

NATIONAL PRESS CLUB HEADLINERS LUNCHEON WITH
CVS HEALTH PRESIDENT AND CEO LARRY MERLO

SUBJECT: CURRENT CHALLENGES IN TODAY'S HEALTHCARE SYSTEM

MODERATOR: ALISON FITZGERALD KODJAK OF THE NATIONAL PRESS CLUB

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ALISON FITZGERALD KODJAK: [sounds gavel] Good afternoon. Welcome to the National Press Club, the place where news happens. I'm Alison Fitzgerald Kodjak, and I'm I am the 112th president of the National Press Club. And I'm also a health policy correspondent for NPR, which means today's lunch is very relevant to me.

Before we get begin, check your cell phones. And if you are on Twitter, we encourage you to tweet live during the program. And please use the hashtag #NPCLive.

For our C-SPAN and Public Radio audiences, please be aware that in the audience today are members of the general public, as well as working journalists, so if you hear applause or other reactions, it's not necessarily a sign of journalistic non-objectivity.

And now I'd like to introduce our head table. Please hold your applause until I have introduced everybody here. To my far left, we have Lisa Matthews, assignment manager at Associated Press and the co-lead of the NPC Headliners Team. Next to Lisa is Mark Hamrick, the Washington bureau chief and senior economic analyst at Bankrate and a former president of the Press Club. Next to him is Mohana Ravindranath – sorry, I should have done that better. She's an e-health reporter at PoliticoPro. And we have Robin Koval, president and CEO of Truth Initiative. Ferdous Al-Faruque, senior reporter at Medtech Insights. To my immediate left, Thomas M. Moriarty, executive vice president of chief policy, external affairs officer, and general counsel at CVS Health.

Skipping over the podium, we have Betsy Fischer Martin, executive director of the Women and Politics Institute at American University and the other co-lead of the NPC

Headliners Team. Skipping over our speaker for a moment, Danny Selnick, senior vice president of strategic markets at Business Wire; he's the NPC Headliners team member who organized this luncheon. Thank you so much, Danny. Then we have Jay Newton-Small, contributor at *Time* Magazine and founder of MemoryWell. Just beyond Jay, **Bill Holiber, president and CEO of *US News & World Report***. And then we have Shannon Muchmore, editor at Healthcare Dive. And finally, Aaron Cohen, president at Aaron Cohen PR and a member of the NPC Headliners Team.

Thank you, everybody. [applause]

I'd also like to take a moment to acknowledge additional members of the Headliners Team responsible for organizing today's lunch. They are Bill Lord, Lori Russo, Tamara Hinton, and of course, our Press Club staff, which make everything happen here; specifically, Lindsay Underwood, Laura Coker, and our executive director Bill McCarran. Thank you, all. [applause]

I'm willing to bet you all know CVS and have probably been to one recently. It's the drugstore down the road for most of us. We have one actually just a couple blocks here. You might stop in to fill a prescription and while you're there pick up some shampoo and maybe a bottle of milk. Well, Larry Merlo, our guest today, wants to change that. He's the president and CEO of CVS Health. And he's here to share with us his plans to reshape the company from the corner pharmacy and convenience store to a series of healthcare centers where people can get basic care at an affordable price.

Mr. Merlo had been working toward this vision for CVS for several years now. In 2014, the company eliminated all tobacco sales and changed its name to CVS Health. And last year, CVS Health, under Merlo's leadership, acquired Aetna, one of the biggest US health insurers in a \$69 billion deal. It's one of a series of major healthcare company mergers that is reshaping the healthcare industry.

Merlo is a pharmacist by education. He joined CVS Pharmacy in 1990 when the company bought Peoples Drug. He rose to the role of president of CVS Pharmacy before being tapped to lead the entire company in 2011.

Please join me in giving a National Press Club warm welcome to Larry Merlo. [applause]

LARRY MERLO: Alison, thank you. And thanks to all of you for the opportunity to join you today, especially it's a great turnout for a snowy day. And it's also great to be back here at the National Press Club and the Headliners luncheon.

The world in Washington has changed a lot since I last spoke to you back in 2014. But here's what hasn't changed: First, healthcare remains a significant concern for most Americans. It's too complex, it's too expensive, and care is too fragmented. And second, CVS Health continues to bring bold approaches to address these consumer pain points while improving the health of our communities.

It's always interesting to talk about healthcare at the start of a new year because so many people make resolutions to improve their health. It says a lot about what's important to us and what we want to change on a personal level. But as someone who has made and broken resolutions, I know how hard it can be to stay on track. It isn't always easy for people to figure out what their next best action should be. And hold that thought because I'll come back to that in a few minutes.

Let me ask you think bigger for just a moment. What if you could improve not just your own health, but the health of your community? What would be important to you and your neighbors? And what would you want to change the most? Well, it takes courage to think big and bold. We're fortunate to live in a country that has accomplished much since our founding with moments and movements that have ignited change for the greater good. And I believe we are experiencing this kind of inflection point with healthcare, facing an opportunity to fundamentally transform the way the system works, making it better for consumers, and, at the same time, building much healthier communities.

At CVS Health, this is our focus for 2019 and beyond. Why? Well, because we can, and because we feel it is our responsibility. With Aetna joining CVS Health, we have the blend of business assets and a new business model that will allow us to bring real meaningful change to the marketplace.

Now, consider this. We have communities out there today where the zip code matters more than your genetic code when it comes to health. Babies born in several counties around Washington, DC, including Montgomery County, Arlington and Fairfax Counties, can expect to live six to seven years longer than babies born here in the District. There are neighborhoods in Atlanta simply on opposite sides of an interstate where life expectancy delivers[sic] by a decade. And in Boston, life expectancy can vary by more than three decades. Life expectancy of residents of the Roxbury neighborhood is 58.9 years. That's shorter than the life expectancy of many developing countries.

So what are the underlying differences in these neighborhoods? Well, we call them social determinants of health. And 60% of life expectancy is driven by social and environmental factors, like family or education, housing, access to fresh food. And health does start at the community level, and that's where we feel we can make a real difference.

Now, our company has long focused on ways to bring effective tools, resources and solutions to our communities to improve healthcare for individuals and their families, and now we're taking that commitment to the next level. And today, I'm very pleased to announce that through the CVS Health and Aetna Foundations, our new Building Healthier Communities initiative. It's a five-year, \$100 million commitment to support critical programs and partnerships with local and national nonprofit organizations. This effort means more free health screenings and more funding to tackle public health challenges, including tobacco and opioid use. It means more investments to address the social determinants of health that I just mentioned.

We will bring the energy and enthusiasm of CVS Health colleagues to deliver more volunteer hours to important community initiatives. And for our national and local nonprofit partners, we will bring data, know-how and actions that make healthcare better at the community level.

Our company's purpose is helping people on their path to better health. And at CVS Health, we have a sense of urgency about the need to bring real change to healthcare because the current system isn't working. And worse, it's not sustainable. The commitment I have just announced is one of the many ways we intend to tackle this problem.

Now, it is a fact that the US not only spends more money on healthcare than many other countries, but it also fares worse on several measures of public health. We look at healthcare today and we see a system that was built around how healthcare was delivered for much of the 20th century. It emphasizes one-off episodic treatments for patients instead of preventing or managing disease or tackling the root causes of poor health, like access to healthy food or affordable care. It pays physicians for services regardless of results instead of incentivizing healthy patient outcomes. And people are left to navigate a complex healthcare system on their own. Each year, up to \$300 billion of healthcare spending is due to the ineffective coordination of medications and overall disjointed care for patients. It's a waste of time, it's a waste of money and effort. But unlike other industries, there's also a human cost.

At CVS Health, we understand the challenges facing the healthcare system. One-third of America today interacts with our company every year. That includes four million people who visit our retail stores each and every day in nearly 10,000 communities all across the country. More than 22 million medical members rely on us to help them make their decisions about their healthcare and their health spending. We know how much human interactions matter. We know the importance of having a physical presence in our communities and being able to build trust with people on a personal level.

Now, what's clear to us is that it will take more than incremental steps to fix what's broken in our healthcare system. That's why we brought together CVS Health and Aetna to establish an innovative healthcare model that will create an entirely new consumer experience and lead to much healthier communities. As a new front door to healthcare, our combined company will engage consumers with the care they need when and where they need it, giving them human connections with pharmacists, nurse practitioners, and others who can walk shoulder to shoulder down the path to better health, along with digital options for those who prefer to access care in the palm of their hand.

Now, to deliver on this vision, we are building a consumer-centric approach to healthcare that offers a better experience, which in turn will drive better patient engagement, improving their health and delivering better outcomes that end up reducing healthcare costs. Now, it's big, it's bold, but it's not the first time CVS Health has moved to transform the industry.

Let me take you back to 2014. That was when I was last here. Alison mentioned this earlier. I spoke about how CVS was the first pharmacy chain to stop selling tobacco

products. And following that action, cigarette sales fell across all retailers in markets where we had a significant presence. The average smoker in these markets purchased five fewer packs of cigarettes, and in the first year about 95 million fewer packs of cigarettes were sold all across the country. A bold move, and a big result.

Here's another consumer pain point, the cost of medications. We've implemented technology to make drug prices more transparent to both prescribers and patients. We found that when doctors with access to real-time prescription benefits information could see the cost of alternative medications available, about 40% of the time they prescribed the lower-cost medications. That saved an average of about \$125 per prescription. That's a meaningful cost reduction for the consumer's pocket book or consumer's wallet. And now we have our sights set on how to transform a system that accounts for nearly 18% of our country's GDP.

Now, in today's healthcare system, consumers are burdened with how to figure it out on their own. They need people they trust. They need people who are accessible and knowledgeable to help bring everything together and make sense of it. And here's how our vision for a better consumer-centric healthcare model will change all of this:

First, we will improve access to healthcare by making it local. Communities all across the country, they're not all the same. How we strengthen healthcare at the community level shouldn't be either. So we're piloting concept stores that offer healthcare services and products. These concept stores will enable us to meet a range of basic healthcare needs, including monitoring for chronic conditions, lab tests, eye exams, hearing tests. And we'll be able to do all of this not in a fragmented way, but seamlessly with patients, their doctors and many other health players in the system that it takes to coordinate care.

There's our new Building Healthier Communities initiative that I shared with you earlier that will put \$100 million in towns across the country to support a range of programs and partnerships with local and national nonprofit organizations.

In addition, we have pledged a minimum of 10 million in value of volunteers hours each year with our colleagues, offering their time and expertise to build healthier, sustainable communities in which they live and work.

Employment is another social determinant of health, and we're especially proud of our participation in the US Department of Defense Skills Bridge initiative. It's an initiative that provides career training to help servicemen and women transition from military life back into the private sector. Following classroom training and a 12-week internship at one of our CVS pharmacy locations, they're eligible to apply for positions in any one of our stores upon completion of their military service.

Beyond our Skills Bridge participation, we also opened our Talent Connect Center in Fort Bragg, North Carolina, and in the first year of operation, 50% of those completing the curriculum and training were hired by CVS Health. So through a combination of efforts since 2015, our company's hired more than 12,000 people with military experience and more than 3400 military spouses.

Another area that we've been working hard to address is the opioid epidemic. We've all heard about it. It doesn't discriminate. It's in the cities, it's in the suburbs, it's in rural America. In 2017, more than 49,000 deaths were attributed to the opioid overdose. Now, both CVS Health and Aetna have been leading the way to address this devastating crisis. Aetna was the first national insurer to waive co-pays for Naloxone. That's the drug that reverses opioid overdoses. And today in 48 states, CVS Health is dispensing the same drug with no individual prescription needed.

Both companies have taken steps to strengthen the management of opioid prescriptions for temporary pain or after a dental procedure. And I know everybody here has an example of how they left the doc's office with a prescription for 30, 60 or 90, and they're still in the medicine cabinet. As a result, at CVS Health we have seen a nearly 72% drop in covered opioid prescriptions that go beyond a seven-day supply.

In working in partnership with local law enforcement, we have donated medication disposal units across the country. We'll have more than 2700 in place by the end of this year. And to date, these units have collected – get ready for this – more than 436,000 pounds of unused medications that could otherwise be diverted, abused or contaminate the water supply if disposed of improperly.

Battling this opioid epidemic is just one more ex of how we're investing in communities and making a different by making healthcare more local.

Second way we'll bring to life our vision for a better healthcare model is by simplifying the consumer healthcare experience. Now, remember that New Year's Day resolution that many of us are teetering on the edge at this point? I see some smiling and a little head-nodding. But through a number of new initiatives, we will help consumers identify their next best action to improve their health. We'll do this through frequent in-person interactions and the expanded use of digital tools, including wearables. It's about empowering patients to better manage their health and wellness with just a little help. For example, through real-time monitoring of key health indicators, such as blood glucose levels, we can quickly send a text or make a phone call to the patient or their caregiver, should their data look concerning.

We're also developing new cost reduction programs to improve medication adherence, avoid hospital readmissions and take advantage of alternatives to unnecessary emergency room visits. This will include more timely, more comprehensive medication reviews, as well as expanded services and hours at select MinuteClinic locations. And we're working hard to help ensure smoother and easier transitions between healthcare settings in the home. That means doing even more to make sure that people have the equipment they need to heal as they may transition from the hospital back into the home setting and enjoy a high quality of life in their home.

So how does all of this come together in a simplified consumer experience? Well, let me try to make it human with a consumer. I'm going to refer to Diane. Diane's newly

diagnosed with diabetes. She leaves the doctor's office with a care plan. It has instructions for a new medication she'll need to take. It has a prescription for blood work, lab blood work, to measure her blood glucose levels, and it has instructions for dietary modifications to help her lose weight and exercise. But does Diane know how to execute her care plan effectively? Her doctor warns her that if she doesn't get her blood sugar level under control, her risk increases significantly for diabetes-related complications, like heart or kidney damage.

Now, fortunately, although Diane might see her physician four or five times a year, she is likely to see her pharmacist as many as 18 to 24 times in the same year. And this is where the combination of CVS Health and Aetna can make a difference, through a local physical presence in Diane's community, regular one-on-one interactions with healthcare professionals that she knows and trusts, and access to tools and information that help her down her path to better health.

The third way we'll work to transform the healthcare system is to help people achieve better health at a lower cost. One of the biggest challenges in healthcare is how to better manage chronic diseases that people live with every day. We know their names – hypertension, cardiovascular disease, I just mentioned diabetes, asthma, just to name a few. Today, about 60% of all Americans have at least one or more of these chronic diseases, and today they account for nearly 90% of the \$3.5 trillion that this country spends on healthcare.

Now, helping people make better decisions about their own health and wellness is a key to improving health outcomes and lowering costs. And today, even though more than 30% of covered workers are now enrolled in what is commonly referred to as consumer-directed health plans or high deductible health plans – and by the way, that compares to just 4% about ten years ago – many people don't really know how to use the tools and the information available to be better consumers of healthcare.

Now, technology here is critical, but technology alone is not enough. Consumers rely on professionals they trust in their communities to help them understand their benefits and to make informed healthcare decisions. And with access to both health and pharmacy data, we'll be able to help some people avoid developing chronic disease in the first place. We'll have the ability to predict who is at risk and to provide consumers with preventative counseling in a convenient, local and personalized setting.

Now, pharmacists will play a critical role in this. From their patient in the heart of thousands of communities, they serve as trusted providers. They help their patients save money on the prescriptions they need. They advise millions of people every day on their healthcare needs and deliver important interventions. They help patients become more adherent to their medication regimens and they help to close gaps in care through screenings.

Increasingly, pharmacists are moving out from behind the counter and providing a wide range of services, from administering immunizations to delivering point-of-care testing for chronic conditions. And we're working with government at all levels to allow pharmacists to provide these types of services, to practice to the top of their license, and that will make a difference on quality and cost all with a local human touch.

Now, CVS Health is positioned to lead the change needed to transform American healthcare. We've taken bold actions before and we've delivered. And as a socially responsible company, we understand that we have a role to play in helping to solve important societal problems in meaningful and importantly sustainable ways.

We put our businesses and our resources to work, not just at a global or national level, but in tangible ways that make a difference in our communities and in people's lives. We believe our new consumer-focused healthcare model will take more people down their path to better health in a way that's more local, affordable and easier to use.

We will make the most out of our scale, our assets, our expertise and our relationships that include our more than 45,000 clinical professionals that are located all across the country and the company; our network of more than 1.3 million physicians and 5700 hospital systems; our access to world-class data and analytics capabilities that will help us develop new ways to engage consumers in their total health and wellness; and our new \$100 million commitment to support critical programs and partnerships with key nonprofit organizations, enabling us to tackle public health challenges and address the social determinants of health in an even more robust way.

Now, bringing all of this together with a powerful company purpose, it does give me optimism. There's no more pressing issue in my mind than fixing what is broken in our healthcare system. And we welcome the opportunity to work with others in the market and with those in the public sector to drive earlier interventions, more connected care, better health outcomes, and lower medical costs, all centered on the consumer.

So ultimately, we're aspiring to deliver better healthcare, which in turn creates better communities and a better world.

So thank you again for the opportunity to speak with you today. And Alison, I look forward to the questions. [applause]

MS KODJAK: For those in the audience who don't know, there are cards on your table. You're welcome to submit questions. I already have a load here, so I'm not going to get to all the questions, but please do. I'm going to start with one of my own, because when you first talked about this re-envisioned store, it set off a big debate in imagination at the health team at NPR. So I walk into my CVS and there's the soda and the chips, and then in the middle there's the candy, and over on the left is the lipstick. The healthcare part is way in the back. What will these new concept stores look like? And are you getting rid of some of the soda/candy stuff?

MR. MERLO: Alison, there's like four questions in there. [laughter] If you think about a CVS store today, if you think about that pharmacy, that is a service, and Alison, to your point, in most of our retail locations, it is in the back of the store. I'll refer to everything else as the front of the store. We actually sell about 20,000 individual products. That surprises a lot of people. And we see in this concept store, as you think about the products,

they'll continue to be a focus on products of health, beauty, personal care, and elements of convenience. But we're going to repurpose about 20% of the store to services.

You'll see an expanded MinuteClinic. That MinuteClinic, in addition to treating what I'll refer to as acute care – I might have the strep throat or a flu or a skin rash – we'll be able to do in-clinic phlebotomy; we can do your blood work. We'll be focusing on helping you manage the chronic diseases that I mentioned earlier. We'll also have, we're referring to it as a concierge at this point, that can help you understand how to best use benefits as part of your health insurance. We'll have services that'll be focused on diet, nutrition and elements of wellness.

So that is our vision for this first store. And Alison, as we had talked earlier, it will open next month in the Houston market.

Alison, your point about, what about the soda and the candy and the potato chips? Back in 2014, that was something that we spent a lot of time talking about as part of making the decision to eliminate tobacco products. Where do you go from there? And as we reached out to the healthcare community and talked about this decision that we were contemplating at the time, to eliminate tobacco, how did they think about some of these other products that we sell that are not directly tied to improving one's health.

The feedback that we got from the healthcare community was, as you compare those two, there's no amount of tobacco use that can be considered safe. As you look at those other products, taken in the occasional use or moderation, it's part of someone's daily routines or weekly routines. And after we announced the decision to eliminate tobacco, when we went out and talked to consumers, we got similar feedback with one exception. They told us, "Help educate me in terms of choosing healthier alternatives." And over the last few years, we've begun to do that, offering product lines that have removed trans fats or reduced sodium or sugar content. And we've worked with some of our consumer product partners that are working on healthier snack alternatives.

So Alison, that's an effort that you'll continue to see as we focus more on healthy food, healthy snack alternatives.

MS KODJAK: There are a lot of questions about Aetna. I guess the most basic one is, why Aetna? What was specific about Aetna that made you choose them out of all the other options in terms of insurance companies?

MR. MERLO: Well, first of all, what many people do not realize is that CVS Health and Aetna have had a business relationship for about eight years now. And back in, I'll say, the 2010-2011 timeframe, Aetna had made the decision to essentially outsource the management of their pharmacy benefit to CVS Caremark. So we got to know the organization quite well over the past eight years. One of the things that is always important, it's been important as CVS has grown through acquisitions – I think it's important to many companies – is understanding the culture of the organization. We would sit here today and say that culture can't trump strategy. And there are many stories out there that, while there are

countless successful mergers and integrations, ones that aren't successful, oftentimes one of the dynamics associated with that disappointment stems from the culture or the collision that culture creates within those two companies.

Alison, that was an important consideration as we move forward. And as we looked at Aetna, it has a national presence. It has a balanced book of business in the commercial space, providing insurance for large employers— or employers, I should say, big and small. And it also has a growing presence in the government space. When you think about the role of Medicaid and the growing role of Medicare as we continue to have 10,000 Baby Boomers turning 65 every day.

So Alison, I would say that those were probably the important dynamics in making that decision.

MS KODJAK: There are people who are concerned about the merger thing, that there are already a few powerful, dominant players in the healthcare industry, and this is just going to make all the consumer choices that more limited. How do you respond to that?

MR. MERLO: We get that question a lot. I actually believe that this combination is going to create more consumer choice, for many of the reasons that I mentioned earlier. Alison and I were talking earlier, and Danny, and I was giving a talk back in the spring, and I'm sure that many of you noticed I was using the terms "patient" and "consumer" interchangeably. And in this talk I was giving, I was challenged in the group, that, "Larry, I worry about what you're describing and how does this compromise the physician/patient relationship?" And no sooner could I answer that question than someone in the room jumped up and said, "But there's consumerism in healthcare and it must grow; we must empower consumers to take more control for healthcare decisions."

And if you stop and think about that dynamic, both individuals are right. If we're in the doctor's office on the exam table or, heaven forbid, on the operating table, we absolutely are in the hands of an extremely skilled and trusted professional, and we're a patient. But think about all of the activities, think about the onus on us as individuals to make decisions that lead up to that, and then all the decisions that follow that, that we are consumers of healthcare. And I would sit here and say today, that's where the system's breaking down. We can help consumers make better decisions that hopefully can prevent the need to be a patient.

So Alison, I mentioned this is a \$3.5 trillion industry. And I believe that in an industry that size, there are going to be many successful players. And our goal is to make sure that we're one of them, largely for reasons that I've been talking about here this afternoon.

MS KODJAK: Just one more follow on the Aetna; I'm combining some questions here. People are concerned that, one, Aetna will begin to push or require its people to use MinuteClinics over primary care doctors, and that it will also encourage people or push people into high deductible plans. Do you have any comment on those two concerns?

MR. MERLO: That is a great follow-on to the last question. And I should emphasize, as part of this new model, we absolutely see a role to be a complement to the role of the primary care physician. One of the things that's interesting is we've been in— listen, I'm going to rewind ten years ago. MinuteClinic was evolving, it was being born, and ten years ago could you envision walking into a drug store with a sore throat and a 101 temperature, be seen by a nurse practitioner, "Yes, you do have strep throat; I'm going to write a prescription for an antibiotic." You walk about ten yards, you get the prescription filled, you're back in the car on your way home to get some rest. All in about an hour. Well, 40 million people later, we've experienced that dynamic. And it does speak to this element of consumerism in care.

Now, what's interesting about that is 50% of the patients that visit, the consumers that visit MinuteClinic, they visit on nights and weekends. Fifty percent of the patients that we see do not have a primary care physician. So one of the elements of protocol is that nurse practitioner, when we open a clinic, he or she will go and visit the primary care docs in and around the trade area, introduce themselves, "Here's who we are, here's who we're not," and share some of these statistics, "Are you taking on new patients?" Because as a standard element of protocol, we want people to have a PCP. And we want to be able to give them a list of physicians that we know are accepting new patients. So in this combination, we see an important complementary role to the role of the physician, the role of a nurse practitioner.

And one more point to that, and I do believe this is one of the elements that's broken in our healthcare system, that if you think about the cost associated with— I'll refer to it as site of care. So let's take an emergency room in the hospital. And I'm going to make up terminologies. If we defined that as a level five acuity where if we're having chest pains we're headed to the ER, not to urgent care or a retail clinic, whether it's MinuteClinic or someone else's clinic. But one of the dynamics that we have today is, all too often that individual who has a sore throat and a 101 temperature is headed to a level five acuity level, that emergency room, at an elevated cost of care when they should be treated at an appropriate, lower level acuity level where the cost associated with that care provision matches what it is that they believe they need to be treated for.

And I believe that we can do a better job of matching up the site of care with cost as an important variable.

MS KODJAK: I'm going to continue with the big, scary company theme. A lot of questions about Amazon. The first is, how concerned are you about Amazon getting state pharmaceutical licenses?

MR. MERLO: We've gotten that question a lot over the last probably 18 months. As you think about what it is we're focused on— listen, Amazon's done a terrific job. And probably everyone in this room has had that box at their doorstep at one time or another, many multiple boxes a day in some cases. Our goal is, as we think about what it is we can and need to do next, how do we meet the unmet needs of consumers? And our belief as a company is, if we're focused on the consumer— and we spend a lot of time talking to our clients, talking to our consumers, and they're not going to be able to tell us what to do next, but we have to be good listeners because they will tell us what it is about their experience

that they're really happy with and what about their experiences with our company that frustrates them. And it then becomes our job to come back and bring solutions to them.

And by the way, if we do that, we won't leave any white space to be disrupted by Amazon, or anyone else for that matter. As a company, that's where our focus is. You'll have new competitors enter the marketplace. And if we're doing our job, if we're doing our job well, they will end up offering the same services that we already provide. Yes, they'll be another competitor, but they won't offer anything new that isn't already offered by CVS.

MS KODJAK: Have you looked into distributing prescriptions by drone? [laughter]

MR. MERLO: Alison, that— by the way, we are doing some work on that, believe it or not. But listen, as you think about it, the role of prescriptions may be different than many of the other items that we don't think twice about the safety of the supply chain. It's clear that the United States does have the safest supply chain. And that's something that none of us should ever take for granted. That doesn't exist everywhere.

MS KODJAK: And beyond Amazon, there's the new joint venture that's being created between Amazon, JPMorgan and Berkshire Hathaway. Their assertion is that it's better to take people who are not within the healthcare industry to try to rethink the healthcare industry. What do you think about the company, and what do you think about that assertion?

MR. MERLO: Listen, those three companies – Berkshire, Amazon, JPMorgan – three iconic companies, terrific leaders, and any time any one of them, let alone all three together, say something, people are going to stand up and listen. I think Mr. Buffett has probably been the most outspoken in terms of his particular frustration with the healthcare system. I think everyone's heard the phrase "hungry tapeworm," and he's talked about 18% of GDP, on its way to 20.

And by the way, just about everything that Mr. Buffett has said we absolutely agree with, with probably one exception – that the healthcare industry can and must be transformed from within itself. I think it's going to be very, very difficult for someone that isn't in healthcare to do everything, some of what I talked about earlier today. And part of that is breaking down silos. I mentioned healthcare is just, it's too siloed, and as a result it's too fragmented. And that's why if you're accessing the healthcare system, you feel like you're a ping-pong ball going here, here, here, and here, before you're done.

And that gets back to our goal and our belief, with the assets that we now have as CVS Health, that we can transform this industry by putting the consumer at the nucleus of our strategy and making healthcare more local, more simpler, and helping people achieve a better health outcome at a lower cost.

MS KODJAK: Let's move on to prices, and specifically drug prices. Obviously, they have been rising faster than inflation for many years. What factors, in your opinion, are contributing to the increased prices of prescription drugs?

MR. MERLO: Alison, there's probably, if there were four questions in that, this one has like six questions. There's no question that there has been a lot said, written and a tremendous concern in terms of the growing cost and the cost burden that prescription drugs are placing on individuals. There is a lot that CVS has done to begin to bend the cost curve associated with that.

And I'll answer the question by using the word "transparency." Probably everyone in this room has heard that word being used much more in the last year. And over the last couple years as a company, we have been spending time working to define, how do we make transparency actionable? Because it wasn't that many years ago as consumers, if we went to the doctor's office and the doc was getting ready to write a prescription, we only had one question to ask, if we were concerned about price, "Doc, are you writing for a brand or are you writing for a generic?" Because the plan designs had – I'm making this up – a \$20 co-pay for brands and a \$7 co-pay for generics.

Well, today, plan designs have completely changed all that. And most people cannot articulate their prescription benefit. And by the way, think about the doc who was seeing multiple patients from many different insurers; how is he or she ever expected to keep it straight?

So in terms of making transparency actionable, we embarked on a mission that, where does that matter? Well, we would sit here and say drug pricing really begins at the point of prescribing. And today, what was the prescription pad on a piece of paper is now an electronic prescribing of the prescription. So what we've been able to do for Caremark members is to embed a Caremark member's prescription benefit into the physician's electronic health record. So when he or she is getting ready to write that prescription, they can see your out-of-pocket costs and up to five therapeutic alternatives and the cost associated with each.

Now, I have to say, today – we started rolling this out this time a year ago – today we're in just over 100,000 physician offices across the country. So we're not quite done. We'll be done probably by the spring timeframe. But we're very, very encouraged by the results. About 40% of the time, physicians are switching to a lower cost alternative, and the average out-of-pocket savings – I mentioned this is in my prepared remarks – is about \$125 per prescription.

So for us, it's an important proof point that physicians are accepting their responsibility that cost is a variable of care. And by the way, this is a great example of making transparency actionable.

Alison, I think the other point, what about the administration's blueprint to reduce the cost of drugs? There are many elements on that blueprint that we absolutely are aligned with, that will make an impact in terms of reducing prescription drug costs and reducing the out-of-pocket costs for consumers. And some of those include – this is going to get pretty technical now – how do you speed competition for more generics, or what is commonly

referred to today as biosimilars, into the market – we know that competition always has a way of driving down costs – to eliminating some of the barriers that exist, to expand the role of pharmacy benefit managers and utilizing some of the tools that have been proven to be able to reduce the net price of prescription drugs.

MS KODJAK: What about eliminating the rebate model?

MR. MERLO: Well, Alison, that gets– now we're up to ten questions in that one. [laughter] First of all, let me defuse one of the beliefs that is out there, that PBMs and rebates do not increase the cost of prescription drugs. There's an inverse relationship. When you look at the, if you looked at therapeutic classes like rheumatoid arthritis or anticonvulsants, the price increases in those categories are among the highest, but yet the level of rebates in those categories are the lowest. So it's the inverse relationships of what many believe.

And this whole notion of rebates, rebates are nothing more than discounts. And in the industry, those competitors have used their size, their scale, their expertise and competition to drive down the net costs of prescription drugs. And they've done that through the use of what is commonly referred to as formularies. And formularies work where there's more than one clinically equivalent product within a therapeutic class. Do you need to cover all those products as part of your insurance benefit? And the answer to that from a clinical point of view is, no.

So PBMs have used competition in an effort to drive the net cost of prescription drugs to a lower level. And for the clients that we managed in 2017, their year-over-year costs of prescription drugs was up .2%. And by the way, when you look at how we help their members stay more adherent to their prescription medication, their cost was up 1.9%. By the way, we would sit here and say that's a good thing. So those numbers are well below the level of inflation that we see overall in medical, as well as pharmacy.

MS KODJAK: So how concerned are you in that case about the fact that Secretary Azar, Senator Grassley, Senator Klobuchar are all looking at PBMs as one of the causes. They have more ability to extract information from you than I do, so are you concerned that you're sort of in the crosshairs here in DC?

MR. MERLO: Alison, listen, we love telling our story because the facts speak for themselves. And I think the facts and the data do separate fact from fiction. If you look at the President's blueprint, it does more to expand the role of PBMs not to contract.

MS KODJAK: So a lot of people have questions about technology and your company and the ability to access information. I'll go to a couple. This one says, Many Americans are wearing Apple Watch, along with other wearable computers, allowing real-time monitoring and sharing of health information. You've talked about the possibility of using that kind of technology to improve healthcare. What about the concern of that kind of data being out there? How do you feel about your ability to control access to that data?

MR. MERLO: Listen, there's no question that the security of all data, certainly healthcare financial data, is among our highest of priorities. That will never change. And there's a lot that we're working on here. The example that I'll use is, we've all— I'll speak for myself. I've had the Fitbit on. I had it on for six months and then I got bored with it. But the one thing the Fitbit did help me was understand my cadence of what it feels like to make sure I got 16, 17,000 steps a day in. But the question that we're trying to answer is, how does that help us get to the next level?

So we have a program out in the market today where for a select group of high risk patients with diabetes, we're giving them a glucometer that's connected through the cloud where we're monitoring their blood glucose levels. It kind of goes back to the example that I used earlier, that when that gets out of whack, we're outreaching to them or their caregiver that "something's not right here." We're catching it before the unintended medical consequence. Or that's our goal.

What we've seen through that program is, we were actually able to reduce— the A1c level is an important measure for a patient with diabetes. I see people nodding their head. We were able to reduce for this group of patients their A1c level by one full point, and maintain it over a six-month period. Now, there is a medical cost savings that's going to result from that.

So Alison, I think the onus is on us in terms of making sure that we don't just have the security protection, but that we create the education and the understanding as to how this can help them on a path to better health, and ultimately reduce cost.

So those are things that we're working on today. And we hope to have some pilots out on the market in the not-too-distant future.

MS KODJAK: So how are you measuring the success or failure of these experiments and what will you do when you have good data? Will you share it?

MR. MERLO: There's not a single answer to that. Because I think it's going to be different things for different pilot type programs. And listen, our goal is to be able to quantify that and to reflect that in our service offerings.

MS KODJAK: I have another big, scary company question. Is it part of CVS Caremark's business plan to drive community pharmacies and physician dispensing out of business?

MR. MERLO: The easy answer to that is, no. If you look today in our Caremark provider network— I'm defining Caremark provider network as the number of pharmacies that would participate for Caremark members. That number is about 65,000 pharmacies. So it includes probably most, if not all, of the national and regional chains, and obviously it includes many independent pharmacies.

One of the challenges that retail pharmacy is experiencing – and by the way, CVS Pharmacy is not immune from this – is across healthcare– and by the way, this is one of the reasons, another one of the reasons we're bringing these two companies together. It's not just pharmacies. You hear it from the docs, you hear it from the hospitals. Everyone in healthcare has been asked "do more, get reimbursed less." That mantra continues to go year after year after year.

But yet, in the system, while that mantra has driven consolidation, and companies come together, you take costs out, the costs fund the margin compression. Well, that has a beginning and an end. How are we going to take meaningful costs out of this system? You can pick up many, many different research reports; it estimates 25-30% of healthcare spending can be considered avoidable. I mentioned some metrics in my prepared remarks. Think about a \$3.5 trillion industry; you're talking about over \$500 billion worth of costs is unnecessary and avoidable.

But yet, as a society, as a country, we have not cracked the code in terms of doing that. That's the goal of this combination. It's not going to happen overnight, there's going to be a lot of hard work and effort ahead of us. But I talked about the role of pharmacists. Alison and I were talking earlier, that pharmacists were heroes back in 2009. What happened in 2009? We had the H1N1 scare. Back then, there were a handful of states that permitted pharmacists to provide immunizations and vaccinations. And the bell went off that, hey, wait a minute, we've got these healthcare providers, they're local, they're all in communities where people live and work. What about if we changed the regulation? And good things happened.

Now look today. Probably many people in this room turn around and say, "I got my flu shot at the drug store." Hopefully it's CVS, but it doesn't have to be because pharmacists all around the country, whether they're working for a chain or an independent can do that.

And I see Steve Anderson here who heads the National Association for Chain Drugstores. He's an important voice here in Washington in terms of speaking to the role of pharmacists, and we talk a lot about pharmacists must be able to practice to the top of their license. And there's so much more that they can do, and we've got a growing shortage of primary care physicians in this country. It's going to reach 90,000 in the next two years.

So let's deal with it now and not wait for another H1N1 scare before we start changing those regs.

MS KODJAK: Okay, unfortunately we're running out of time, which is too bad because I've got a lot more here that people want to know. But before we go to the final question, I want to remind our audience of some upcoming events at the National Press Club. Tonight– oop, I take it back. This one was postponed because of the snowstorm. On January 24th, we'll have a Headliners book event with the legendary civil rights journalist and activist Dorothy Butler Gilliam. She was the first black woman to report for the *Washington Post*. On January 15th, we have a Headliners Newsmaker event, that's tomorrow. Okay, sorry, we have snow and a government shutdown, so that will be postponed as well. But some time in the future we're going to have a forecast for the hurricane season. [laughter] Your government at

work, folks. On February 11th – do I have any warnings on this one? – there is a Headliners book event with the *Washington Post's* Jason Rezaian, who is also a member of this Club. So please come and listen to Jason talk; he was arrested in Iran and spent more than a year, and he is now back in the US and wrote a book about it.

Really, what everyone wants to know. You don't know how many people have asked. What is the longest receipt that CVS has ever distributed? [laughter]

MR. MERLO: I'm sure somebody here is going to send me an email. The latest, what I saw, was in Miami. The vertical blinds, one of the vertical blinds broke. The person used their ExtraCare receipt to replace it. [laughter] People love their ExtraBucks. I know we like to make fun of the length of the receipts, but as we go out and talk to our customers, I don't even want to think about what would happen if we took it away. And one of the things that we provided was the ability for consumers, if you've downloaded the app, you can go into the app and you can– you have to do two things. You have to, first of all– well, you have to do three things. You have to download the app. You have to sign up for email, your ExtraCare offers to go to your email, your card. And then, there's another thing that you turn on to get digital receipts. So we're very environmentally conscious; that's why we put that offer on there. And if you'd rather get it digitally than paper, that opportunity's there.

MS KODJAK: I've had one that's longer than my son. So you wouldn't be at the National Press Club if you didn't get your ceremonial National Press Club mug. Thank you very much for being here. [applause]

And we are adjourned. [sounds gavel]

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