Pharmacy patients.

AA: ***Are there other recent partnerships and/or acquisitions that add value to CVS?***

DD: Our breadth of enterprise assets and capabilities make us a partner of choice for many stakeholders across the healthcare landscape.

Our recently announced strategic relationship with Optum provides eligible members the option to fill their 90-day prescriptions at a CVS Pharmacy at the same price they would pay retail or by mail. Through this relationship, we can improve consumer engagement and health outcomes for Optum's members, leveraging CVS Pharmacy's unmatched clinical capabilities. And we plan to continue to work with Optum to explore new ways to leverage our suite of assets.

We have also partnered with Curbside to create our CVS Curbside program, through which customers can purchase products using the CVS Pharmacy mobile app and have those products available when they pull up to the store, typically within an hour. This program is now available in nearly 4,000 stores, and we have been encouraged by the early results. We've seen strong customer satisfaction scores, consistent growth in weekly orders and, most encouragingly, we see strong numbers of repeat purchases through the service.

Most recently, we partnered with Impax to purchase its generic epinephrine product, Adrenaclick, at a price lower than similar brand or authorized generic products. This partnership addresses an urgent need in the marketplace for a less expensive epinephrine auto-injector for patients with life-threatening allergies. The authorized generic for Adrenaclick is now available at all CVS Pharmacy locations for a price about 80% lower than the brand competition.

AA: ***Can you talk about some of the recent innovations CVS has brought to market to improve patient care and lower healthcare costs?***

DD: Throughout our history, we have been at the vanguard of finding new and innovative ways to drive value for the healthcare stakeholders we serve.

"We have been at the vanguard of finding new and innovative ways to drive value for healthcare stakeholders."

In 2012, we became the first PBM to exclude high-cost drugs from our formulary in favor of less expensive clinical equivalents. Since that time, we have enhanced and refined our approach to drive more savings for our clients. This continues in 2017, with our most recent formulary innovations including biosimilar preference strategies, tools to manage hyperinflation, and an indication-based formulary that closely aligns cost with clinical value.

We also recently announced a new suite of cost management solutions—dubbed Transform Care—to promote quality and improve effectiveness in treating chronic conditions. The first program under this umbrella is our Transform Diabetes Care program, aimed at improving outcomes for members with diabetes while reducing costs for our clients.

We also continue to bring new tools to market that make it easier for patients to get on and stay on their therapies. One recent development is ScriptSync—our proprietary program that allows patients to consolidate multiple maintenance medications into a single, convenient prescription pickup. This program has seen notable uptake, with more than two million customers now enrolled, while also having meaningful impact on driving adherence.

Another program, currently in its pilot phase, is the newest iteration of our flagship Maintenance Choice program, which I'll call Maintenance Choice 3.0. This iteration offers a new level of convenience for pharmacy patients, giving them the option of having prescriptions delivered to their home or office within two to three hours.

AA: ***As the Trump Administration takes shape, national healthcare reform has become a moving target. How is CVS positioned to take advantage of potential change?***

DD: There is a lot of rhetoric around the repeal of the Affordable Care Act and the potential legislation that would replace it, but at this point it's difficult to comment on how the various scenarios will play out.

No matter what happens, we believe the need for cost-effective care for all Americans will remain. And we are well positioned to pivot to address any potential policy changes, and to continue to play a meaningful role in reducing overall healthcare costs while improving patient care.

AA: ***You have classified 2017 as a "rebuilding year" in terms of earnings-per-share (EPS) growth. Can you talk about your plans to accelerate growth beyond 2017?***

DD: In response to some near-term headwinds on our enterprise performance, we have introduced a set of actions to return to more robust earnings growth.

First, we will leverage our enterprise capabilities and CVS Pharmacy's compelling value proposition to partner more broadly with other PBMs and health plans to deliver the greatest overall healthcare value. We have begun to offer a menu of services to other PBMs and health plans as well—exclusive capabilities such as MinuteClinic services, infusion, and long-term care capabilities—as a component of the CVS Pharmacy value proposition.

Second, we will continue to innovate, bringing to market new, integrated PBM products that capitalize on the benefits inherent in our unique model while also meeting the ongoing needs of our clients and members.

Third, we have begun work on a new multiyear enterprise streamlining initiative. Through these efforts, we expect to achieve nearly $3 billion in cumulative savings by 2021.

And finally, we have significant cash generation capabilities, which provide us with a variety of ways to grow and return value to shareholders. We remain confident that we can achieve solid operating profit growth across the enterprise in the years ahead, and our substantial cash flow affords us opportunities to bolster that growth, either through strategic acquisitions to our existing asset base, or through value-enhancing share repurchases.

AA: ***Please describe how the company keeps its balance sheet strong, and maximizes shareholder value?***

DD: A healthy balance sheet is a key element to providing flexibility for our strategic direction; it allows us to grow while maximizing shareholder value over the long-term. We continue to target an adjusted debt-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio of 2.7x, as we remain focused on maintaining our current credit ratings. To finance our acquisitions of Omnicare and the Target pharmacies, we issued debt that brought our ratio above our target, but through EBITDA growth and paying down maturing debt, we are committed to returning to our targeted leverage ratio within a reasonable time frame. With well-laddered debt maturities and a high triple-B credit rating, we have a healthy balance sheet that provides flexibility and allows us to maximize shareholder value for the long term. In fact, we took advantage of the favorable interest rate environment in 2016 to reduce long-term debt levels and the associated interest expense.

It's also important to remember that we generate substantial amounts of free cash—more than $8 billion in 2016 alone. These cash generation capabilities, along with our ability to maintain a healthy balance sheet, allow us to continue to execute on our capital allocation program. The three main components of this program include:

- Growing our dividend: We have increased our dividend each of the past fourteen years, and are well on our way to achieving our targeted dividend payout ratio of 35% by 2018.
- Investing in high-ROIC (return on invested capital) projects: Over the past three years, we have spent about $14 billion in acquisitions that have supplemented our existing asset base. And we will continue to seek out opportunities to invest and further grow our business.
- Continuing to repurchase shares: Absent more attractive investment opportunities, we are committed to repurchasing shares. In fact, over the past three years we have completed more than $13 billion in share buybacks.

And going forward, we will continue to utilize this disciplined approach to capital allocation to significantly enhance shareholder value.

AA: ***What makes CVS Health well positioned for the long term?***

DD: Despite the near-term uncertainty in healthcare, we remain well positioned regardless of how the market evolves. No other company has a suite of assets and capabilities to drive more affordable, accessible and effective care, which enables us to deliver value for all healthcare stakeholders.

"No other company has a suite of assets and capabilities to drive more affordable, accessible and effective care."

We have a long track record of delivering on our promises, and have been very consistent in executing on our roadmap to drive shareholder value. This roadmap includes three pillars we consider essential to maximizing shareholder value: driving productive, long-term growth; generating significant free cash flow; and optimizing capital allocation to drive better returns for our shareholders.

AA: ***Thank you, Dave.***

Dave Denton currently serves as Executive Vice President and Chief Financial Officer of CVS Health. Since joining the company in 1999, he has held various managerial roles. Most recently, Denton was Senior Vice President and Controller/ Chief Accounting Officer. Previously he served as Chief Financial Officer and Controller for PharmaCare, CVS Health's legacy PBM subsidiary. Additionally, he has held positions in Corporate Treasury, Financial Planning and Analysis, and Corporate Finance. Denton has more than 15 years of finance experience, primarily in the health care and drug retail industries. Before joining CVS Health, Denton was with the management consulting firm of Deloitte and Touche, practicing out of its Boston office. He consulted primarily in the healthcare and financial services sectors, focusing on strategy, finance, and operational topics. His clients included large health maintenance organizations, major hospital systems, and national PPOs. Prior to that, he held several management positions at Blue Cross Blue Shield of Florida and its HMO subsidiary, Health Options Inc., in Jacksonville, Florida. Denton received his MBA from the Babcock Graduate School of Management at Wake Forest University, and his undergraduate degree in Business Administration from Kansas State University.

Analyst Commentary

"CVS possesses what we view to be the strongest set of assets in the PBM, Retail Pharmacy, Specialty Pharmacy, Long-Term Care Pharmacy and Infusion space, as well as a management team experienced in navigating choppy waters. It is on the basis of these assets and CVS's continued strong free cash flow generation and dividend that we remain constructive on CVS shares."

—**Eric Percher**, Barclays,
Feb. 10, 2017

"There is still a lot of uncertainty around the potential implications of any policy changes and how companies across the Rx channel would react. While we believe PBMs have been very clear about their role in the market, and in our view, have effectively defended their position, we believe this will take time to play out. That said, we believe the current trough multiples will ultimately prove to be a great buying opportunity across the PBM space."

—**Lisa Gill**, J.P. Morgan,
Feb. 9, 2017

"CVS continues to improve health outcomes through an integrated approach to care management, leveraging the service offering of the PBM with its integrated pharmacy network, further supplemented by ancillary services within the retail setting (such as MinuteClinic). This integrated business model has driven multiple years of share gains, particularly with regards to the PBM business as well as outsized growth in specialty (outperforming the market). All-in, this share gain success has led to sustainable enterprise profit growth which, combined with capital deployment, has given CVS low/mid-teens EPS growth, an impressive metric for a mega cap company."

—**Michael Cherny,** UBS,
Oct. 5, 2016

Disclosure

Investors and others should note that CVS Health posts important financial information using the investor relations section of the CVS Health website, https://www.cvshealth.com/, and Securities and Exchange Commission filings.

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