

**CVS**  
**CAREMARK** | A Pharmacy  
Innovation  
Company



# Driving Shareholder Value

**Dave Denton**

Executive Vice President & Chief Financial Officer

2012 financial highlights

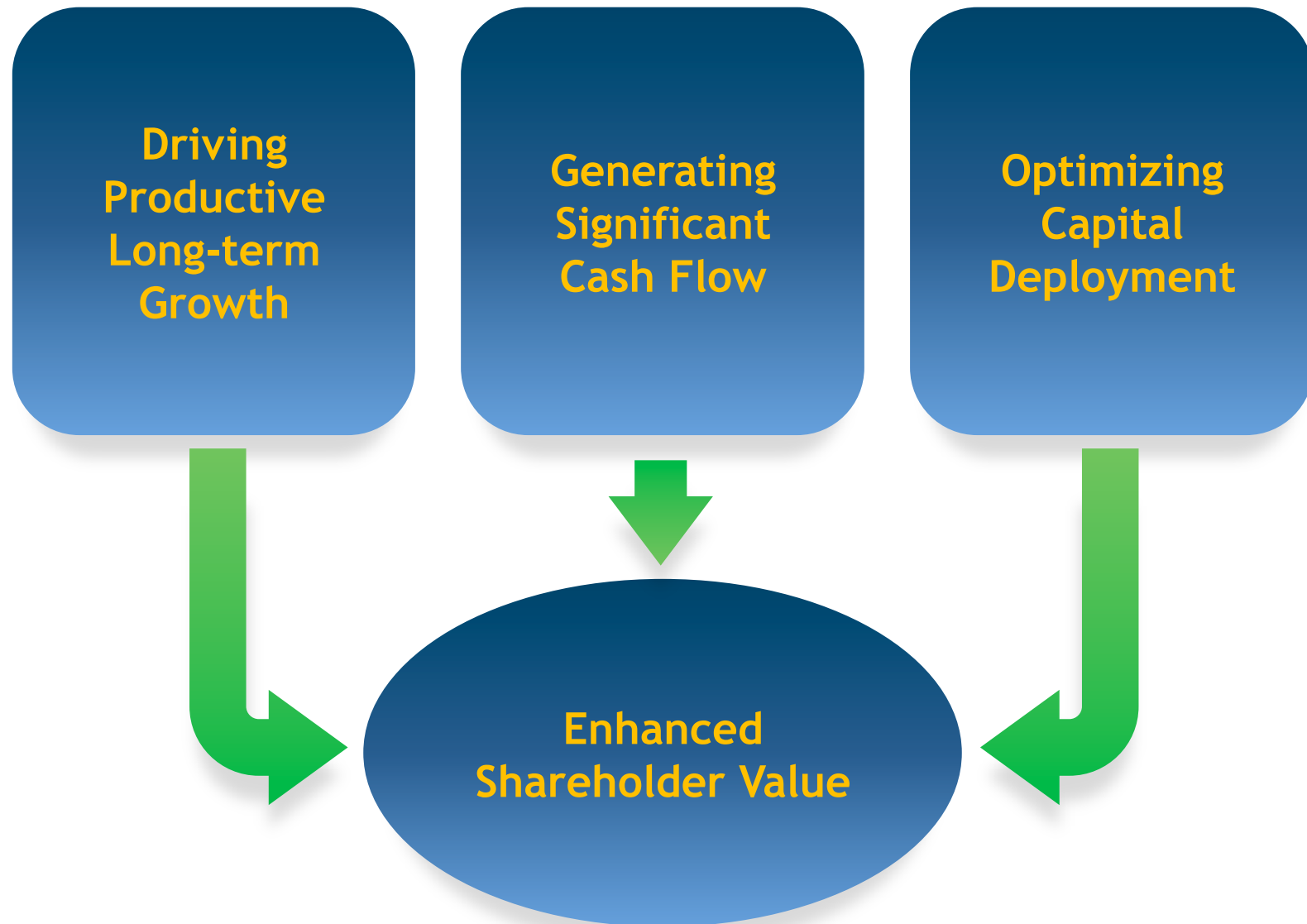
Capital allocation priorities

2013 guidance review

Steady state targets ... enterprise view



# Focused On Enhancing Shareholder Value



# 2012 Growth Creating Significant Shareholder Value



- Expect to deliver EPS well above initial targets
  - Drove solid performance in core businesses
  - Gained disproportionate share from Walgreens/Express Scripts impasse
  - Cut costs and improved efficiencies across the enterprise
  
- Generated substantial free cash flow
  - Successfully delivered on inventory improvement target
  
- Capital allocation optimized
  - Returned ~\$5 billion to shareholders through dividends and share repurchases

# 2012 Guidance Reaffirmed

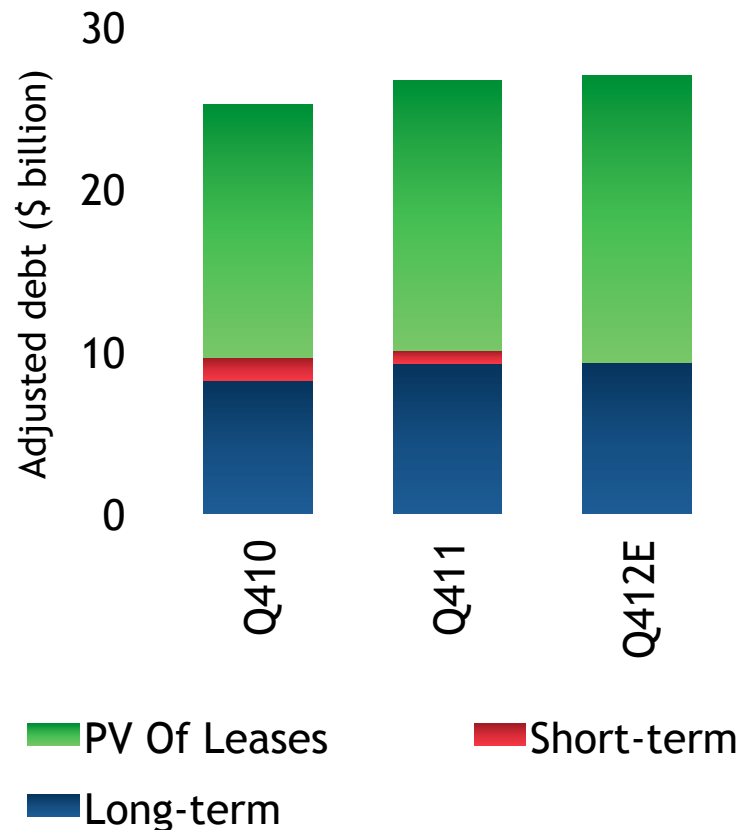
Full-year 2012	
Net revenue growth	14.25% to 14.75%
Adjusted EPS (from cont. ops.)	\$3.38 to \$3.41
<i>Year-over-year growth</i>	<i>Up 20.75% to 21.75%</i>
Free cash flow	\$4.6b to \$4.9b

Notes:

1. GAAP diluted EPS (from cont. ops.) guidance for full-year 2012 is reaffirmed as \$3.15 to \$3.18.
2. Guidance does not include the impact of the 2012 cash tender and debt refinancing.

# Strong Balance Sheet Enables Flexibility

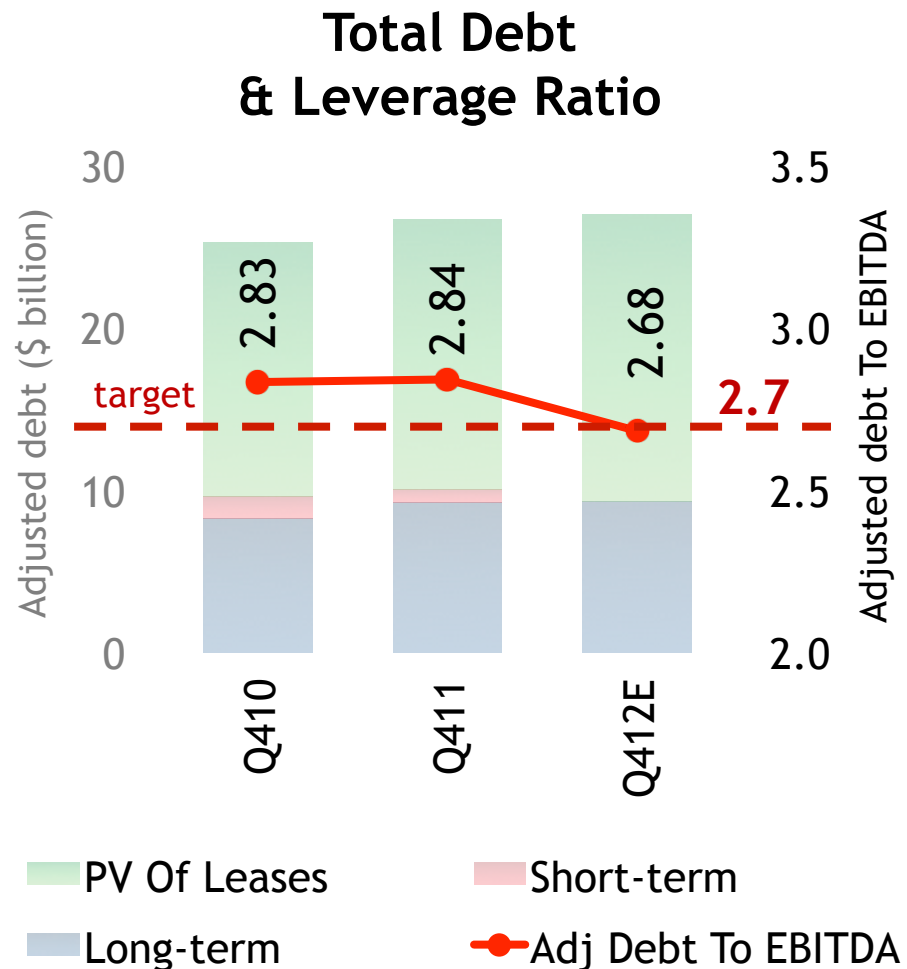
## Total Debt



Note: 2012 estimate does not include the impact of the 2012 cash tender and debt refinancing.

- Focused on maintaining high BBB rating
- Since 2010, cash cycle reduced by 12.1 days
  - Retail Days In Inventory improved by 9.0 days
  - Retail Days Payables Outstanding improved by 3.4 days

# Strong Balance Sheet Enables Flexibility



Note: 2012 estimate does not include the impact of the 2012 cash tender and debt refinancing.

- Focused on maintaining high BBB rating
- Since 2010, cash cycle reduced by 12.1 days
- Targeting Adjusted Debt-to-EBITDA ratio of 2.7X
  - Able to issue debt to maintain ratio
  - Modifying long-term debt structure to take advantage of low interest rates

# Debt Refinancing Will Improve Earnings and Cash Flow

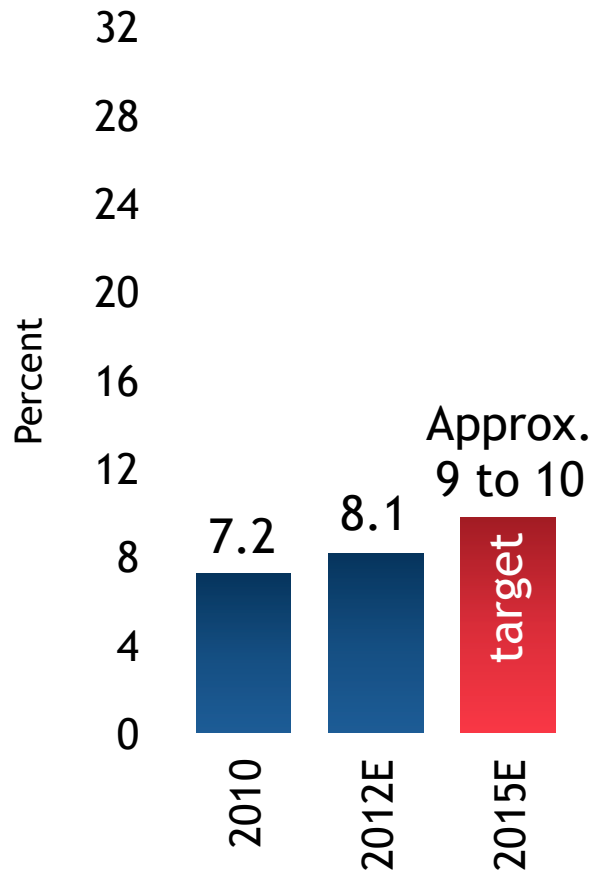


- Cash “waterfall” tender offer for **up to \$1.3 billion**, collectively
  - Any and all of \$1.00 billion, 6.600% senior notes due 2019
  - \$0.70 billion, 6.125% senior notes due 2016
  - \$1.75 billion, 5.750% senior notes due 2017
- Issued \$1.25 billion, 2.750% senior notes due 2022
- Benefiting from advantageous interest rate environment
- After-tax, one-time costs between \$160 million and \$220 million in 2012
  - Between 13¢ and 17¢ of EPS
- Impact from tender and refinancing not included in 2012 or 2013 guidance

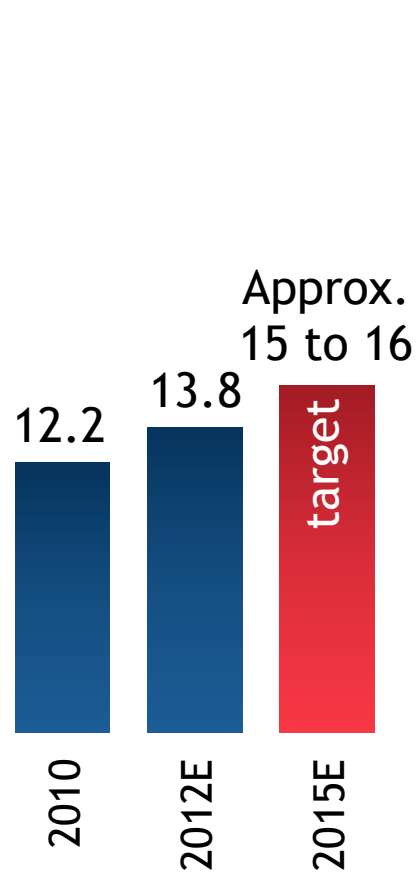
Annual EPS accretion of **approximately 2¢** going forward

# Focused On Improving Returns

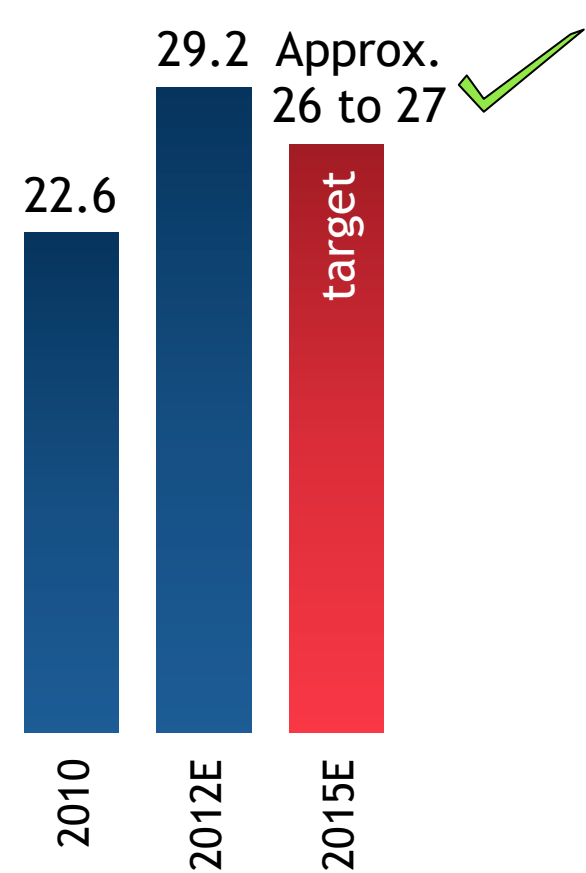
## Return On Invested Capital



## Return On Invested Capital (excludes goodwill)

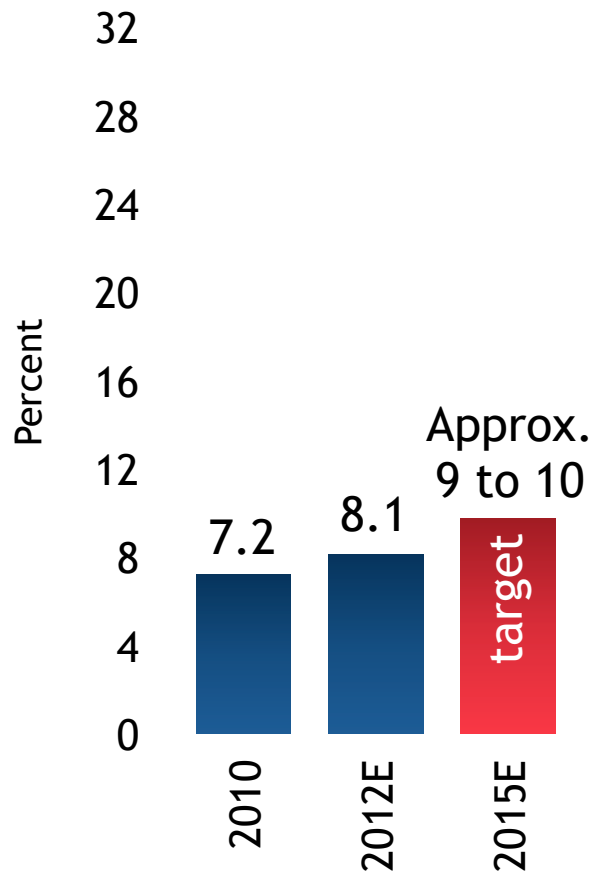


## Return On Net Assets

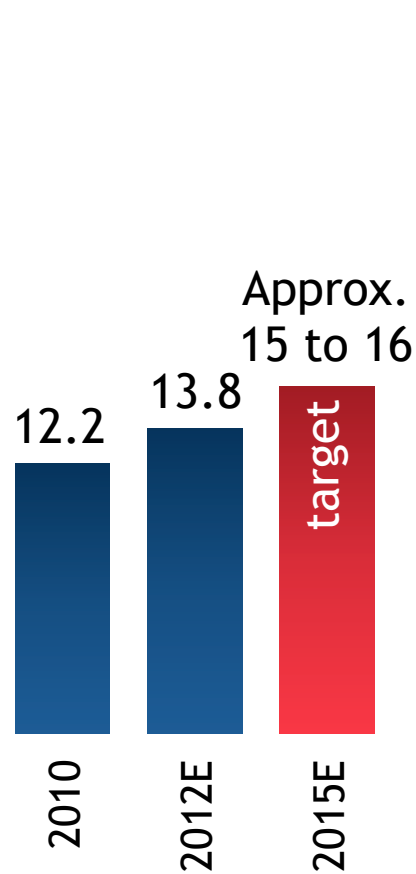


# Focused On Improving Returns

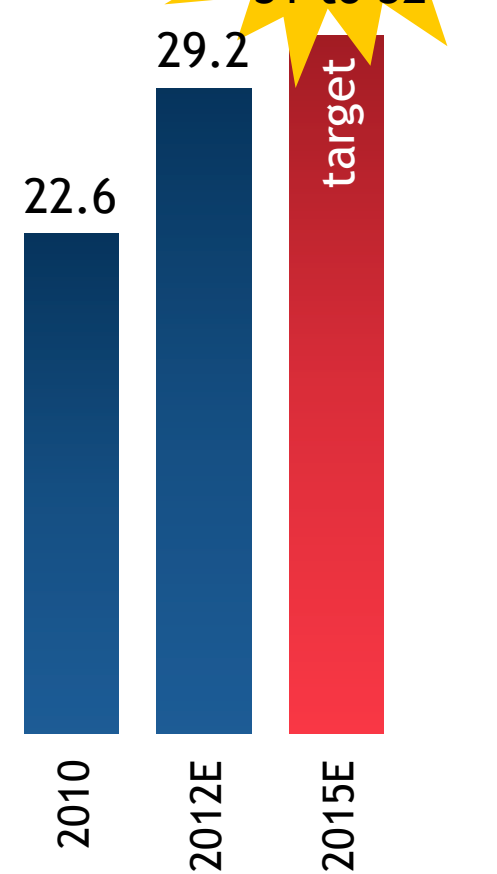
## Return On Invested Capital



## Return On Invested Capital (excludes goodwill)



## Return On Net Assets



2012 financial highlights

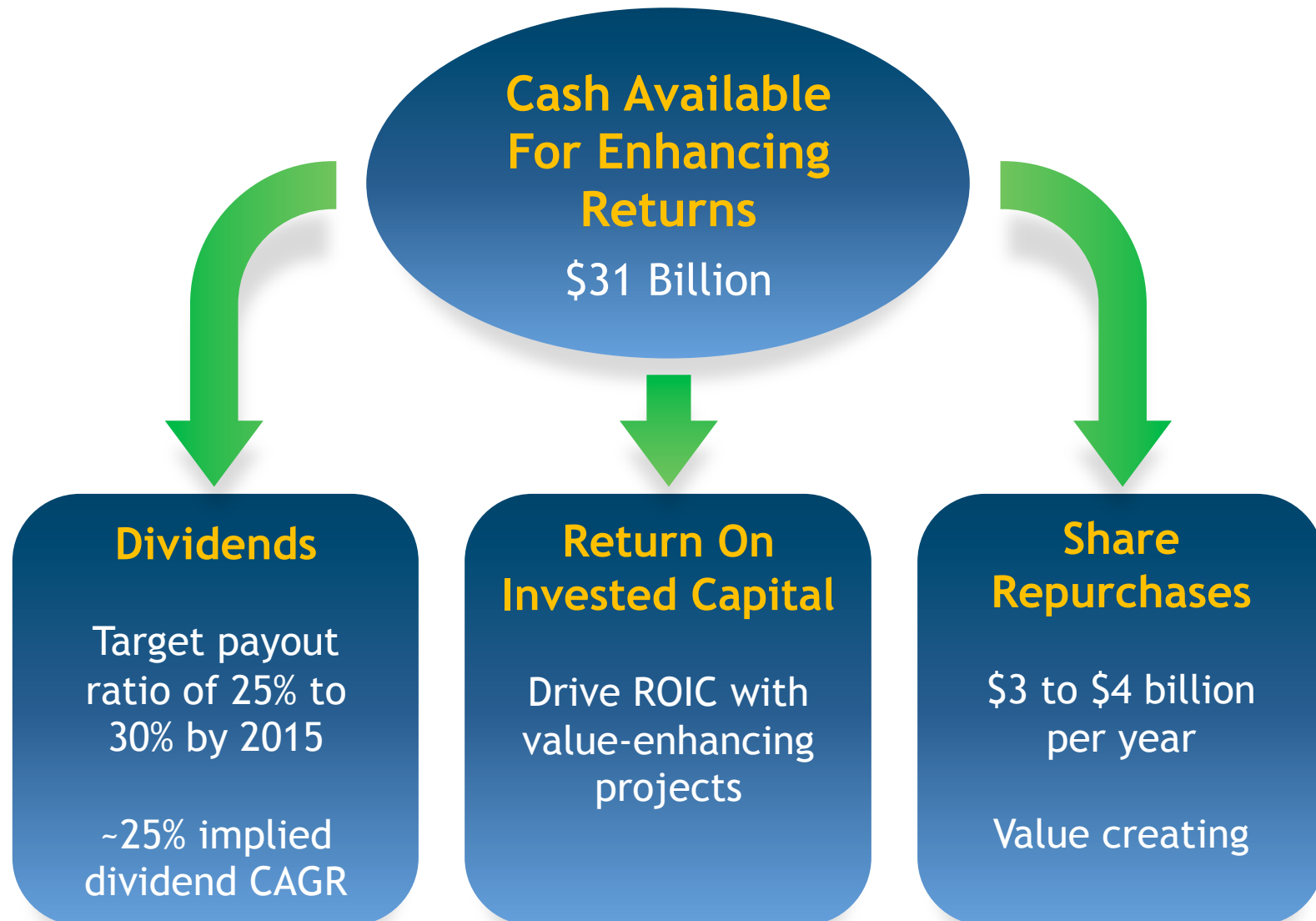
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Steady state targets ... enterprise view

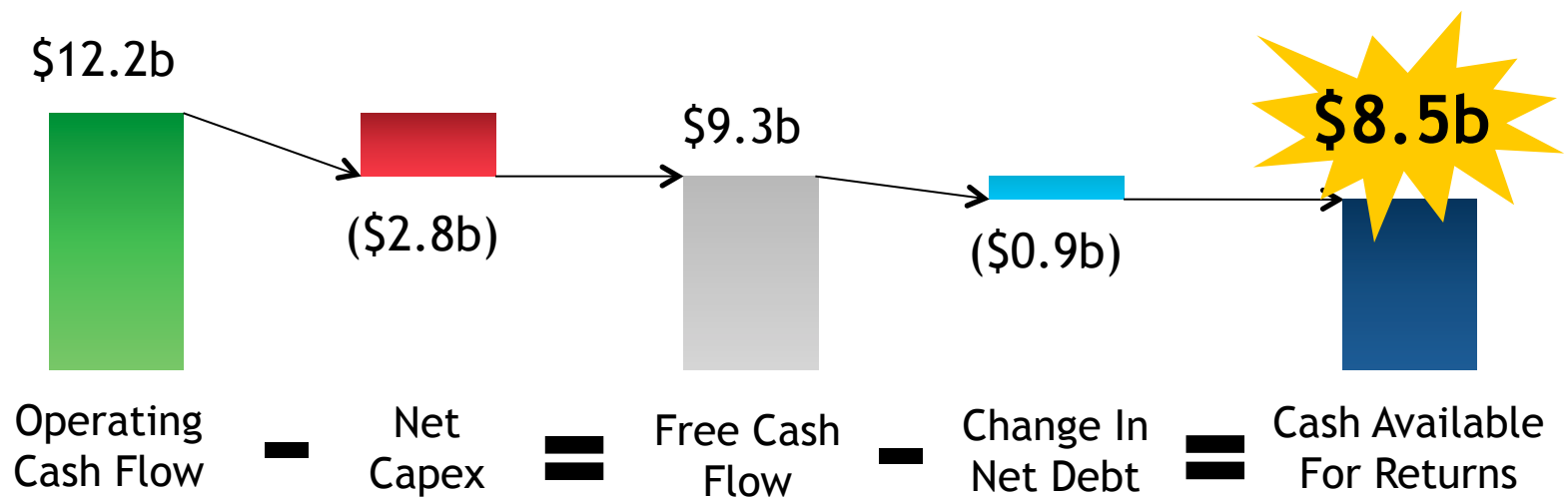


# Disciplined Cash Deployment 2011 - 2015



Note: Cash available for enhancing returns = Free cash flow +/- change in net debt

# Substantial Cash Generation In 2011 & 2012 Combined

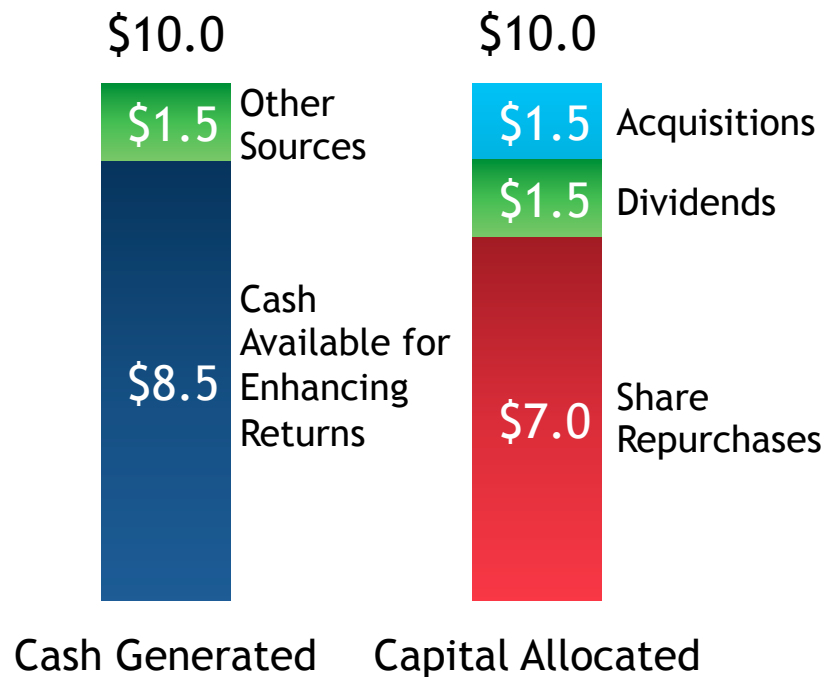


Notes:

1. Figures represent actual results for 2011 and estimates for 2012, combined.
2. Estimates do not include the impact of the 2012 cash tender and debt refinancing.
3. Figures may not foot due to rounding.

# Disciplined Capital Allocation Over The Last Two Years

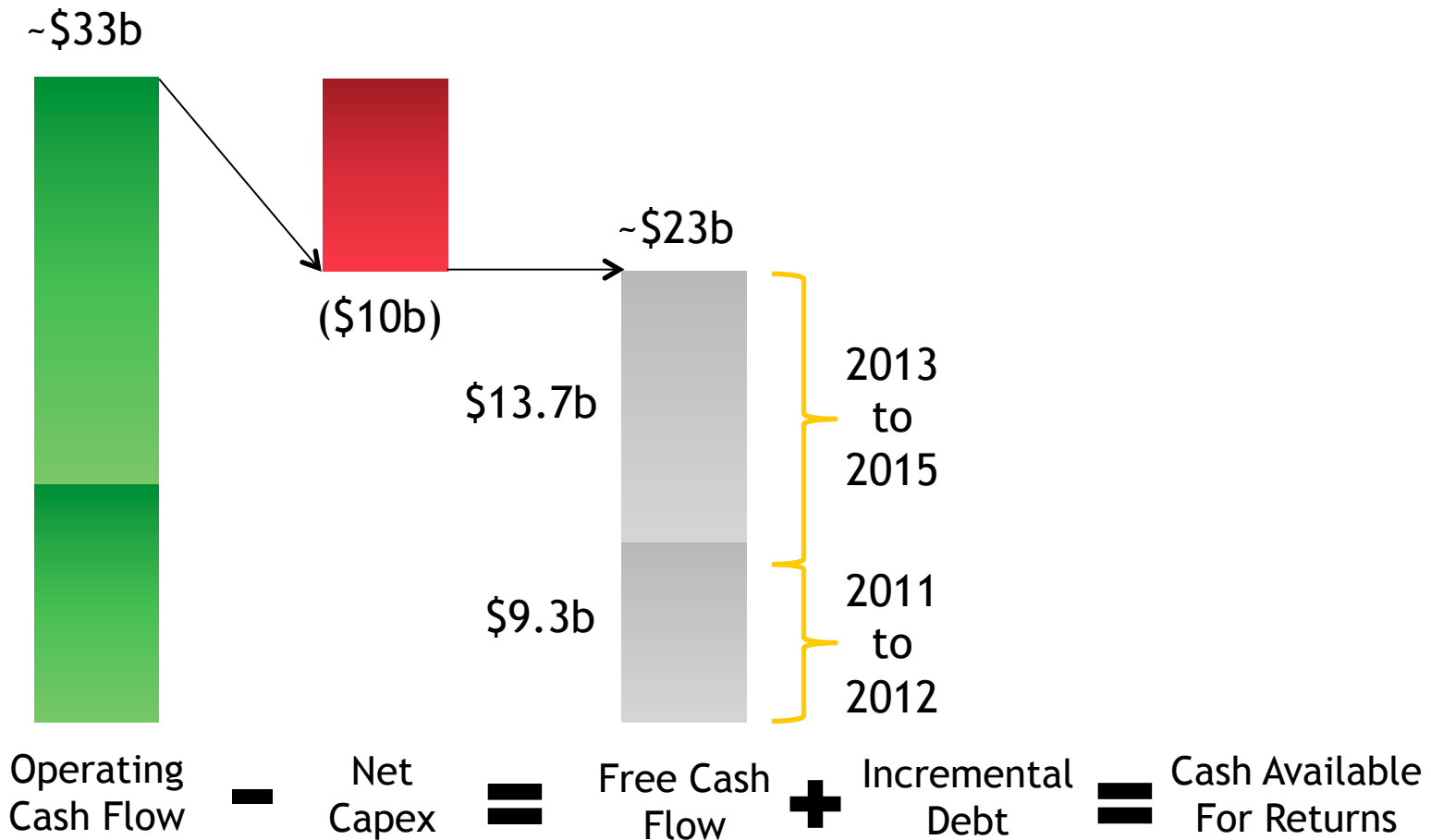
## 2011 & 2012E Combined (billions)



Note: Other sources of cash include proceeds from exercise of stock options among other items.

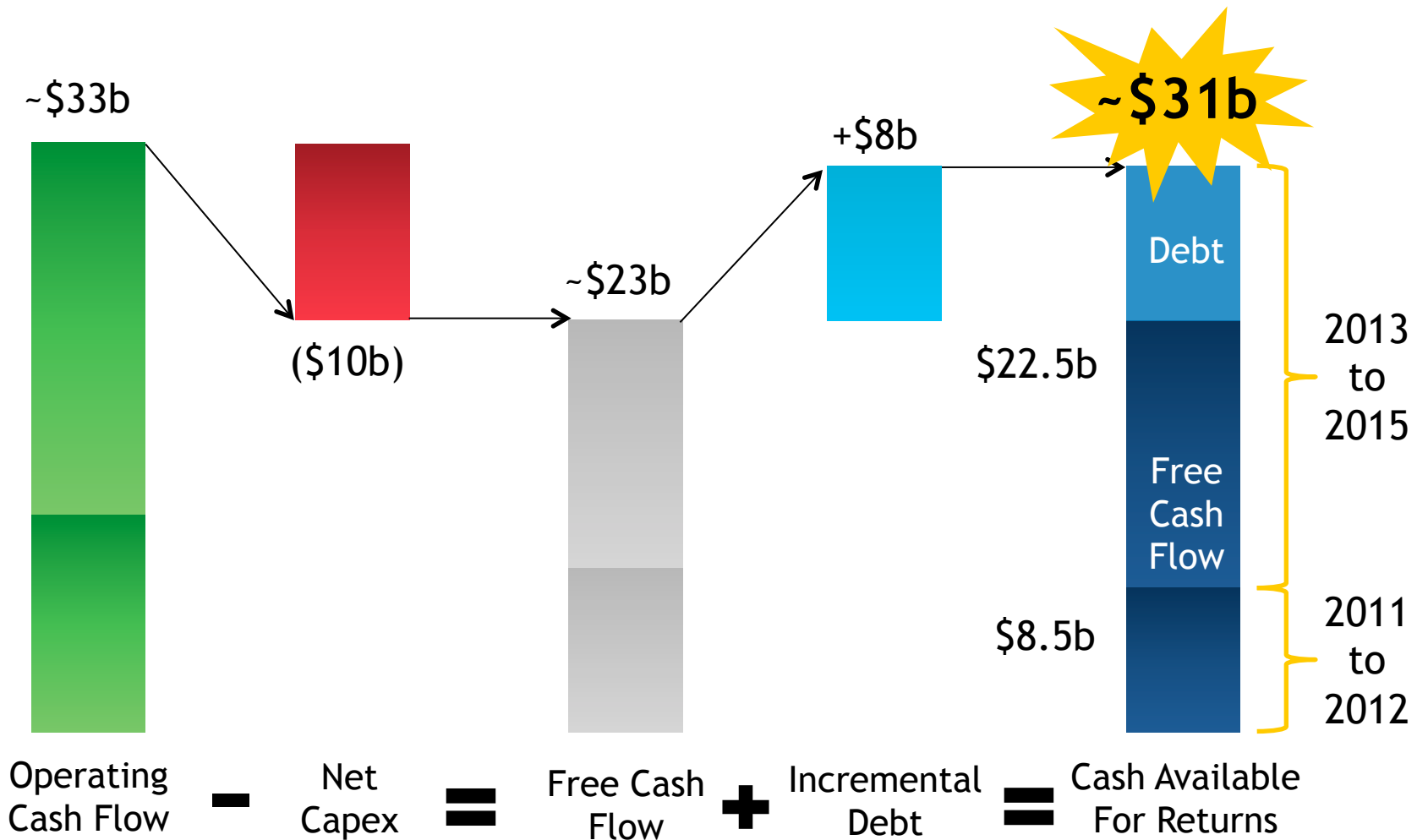
- 86% increase of quarterly dividend
  - Payout ratio currently at 21%
- Bolt-on acquisitions strengthened Medicare Part D business
- Expected to complete \$7 billion of value-creating share repurchases
  - \$3.5 billion repurchased per year, on average
- Use of capital in line with steady state targets

# \$31B Of Cash Available To Enhance Returns 2011-2015



Note: Figures represent targets for the years 2011 through 2015, under steady state five-year business model.

# \$31B Of Cash Available To Enhance Returns 2011-2015



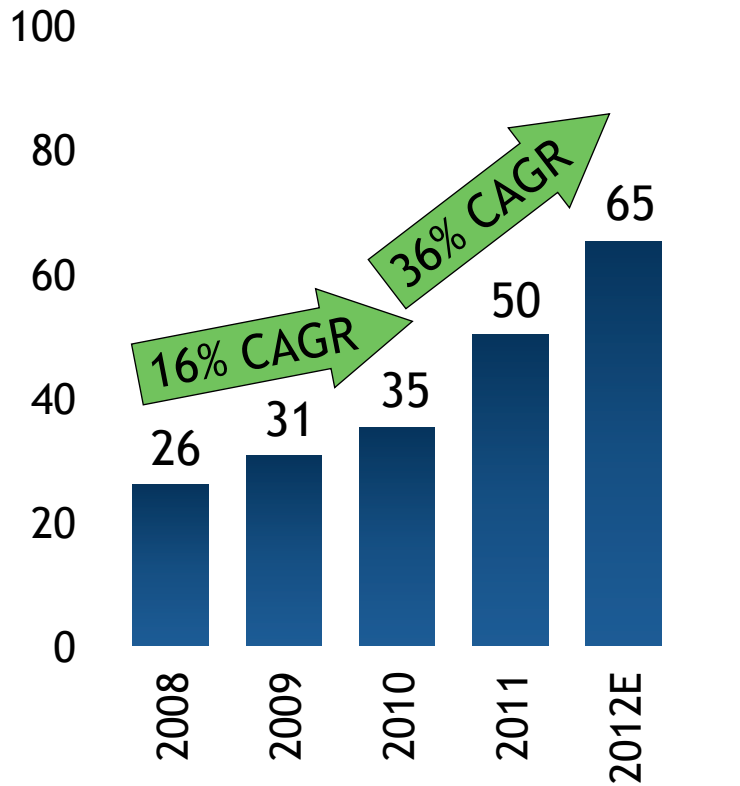
Note: Figures represent targets for the years 2011 through 2015, under steady state five-year business model.

~\$22 billion of cash should be available 2013 through 2015

# Solid History Of Enhancing Shareholder Returns

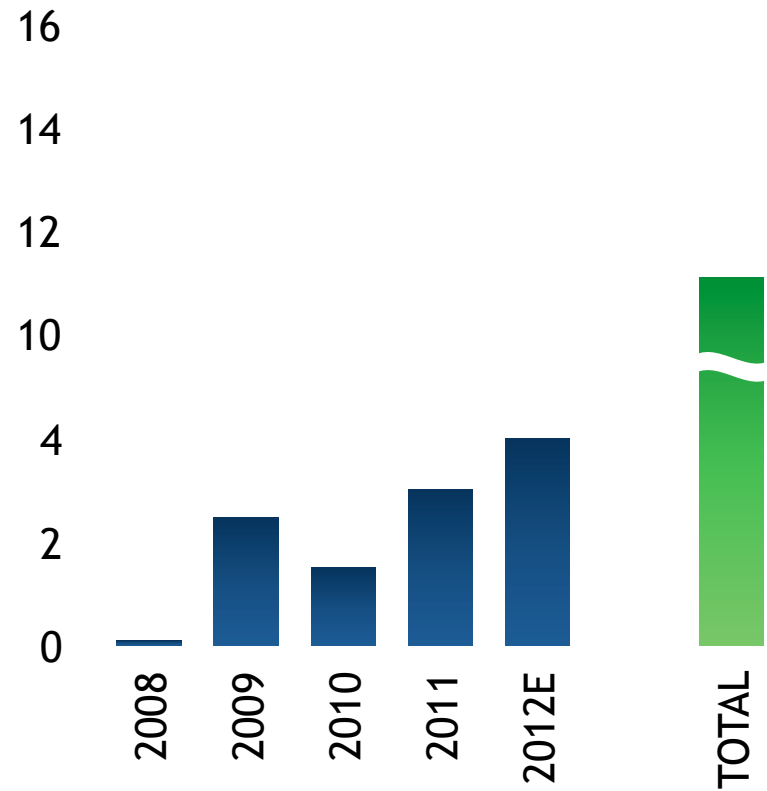
## Annual Dividend Per Share

(cents)



## Annual Share Repurchases

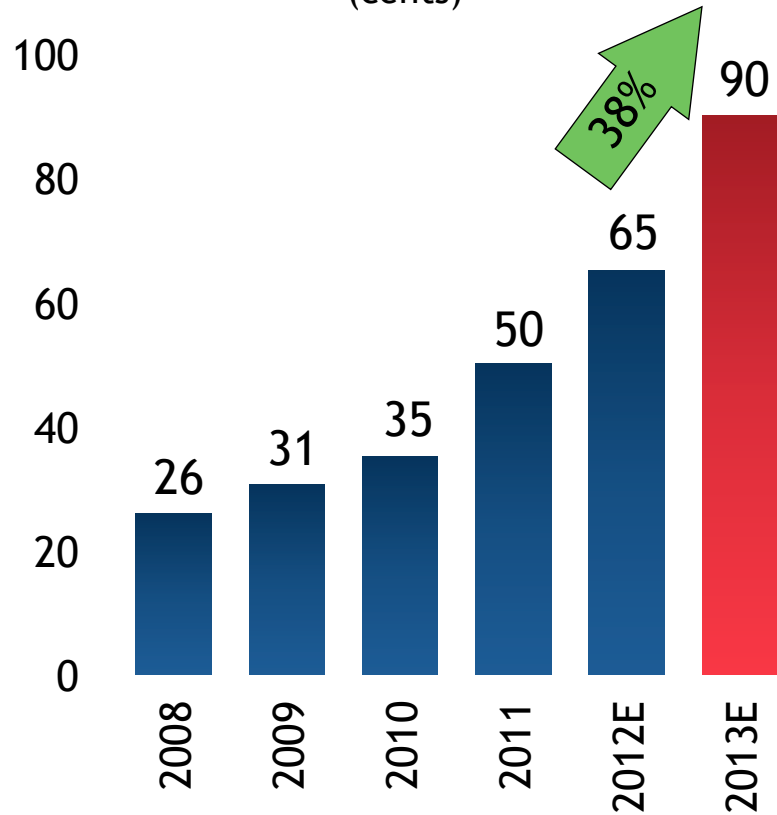
(\$ billion)



# Substantial Dividend Increase In 2013 ...

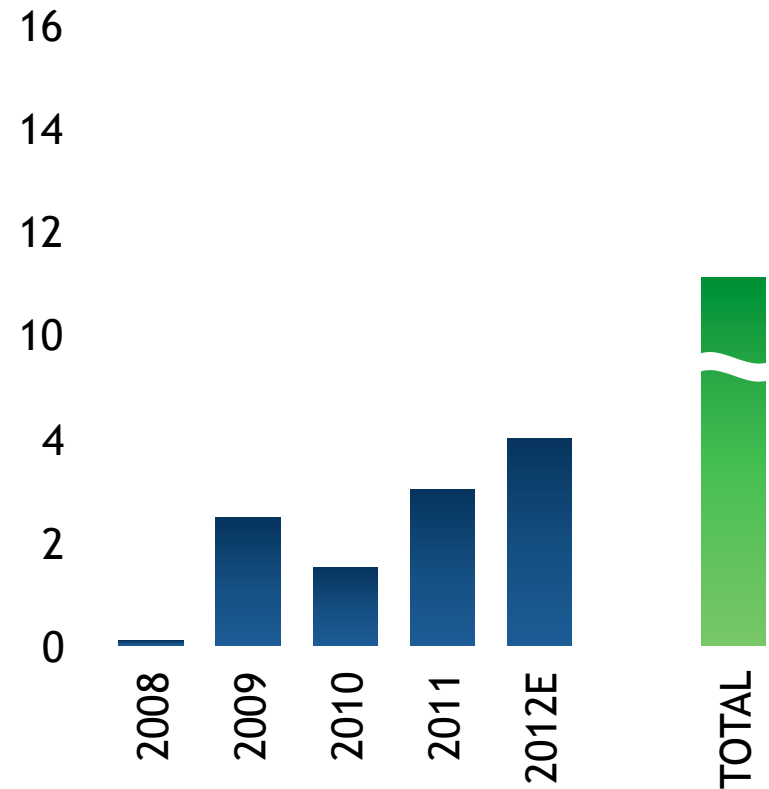
## Annual Dividend Per Share

(cents)



## Annual Share Repurchases

(\$ billion)

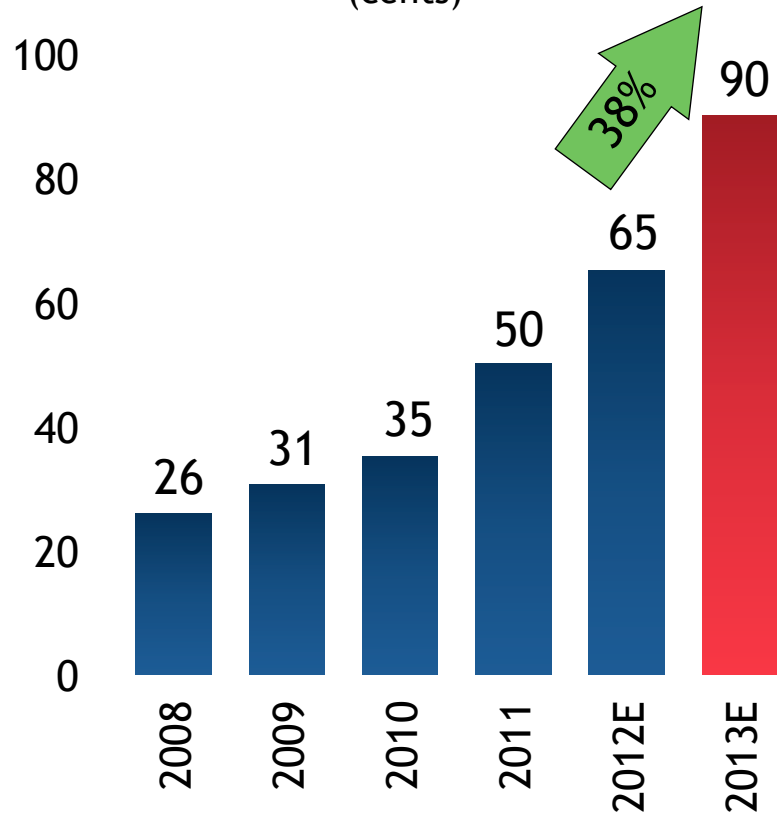


Achieve 25% dividend payout ratio ... **two years early!**

# ... And Significant Share Repurchases

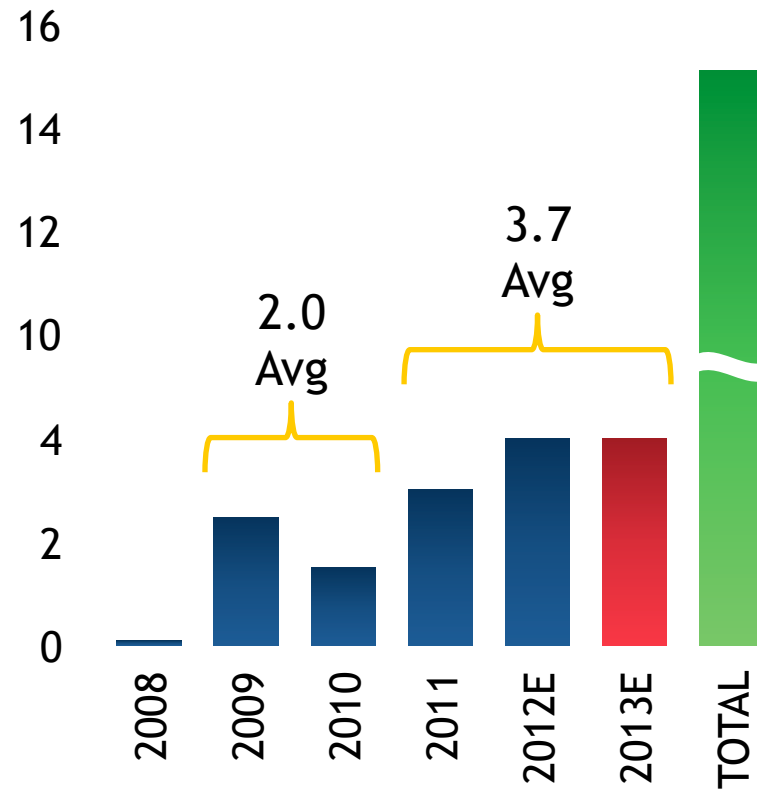
## Annual Dividend Per Share

(cents)



## Annual Share Repurchases

(\$ billion)



Nearly **\$5 billion** expected to be allocated to shareholders in 2013

2012 financial highlights

Capital allocation priorities

2013 guidance review

Steady state targets ... enterprise view



# 2013 Guidance: Solid Enterprise Growth



	Full-year 2013
Net revenue growth	0.75% to 2.0%
GAAP diluted EPS (from cont. ops.)	\$3.59 to \$3.73
Adjusted EPS (from cont. ops.)	\$3.84 to \$3.98
<i>Year-over-year growth</i>	<i>Up 13.25% to 17.25%</i>

#### Notes:

1. EPS estimates assume completion of \$4 billion in share repurchases, as part of a \$6.0 billion share repurchase program authorized by CVS Caremark's board of directors in September 2012. Timing of repurchases should roughly follow the timing of share repurchases in 2012.
2. Year-over-year growth rate based on mid-point of 2012 guidance range.
3. Estimates include one less day in 2013 versus 2012 for leap year.
4. Estimates do not include the impact of the 2012 cash tender and debt refinancing.

# 2013 Guidance: Superior Free Cash Flow

<i>(billions)</i>	Full-year 2013
Operating cash flow	\$6.4 to \$6.6
<i>Gross capital expenditures</i>	<i>Approximately (\$2.1)</i>
<i>Sale-leaseback proceeds</i>	<i>\$0.5 to \$0.6</i>
Net capital expenditures	(\$1.6) to (\$1.5)
<b>Free cash flow</b>	<b>\$4.8 to \$5.1</b>
<i>Growth Over LY</i>	<i>Approximately 4%</i>

Notes:

1. The Company 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.
2. Estimates include one less day in 2013 versus 2012 for leap year.
3. Figures might not foot due to rounding.

# 2013 Guidance: Healthy Outlook In Retail Pharmacy



Retail Pharmacy Segment	Full-year 2013
Net revenue growth	1.25% to 2.5%
<i>Same store sales</i>	<i>0.25% to 1.5%</i>
<i>Same store scripts</i>	<i>1.5% to 2.5%</i>
Gross profit margin	Moderate improvement
Operating expense ( <i>% of revenue</i> )	Flattish
Operating profit growth	5.0% to 6.75%
Operating profit margin	Up 30 bps to 40 bps

Notes:

1. Same store script growth is estimated using the standard convention of counting all scripts, regardless of the days supply, as one script.
2. Estimates, including “same store” estimates, include one less day in 2013 versus 2012 for leap year.

# 2013 Guidance: Significant Improvement In PBM

Pharmacy Services Segment	Full-year 2013
Net revenue growth	1.5% to 2.75%
<i>Total adjusted claims</i>	<i>1.035b to 1.045b</i>
Gross profit margin	Modest improvement
Operating expense ( <i>% of revenue</i> )	Modest improvement
Operating profit growth	10.0% to 14.0%
Operating profit margin	Up 30 bps to 40 bps

Notes:

1. Estimates include one less day in 2013 versus 2012 for leap year.

# Profitability In 2013 Affected By Several Factors

- Impact of Walgreens/Express Scripts impasse and resolution
- Even greater profitability from generics in 2013 versus 2012
  - Significant benefit from 2012 break open generics wraps into 2013
- Leap year in 2012
  - One day equals approximately \$21 million in earnings, or 2¢ in EPS

# Impact Of WAG/ESRX Impasse Exceeded Expectations



## At Last Year's Analyst Day, We Said We Expected ...

- Full-year EPS impact **between 8¢ and 11¢**
- Full-year EBIT impact of **\$175 million to \$235 million**
- Full-year pharmacy scripts impact of **16.9 million to 23.0 million**
- Full-year pharmacy same store sales **impact of ~ 300 bps**

## This Year, We Are Forecasting ...

- Full-year EPS impact of **at least 12.5¢**
- Full-year EBIT impact of **at least \$260 million**
- Full-year pharmacy scripts impact of **at least 24.0 million**
- Full-year pharmacy same store sales **impact of ~ 360 bps**

We gained disproportionate share ... we expect to retain disproportionate share

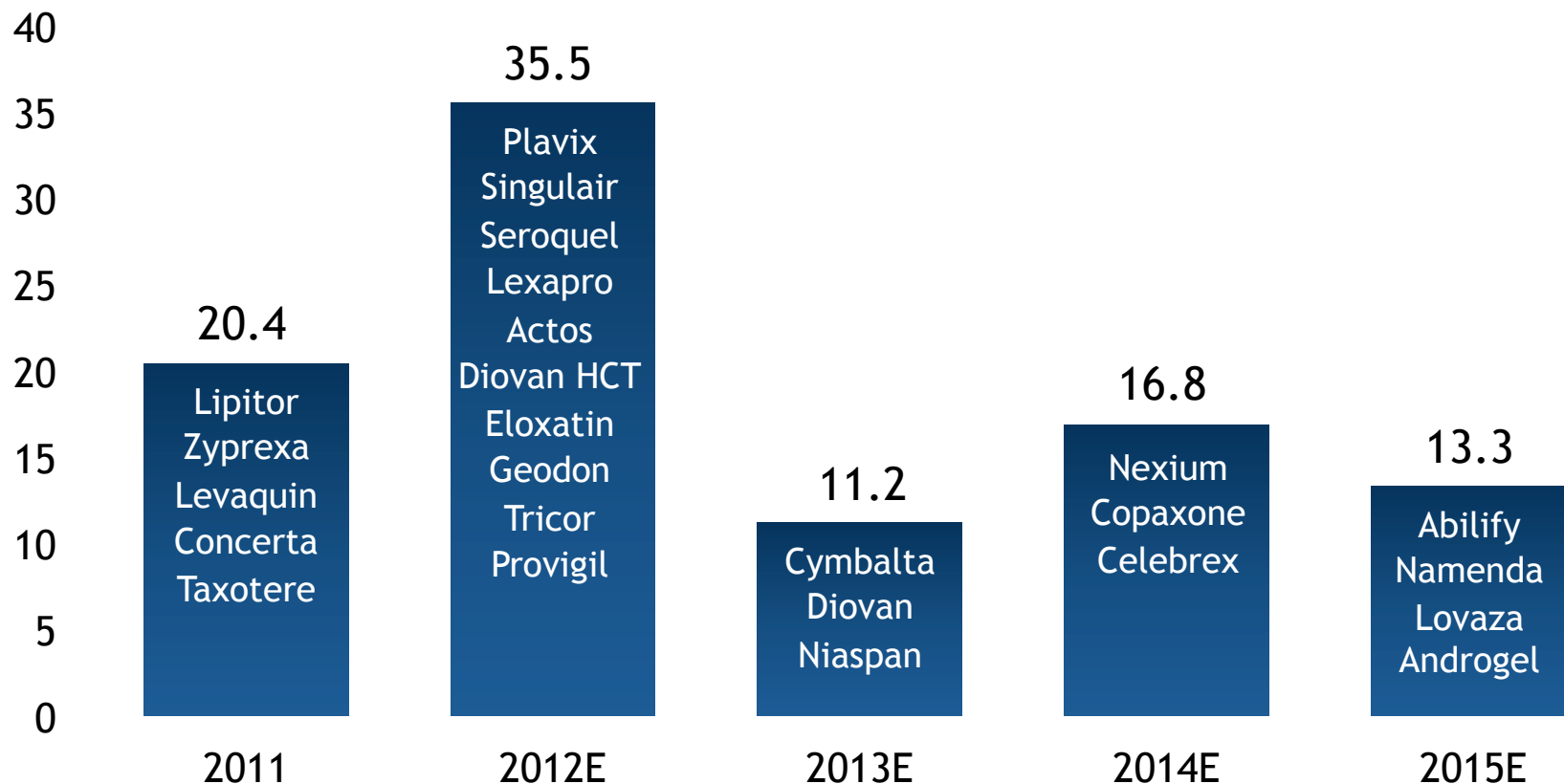
# WAG/ESRX Impasse Still Benefits Business In 2013

- Benefit from 2012 WAG/ESRX impasse embedded in underlying retail results
- Currently expect to retain **at least 60%** of scripts gained
- Comparison to strong share gains in 2012

2013 Estimates	With Impact	Without Impact	WAG Impact
Retail same store scripts	1.5% - 2.5%	2.9% - 3.9%	~ 135 bps
Retail same store pharmacy sales	0.0% - 1.0%	1.3% - 2.3%	~ 135 bps
Retail operating profit growth	5.0% - 6.75%	7.3% - 9.0%	~ 225 bps

# Generics Continue To Represent A Significant Opportunity In The Coming Years

**Total Brand Market Sales**  
(\$ billions)



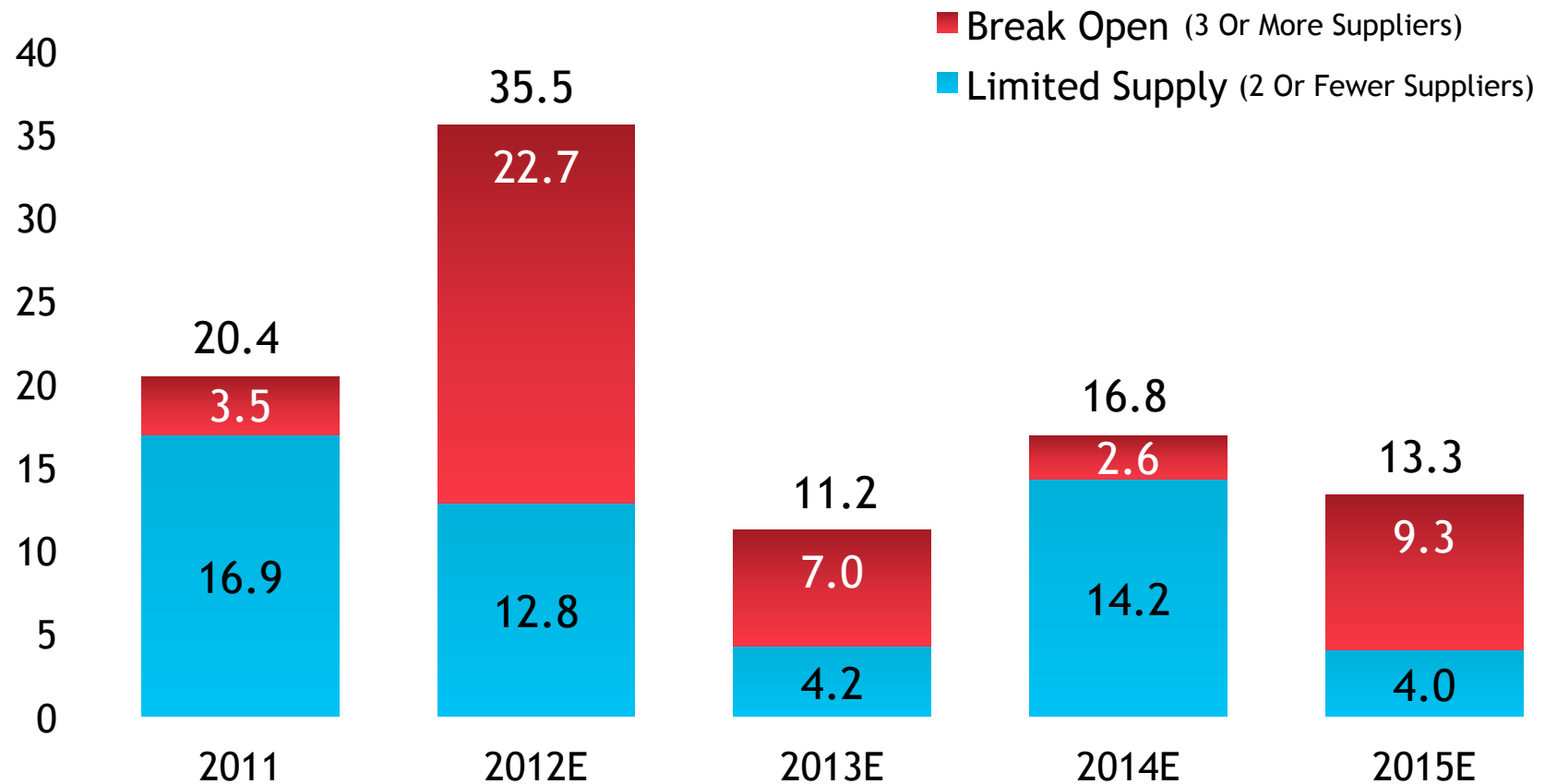
**Notes:**

1. Total brand market sales estimates represent annualized sales; includes all expected generic launches in total brand numbers with key launches highlighted; assumes 6 months pediatric extension on all launches; forward looking information assumes no “at risk” launches.
2. The timing of generic introductions and number of suppliers can be impacted by a variety of factors, including legal challenges, regulatory issues and manufacturing capacity.

Sources: IMS Health; company estimates.

# Break Open Generics Enhance Profitability Yield

## Total Brand Market Sales (\$ billions)



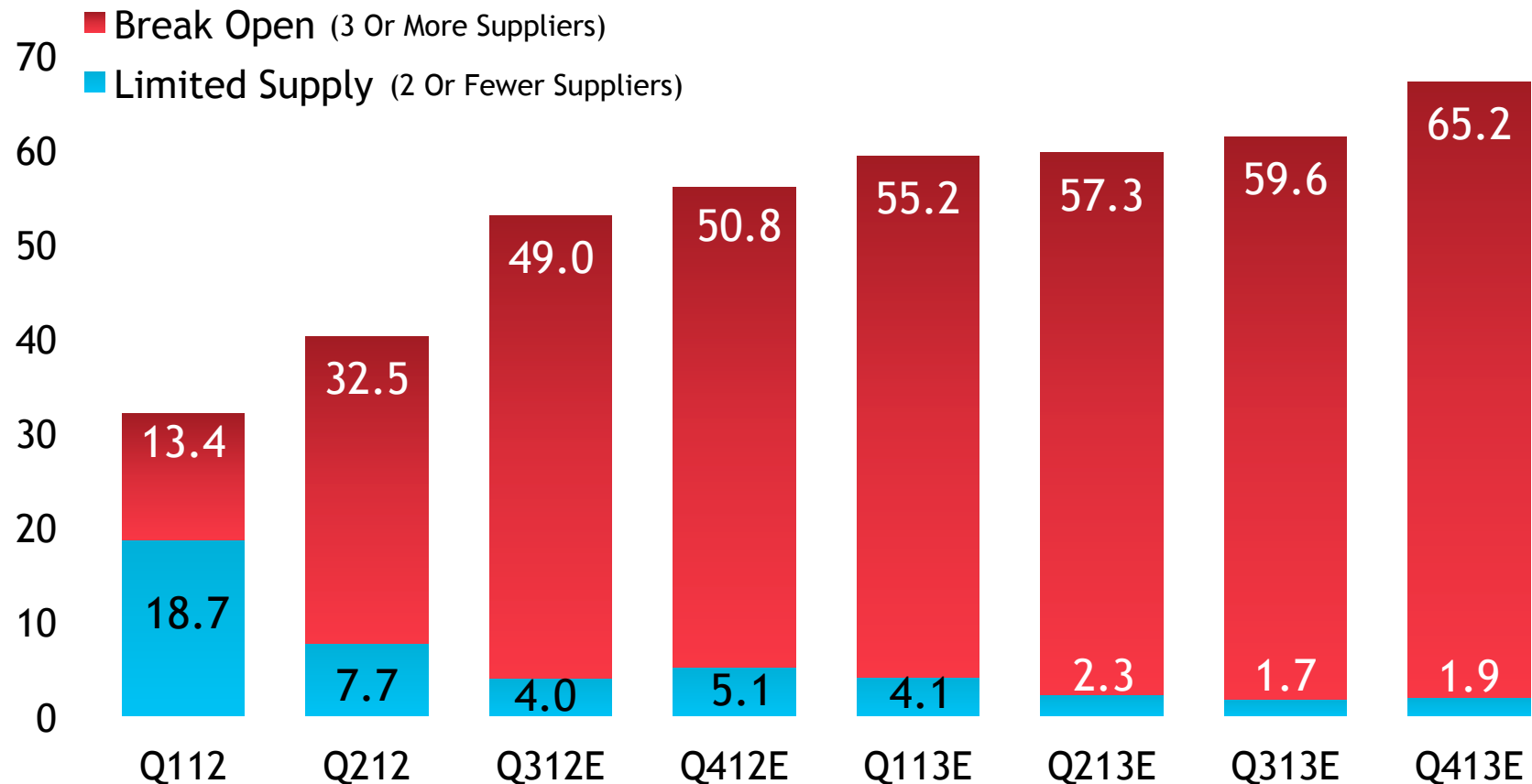
**Notes:**

1. Total brand market sales estimates represent annualized sales; includes all expected generic launches in total brand numbers with key launches highlighted; assumes 6 months pediatric extension on all launches; forward looking information assumes no “at risk” launches.
2. The timing of generic introductions and number of suppliers can be impacted by a variety of factors, including legal challenges, regulatory issues and manufacturing capacity.

Sources: IMS Health; company estimates.

# 2013 To Benefit More From Break Open Generics

## Total Brand Market Sales: Cumulative Launches Since 2010 (\$ billions)



Notes:

1. Total brand market sales estimates represent annualized sales; includes all expected generic launches in total brand numbers with key launches highlighted; assumes 6 months pediatric extension on all launches; forward looking information assumes no “at risk” launches.
2. The timing of generic introductions and number of suppliers can be impacted by a variety of factors, including legal challenges, regulatory issues and manufacturing capacity.

Sources: IMS Health; company estimates.

# First Quarter 2013 Guidance



	Q1 2013
Net revenue growth	(4%) to (2.5%)
GAAP diluted EPS (from cont. ops.)	71¢ to 74¢
Adjusted EPS (from cont. ops.)	77¢ to 80¢
<i>Year-over-year growth</i>	<i>Up 18% to 23%</i>

Notes:

1. EPS estimates assume completion of \$4 billion in share repurchases in 2013, as part of a \$6.0 billion share repurchase program authorized by CVS Caremark's board of directors in September 2012. Timing of repurchases should roughly follow the timing of share repurchases in 2012.
2. Estimates include one less day in 2013 versus 2012 for leap year.
3. Estimates do not include the impact of the 2012 cash tender and debt refinancing.

# First Quarter 2013 Guidance

		Q1 2013
Pharmacy Services	Net revenue growth	(3.0%) to (1.75%)
	Operating profit growth	24% to 31%
Retail Pharmacy	Net revenue growth	(2.5%) to (1.0%)
	<i>Same store sales</i>	<i>(3.5%) to (2.0%)</i>
	<i>Same store scripts</i>	<i>0.75% to 1.75%</i>
	Operating profit growth	9.5% to 11.5%

Notes:

1. Estimates, including “same store” estimates, include one less day in 2013 versus 2012 for leap year. The one extra day due to leap year positively impacted pharmacy same store sales in the first quarter of 2012 by approximately 75 basis points and front end same store sales by approximately 120 basis points.
2. Same store script growth is estimated using the standard convention of counting all scripts, regardless of the days supply, as one script.

2012 financial highlights

Capital allocation priorities

2013 guidance review

Steady state targets ... enterprise view



# Steady State Targets Affirmed: Enterprise Growth Model

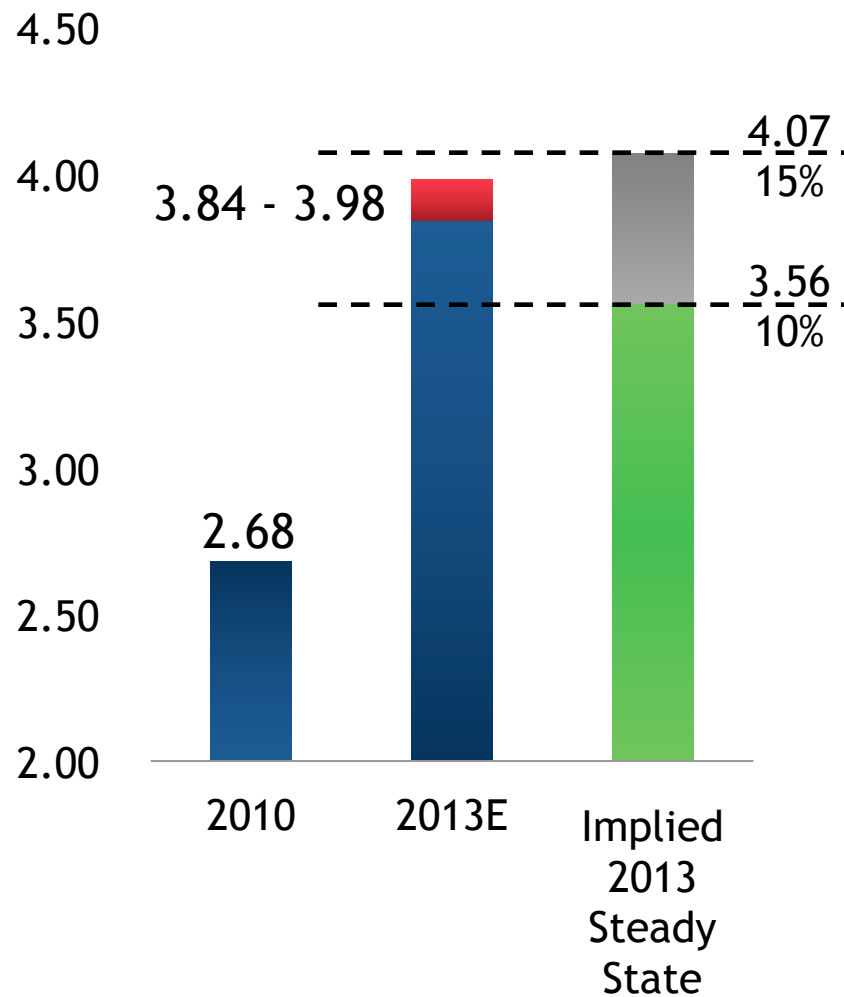
5-year CAGR 2010 - 2015	
Net revenue growth	5% to 8%
Operating profit growth	8% to 10%
Adjusted EPS (from cont. ops.) growth	7% to 9%
<i>Average annual cash available for enhancing shareholder value</i>	<i>\$5.5 billion to \$6.5 billion</i>
Share repurchase contribution	3% to 6%
<b>Total adjusted EPS growth</b>	<b>10% to 15%</b>



Note: Cash available for enhancing shareholder value = Free cash flow +/- change in net debt.

# Delivering On Our Promises

## Enterprise Adjusted EPS (\$)



- 2010 was springboard for steady state targets
- Adjusted EPS growth of between 10% and 15% annually targeted
  - 2013 implied range of \$3.56 to \$4.07
- Expected range of \$3.84 to \$3.98
  - Comfortably within high end of target

Enterprise on track to achieve target

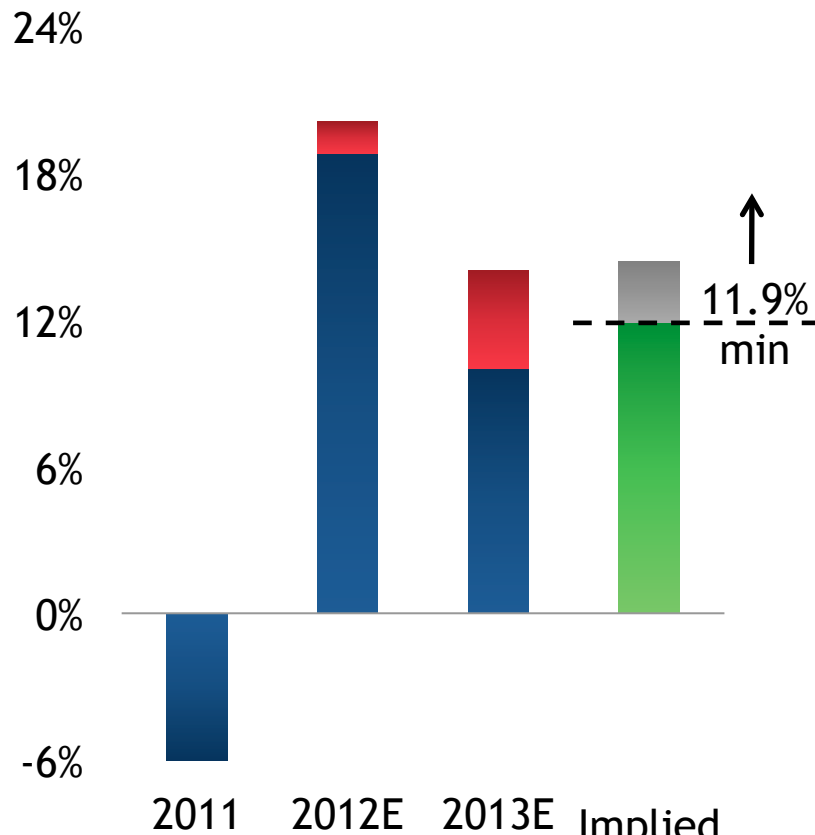
# Steady State Targets Affirmed: Segment Growth Model



5-year CAGR 2010 - 2015		
Pharmacy Services	Net revenue growth	11% to 13%
	Operating profit growth	9% to 11%
Retail Pharmacy	Net revenue growth	2% to 5%
	Operating profit growth	8% to 10%

# Segments Delivering Excellent Growth

## PBM Operating Profit Growth



- Operating profit growth of between 9% and 11% annually targeted
- 2012 and 2013 re-establishing strong growth trend
- Need annual growth of **at least 11.9%** beyond 2013 to achieve implied 2015 target range

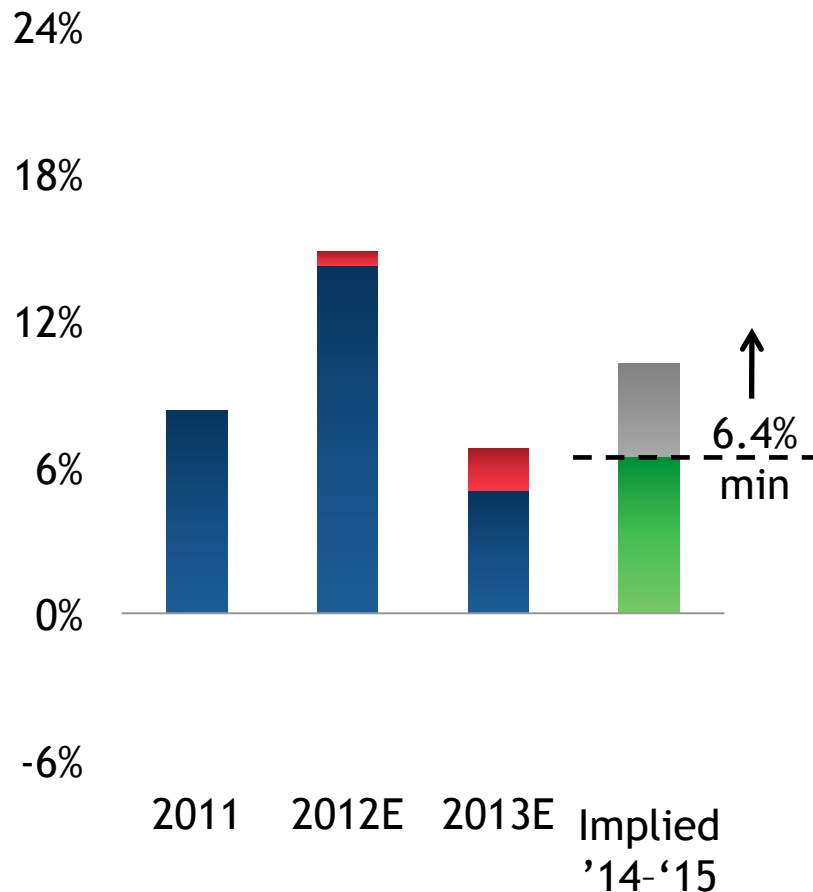
Notes:

1. Minimum CAGR of 11.9% in 2014 and 2015 assumes that only the low ends of the guidance ranges (shown in red) in both 2012 and 2013 are met.

Implied  
'14-'15  
Steady  
State  
CAGR

# Segments Delivering Excellent Growth

## Retail Operating Profit Growth



Notes:

1. Minimum CAGR of 6.4% in 2014 and 2015 assumes that only the low ends of the guidance ranges (shown in red) in both 2012 and 2013 are met.

- Operating profit growth of between 8% and 10% annually targeted
- Share gain in 2012 establishes strong base for continued growth in 2013
- Need annual growth of at least 6.4% beyond 2013 to achieve implied 2015 target range

# Goal Is To Successfully Grow Total Enterprise

- Focused on winning business that drives profits of whole company
- Important to think of CVS Caremark as **ONE** enterprise
  - Individual segment performance becoming less relevant
- Focused on growing share of pharmacy dispensing volume
  - Growth in covered lives remains an important factor
  - Will drive savings for clients and their members
  - Will drive enterprise profitability regardless of channel
- Channel- and business segment-agnostic offerings
  - Enhance enterprise performance
- *An example: **Maintenance Choice 2.0** will disproportionately benefit retail*

# Maintenance Choice 2.0 Plan Design Differs From 1.0

## Maintenance Choice 1.0

- Mandatory plan design required to drive 90-day utilization
- Mail order pharmacy distinct from CVS/pharmacy
- Binary choice for consumer (mail or CVS/pharmacy)

## Maintenance Choice 2.0

- No plan design changes required to gain 90-day economics for patient and payor
- Mail order pharmacy integrated with CVS/pharmacy
- Complete flexibility for consumers to alternate between mail and CVS/pharmacy

# Maintenance Choice 2.0 Accounting Differs From 1.0

## Maintenance Choice 1.0

- Mandatory plan design required to drive 90-day utilization
- Mail order pharmacy distinct from CVS/pharmacy
- Binary choice for consumer (mail or CVS/pharmacy)
- **Account for profitability in both segments**
- **Intercompany eliminations of dual-counting**

## Maintenance Choice 2.0

- No plan design changes required to gain 90-day economics for patient and payor
- Mail order pharmacy integrated with CVS/pharmacy
- Complete flexibility for consumers to alternate between mail and CVS/pharmacy
- **Unless transferred from CVS Caremark mail, account for profitability where script is filled only,**
- **Intercompany eliminations dramatically reduced**

# Maintenance Choice 2.0 Will Disproportionately Benefit Retail

## Advantage

## Disadvantage

## Client / Member Advantages

### Traditional PBM View

- More lives under management

- Mail order script opportunity limited
- Network margin impacted as 30-day retail network scripts shift to 90-day scripts at CVS/pharmacy

- Greater savings potential
- Improved member access and choice
- Greater percentage of claims at mail order pricing

### Traditional Retail View

- Given choice, majority of consumers prefer retail for dispensing
- Greater share of Rx dispensing wallet

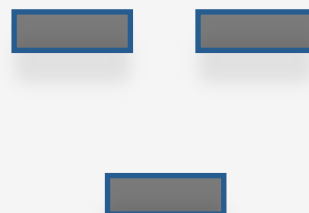
- Trade lower reimbursement rate for dispensing share gains

# Maintenance Choice 2.0 Will Disproportionately Benefit Retail

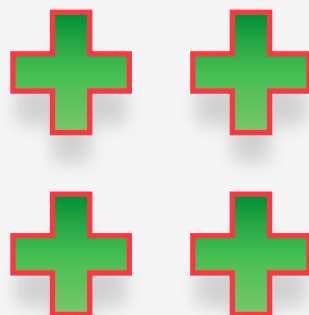
Advantage

Disadvantage

Traditional  
PBM View



Traditional  
Retail View



## Client / Member Advantages

- Greater savings potential
- Improved member access and choice
- Greater percentage of claims at mail order pricing

# Maintenance Choice 2.0 Will Disproportionately Benefit Retail

Advantage

Enterprise  
View



## Client / Member Advantages

- Greater savings potential
- Improved member access and choice
- Greater percentage of claims at mail order pricing

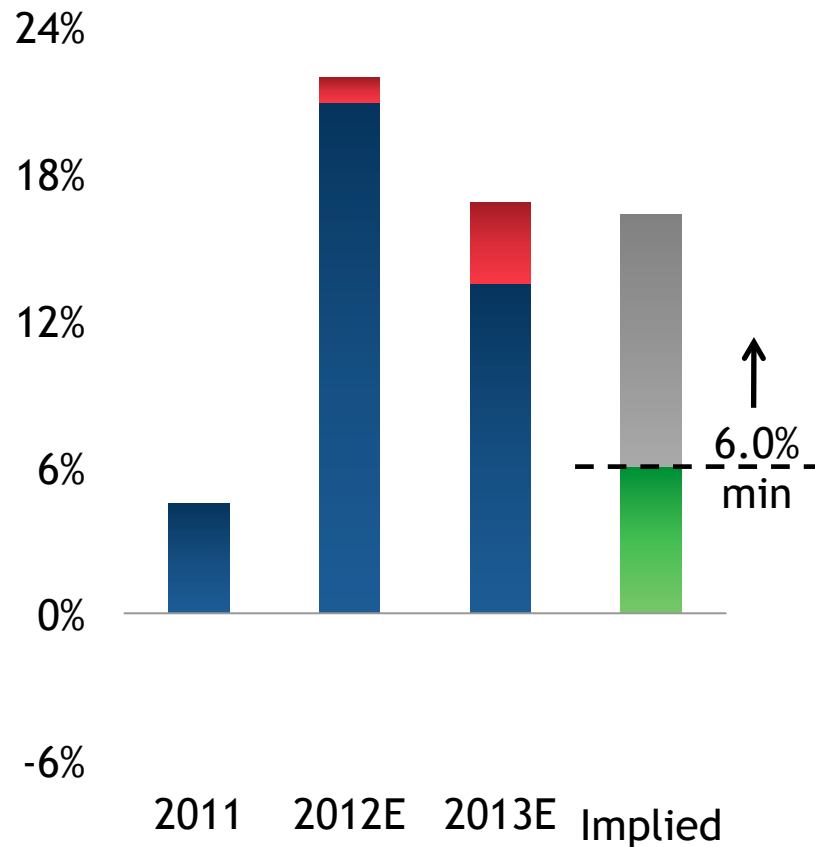
Enterprise WINS

# Blurring Of Segments To Intensify Over Time

- Innovative offerings might disproportionately benefit one segment ...
  - Example: Maintenance Choice 2.0 will benefit retail
  - Example: Integrated Specialty will benefit PBM
- ... But all products and services will benefit the enterprise
- Impact on 2013 is expected to be minimal
  - Programs just launching
  - Blurring will take place over time

# To Gauge Success, Focus On Enterprise Growth

## Adjusted EPS Growth



Notes:

1. Minimum CAGR of 6.0% in 2014 and 2015 assumes that only the low ends of the guidance ranges (shown in red) in both 2012 and 2013 are met.

Implied  
'14-'15  
Steady  
State  
CAGR

- Adjusted EPS growth of between 10% and 15% annually targeted
- Strong growth expected in 2012 and 2013
  - Combination of strong operating profit growth and disciplined capital allocation
- Need annual growth of at least 6.0% beyond 2013 to achieve implied 2015 target range

# To Gauge Success, Focus On Enterprise Growth

- Next year's analyst day to feature new steady state targets
  - Longer-term lens on the enterprise
  - No intention to step away from current commitments
- Migrating to integrated view of CVS Caremark
  - Evolving to capitalize on health care opportunities
- Innovative products and services will drive enterprise value
  - New metrics to better measure success

We remain focused on profitable **ENTERPRISE** growth

# Focused On Enhancing Shareholder Value

- 2012 built upon strong foundation for long-term growth
  - Expect to deliver Adjusted EPS well ahead of target
- Disciplined capital allocation leading to better returns
  - \$31 billion of cash should be available for enhancing returns over five years
- Enterprise should see robust growth in 2013
  - Expect Adjusted EPS to grow 13.25% to 17.25%
- On track to achieve steady state targets
  - Current guidance comfortably within high end of target
- Enterprise is the key to driving shareholder value
  - Focused on winning profitable business for the enterprise



# Appendix



# 2013 Guidance: Consolidated Income Statement



Full-year 2013	
Corporate segment expense	\$730m to \$745m
Intercompany eliminations <i>(% of combined segment revenues)</i>	~ 10.5%
Gross profit margin	Moderate improvement
Operating expense <i>(% of revenue)</i>	Flattish
Operating profit margin	Up 30 bps to 40 bps

#### Notes:

1. EPS estimates assume completion of \$4 billion in share repurchases, as part of a \$6.0 billion share repurchase program authorized by CVS Caremark's board of directors in September 2012. Timing of repurchases should roughly follow the timing of share repurchases in 2012.
2. Year-over-year growth rate based on mid-point of 2012 guidance range.
3. Estimates include one less day in 2013 versus 2012 for leap year.
4. Estimates do not include the impact of the 2012 cash tender and debt refinancing.

# 2013 Guidance: Consolidated Income Statement



	Full-year 2013
Net interest expense	\$520m to \$530m
Effective tax rate	~ 38.8%
Weighted average shares	~ 1.21b
Consolidated amortization	~ \$485m
Consolidated D&A	~ \$1.9b

#### Notes:

1. EPS estimates assume completion of \$4 billion in share repurchases, as part of a \$6.0 billion share repurchase program authorized by CVS Caremark's board of directors in September 2012. Timing of repurchases should roughly follow the timing of share repurchases in 2012.
2. Year-over-year growth rate based on mid-point of 2012 guidance range.
3. Estimates include one less day in 2013 versus 2012 for leap year.
4. Estimates do not include the impact of the 2012 cash tender and debt refinancing.

# Break Open Generics Enhance Profitability Yield

Limited  
Supply

Break  
Open

Description	Economics	2012-2013 Examples
2 or fewer suppliers	<ul style="list-style-type: none"> <li>• Similar to branded drug economics</li> <li>• Price and cost remain high</li> <li>• Limited supply competition</li> </ul>	Lexapro
		Actoplus Met
		Diovan HCT
		Tricor 145mg
3 or more suppliers	<ul style="list-style-type: none"> <li>• Significantly better than the brand</li> <li>• Intense supply competition</li> <li>• Purchasing scale enables lower procurement cost</li> </ul>	Plavix
		Seroquel
		Cymbalta
		Singulair Tab

# Steady State Targets: Key Assumptions

	Anticipated Impact	
Favorable industry demographics	Utilization	+
Robust generic pipeline	Gross margin	+
Maintain & leverage purchasing scale	Gross margin	+
Retail share gains / SG&A leverage	Operating profit	+
Net new PBM contracts	Mix / Volume / Lives	+
Unique products and technology	Volume / Lives	+
PBM streamlining initiative	GM and SG&A	+
High-return, bolt-on acquisitions	Operating profit	+
Pharmacy pricing & reimbursement trends	Gross margin	-