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# EDITED TRANSCRIPT

ANTM - Anthem Inc to Discuss the PBM Strategy Conference Call

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## OVERVIEW:

Co. announced formation of a new PBM, IngenioRx, along with a new strategic partner, CVS.



OCTOBER 18, 2017 / 12:30PM, ANTM - Anthem Inc to Discuss the PBM Strategy Conference Call

## CORPORATE PARTICIPANTS

**Brian T. Griffin** *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

**Douglas Simpson** *Anthem, Inc. - VP of IR & Finance and National Accounts*

**John E. Gallina** *Anthem, Inc. - CFO and EVP*

**Joseph R. Swedish** *Anthem, Inc. - Chairman, President & CEO*

## CONFERENCE CALL PARTICIPANTS

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**Steven Paul Halper** *Cantor Fitzgerald & Co., Research Division - Analyst*

**Zachary William Sopcak** *Morgan Stanley, Research Division - VP on the Healthcare Services and Distribution Team*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Anthem call discussing the announcement of its new PBM. (Operator Instructions). As a reminder, this conference is being recorded. I would now like to turn the conference over to the company's management.

### Douglas Simpson - Anthem, Inc. - VP of IR & Finance and National Accounts

Good morning, and welcome to Anthem's call to discuss the launch of IngenioRx, our new PBM solution. This is Doug Simpson, and with us this morning are Joe Swedish, Chairman, President and CEO; Brian Griffin, President of our Commercial and Specialty Business Division; and John Gallina, our CFO. Joe and Brian will start by providing some high-level commentary on our announcement this morning and then we will be available for Q&A. During the call, we will not be providing any incremental commentary on our third quarter or full year 2017 financial performance and ask that you hold any questions related to our financial performance for our third quarter earnings call scheduled on October 25. We will be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Anthem. These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to review the risk factors discussed in today's press release and in our quarterly and annual filings with the SEC.

I will now turn the call over to Joe.



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### **Joseph R. Swedish** - Anthem, Inc. - Chairman, President & CEO

Good morning, and thank you for joining us to discuss the launch of Anthem's new PBM, IngenioRx. Recognizing the unique opportunity before us to drive significant value with a next-generation PBM solution, we've been hard at work analyzing the various options for how to structure a best-in-class PBM asset. Today, we're very excited to announce the formation of IngenioRx along with our new strategic partner, CVS. IngenioRx combines the best of Anthem's strengths to create a solution that we expect will resolve widespread consumer frustration in an industry that is too complex and lacks transparency. IngenioRx will lead the industry forward by focusing on the member experience and improving health outcomes at a lower cost. We recognized the strategic importance of building an asset that aligns incentives to lower the overall cost of healthcare for our members. Brian Griffin will go into more detail in a moment. But we believe that with IngenioRx, we will be able to create a differentiated solution in the marketplace that resonates incredibly well with consumers.

IngenioRx will strengthen our competitive position by utilizing a flexible arrangement that will allow us to adapt quickly to the ever-changing marketplace. It also positions Anthem to take advantage of a unique opportunity to grow and diversify our business within our existing footprint as well as nationally by combining our scale, deep provider relationships and holistic approach to managing the total cost of healthcare with a significantly improved pharmaceutical pricing. IngenioRx will be able to offer a competitive and truly integrated product that will deliver the flexible, transparent solutions that members and customers demand. As I hope you can tell, we are excited about the opportunity to build a game changer in the PBM arena, and we feel very confident that our partnership with CVS will be a win-win opportunity that strategically advances the goals of both organizations.

Let me now turn the call over to Brian to talk about the details of our new PBM.

### **Brian T. Griffin** - Anthem, Inc. - EVP and President of Commercial & Specialty Business Division

Thank you, Joe, and good morning. Over the last year, our team has done quite a bit of work on developing a next-generation PBM solution, and we're excited to share the culmination of those efforts with you today. As Joe mentioned, we're announcing this morning the launch of our new PBM solution, IngenioRx, with operations beginning 1/1/2020. The name IngenioRx represents Anthem's intention to provide the ingenuity that the PBM market is lacking in order to create member-centric, flexible and affordable solutions. Our new PBM is committed to transforming a complex and ambiguous industry. Through the creation of IngenioRx, we're expecting to realize a few key benefits; first, lowering total healthcare costs. Pharmacy costs continue to rise and our new PBM will be focused on managing the total cost of healthcare to improve affordability for our members by aligning incentives appropriately across the value chain to focus on the highest quality healthcare with the lowest net cost. We have the opportunity to take a leadership role in addressing the persistent challenges faced by our members.

Second, ensuring a seamless member experience. We'll deploy a simplified, consistent and coordinated experience for our pharmacy members. This effort will leverage the strength of Anthem's provider relationships to ensure confident, informed decision-making, which leads to better health outcomes.

Third, strengthening our integrated value proposition. IngenioRx will deploy solutions that take a holistic approach to meet our members where they are and improve their overall health. We'll be better able to coordinate the integration between our deep local provider relationships with our national scale to meet the diverse needs of our customers.

Fourth, a lower cost of pharmaceuticals to significantly improve our competitive position. Our new contract provides improved pharmaceutical pricing that will generate estimated savings of greater than \$4 billion per year once we fully migrate our enrollment into the new platform. These savings are calculated by simply comparing projected 2020 pharmaceutical spend, using the pricing under the current contract to the pricing agreed to under our new contract.

In addition, we are poised to capture incremental growth opportunities by expanding our services to affiliated health plans as well as to win new business at the national level. As we evaluated our options to create a new PBM solution, it became clear that the combination of IngenioRx and CVS could meet or exceed our expectations on several key criteria. We're focused on optimizing control of the pharmacy benefit management and



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enhancing flexibility in order to quickly adapt to a changing market price. We also recognized how disadvantaged our current pharmaceutical pricing was to be able to fully recognize the value that Anthem could bring to the market. Additionally, we wanted to be able to put together a solution that has the potential to drive incremental growth by offering the marketplace a pharmacy solution it desires and deserves.

And finally, we're looking to create a solution that ensured operational excellence. Our members should expect this new solution to seamlessly manage their benefits and give them the tools to appropriately help them make the right healthcare decisions. In our partnership with CVS, Anthem will retain control of key pharmacy services while leveraging CVS' best-in-class operational performance, scale and retail presence. It was critical that IngenioRx be firmly in control of vital aspects of our pharmacy benefit program, such as clinical and formulary strategy and development, member and employer experiences, sales, marketing, account management and retail network strategy.

To summarize, IngenioRx will operate as an end-to-end solution for our members with distinct competitive advantages achieved by leveraging our clinical expertise, suite of well-being solutions, local market focus and deep provider relationships through an aligned incentive model focused on managing the overall cost of care. A key differentiator of our solution in the market place will be our ability to integrate medical and pharmacy services better than what is done today. The keys to our whole health approach are to integrate clinical management, cost and network management, coordinated member care, specialty Rx management and leverage our deep provider relationships. Bringing these together will help us identify costly gaps in care and aid our members in making the right healthcare decisions in the right place at the right time. We know the process to integrate medical and pharmacy works. In our current efforts, we've been able to prove that our integrated approach identifies 28% more gaps in care, closes 26% more gaps in care and guides 37% more of our members into being compliant with their medications and reducing hospital visits by 10%. Couple of these efforts would significant improve pharmaceutical pricing, and we believe IngenioRx and Anthem are well positioned for meaningful growth.

Finally, a seamless transition to our new PBM solution for our members has been a key component in our evaluation process. We'll be spending the next 2 years developing an implementation plan that is focused on mitigating any potential abrasion to our members, clients and providers during this transition. Both Anthem and CVS are committed to maximizing this unique opportunity to improve affordability for our customers and put them in a better pharmacy solution as quickly and thoughtfully as possible. We will start migrating our membership into its destination platform on 1/1/20, and we're confident that we'll be able to complete our migration by 1/1/21.

With that, I will turn the call back over to Joe.

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**Joseph R. Swedish** - Anthem, Inc. - Chairman, President & CEO

Thanks, Brian. I hope everyone can feel the level of excitement we have about this new solution. IngenioRx is the result of a thorough and thoughtful analysis of various and complex market place dynamics, and we believe it is the right solution for Anthem and our members. Through this new PBM platform, we will be able to strengthen the value we bring to our existing clients, members and providers. And we have every confidence that this solution will be able to achieve the financial objectives we've previously laid out while also giving us the opportunity to offer market-leading solutions on a national level.

With that, I'll turn the call over to the operator for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question will come from the line of Kevin Fischbeck with Bank of America.



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**Kevin Mark Fischbeck** - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Great. I just wanted to take a little bit to the \$4 billion number. I guess, if I understand it correctly, you're saying that, that's a shift on the pharmacy cost. It sounds like you're thinking of this also savings on the medical management side, wasn't sure if that was at all captured in that number. And I think the number was called the gross number. So I just want to make sure if there's any investments that needed to be made that might act an offset to that?

**John E. Gallina** - *Anthem, Inc. - CFO and EVP*

Good morning, Kevin, this is John. Thank you for the question. We just -- when we said the gross number, what we're talking about is the growth spend associated with the PBM contract. And we just like to ensure everyone is clear that the way that we calculated the \$4 billion is very consistent with how the \$3 billion number that had been part of our public commentary prior was calculated. In terms of various implementation costs and medical management cost, yes, we do believe that as we focus on the total cost to care of the member that there are additional opportunities to help drive savings through medical management area and that will be done as part of -- as we run the PBM and move things forward. So it's not that there's a significant cost to get to the \$4 billion. The \$4 billion is the contractually benefited savings that we get in this new arrangement.

**Brian T. Griffin** - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

Just to add to that, if I could. This is Brian. John, obviously, correctly identified where the savings was and, again, the intent was to really have a comparison to our previous discussions in terms of the growth savings. But I just wanted to add to it that this did not include any membership growth. So obviously, we expect that we will be able to capture significant membership growth against our core business, meaning our 14 markets and our government business as well as new name markets. So we'll be, for the first, going out and entering into the national market and competing with the other PBMs and for national accounts and local accounts as well as other health plan business.

**Operator**

Our next question will come from the line of Ralph Giacobbe with Citi.

**Ralph Giacobbe** - *Citigroup Inc, Research Division - Director*

Just going back to the \$4 billion. I think in the past you said you expect about 20% would accrue to Anthem shareholders. Is that still the case? And then just in terms of the time frame of the transition, I just want to make sure I heard it right. Did you say sort of the full transition at the end of 2021? So is that when we should expect those savings to sort of fully accrue? And then how are you -- how do get comfort that it won't slip and is there anything in the contract with CVS for recourse, if not?

**John E. Gallina** - *Anthem, Inc. - CFO and EVP*

Sure, Ralph. This is John. I will start it out and then maybe Brian can add some commentary at the end. In terms of the \$4 billion and the 20%, I do want to reinforce 20% is not linear. What we've done is we've taken our 2017 membership mix and we've taken the \$4 billion and reapplied that up and down all the PBM membership that we have. And we're very comfortable reaffirming the fact that we believe that the 20% will (inaudible) to Anthem shareholders. The other 80% will work its way into the help with the affordability of healthcare of our customer base. And in terms of the timing of the integration, the integration will begin on January 1, 2020. In terms of migrating members, both Anthem and CVS have in their best interest to get it done as fast as possible. And the commentary on the script was that we will not let it go after 1/1/21. It will be done by 1/1/21. But we will have a significant amount of it done early in 2020 and finalize it throughout 2020. And then there was a question you had on the contract terms themselves, so I'll let Brian refer to them.



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**Brian T. Griffin** - Anthem, Inc. - EVP and President of Commercial & Specialty Business Division

Yes, so as with any other large-scale PBM contract, there are certainly commitments that CVS has made, that we've made candidly around the implementation and time line as well as ongoing operations. We feel really good about having selected CVS as a partner because of their kind of industrial strength operational platform. So we feel very good about that. But yes, we have made commitments to each other in terms of the implementation. And as John indicated that we expect to be completely done with the transition within the first year and, obviously, to the degree that we can accelerate the implementation, we'll do so.

**Joseph R. Swedish** - Anthem, Inc. - Chairman, President & CEO

This is Joe. Good morning, everyone. I just want to offer a little color commentary to what John and Brian just shared with you. I think it's important that I call out that we've been sharing, giving you a lot of insights over the last couple of years about the process with respect to putting an RFP to the marketplace then the analytics associated with receipt of those RFPs. I can tell you that the end stage of all this process ended up in a contract with contract terms that are completely 100% aligned with our expectations, what we've been trying to achieve throughout this process of building a new PBM platform. And I can kind of provide you absolute clarity and certainty that we feel very good about the end stage of this analytical negotiating process that we believe does create a market-leading, very competitive and, ultimately, very successful PBM outcome for both our members as well as, I'll underscore, our shareholders. I can tell you that we never deviated from the objectives we've laid out for you, and I'm very proud of the fact that in the main, we've accomplished all of our objectives and all the ones that we've shared with you throughout this process. I know Brian is there more to share regarding the contract. But in the main, I think what we've ended up with is something that is, I think, remarkably successful and beneficial to the marketplace. Brian?

**Brian T. Griffin** - Anthem, Inc. - EVP and President of Commercial & Specialty Business Division

Yes. I know, Joe, I'd say you captured it. Like you, I'm proud of what the team has put together here. And I do believe that we're completely aligned with CVS. And importantly, we've got significant market-leading pricing that will put us in the position to again grow within our core business as well as beyond that. So I'm obviously very excited about that. But we have the financial and operational commitments from our new partner, CVS, that really puts us in a best-in-class contract and ability to compete.

**Operator**

Next we will go to the line of David Windley with Jefferies.

**David Howard Windley** - Jefferies LLC, Research Division - Equity Analyst

I wondered, in the more distant past, management had talked about options of perhaps even building a PBM internally and had put some cost around that. You're obviously not doing exactly that with this contract. But you are -- Ingenio will assume a lot of the functions of the overall PBM activity. I'm wondering what of those functions are in place today? And what still needs to be built in kind of -- to maybe Kevin's earlier question, what is the cost of building out those functions?

**Joseph R. Swedish** - Anthem, Inc. - Chairman, President & CEO

Maybe I can kick it off and Brian will probably pick that up at the end of some of my comments. First, let me underscore what we have said, and that is that we always were targeting 3 opportunities: one, self-performed wholly; secondly, secure a vendor contract that would have the so-called vendor take over the totality of the PBM operation or some hybrid. I think it's accurate to say that this is maybe a hybrid model. But more importantly, I think the contract has created a relationship with CVS that allows the 2 parties to perform what they do best. And I think it's -- we can really slice it into many, many components. For instance, our focus will be on clinical strategies, formulary management. The member experience is something we're very close to and I know that as -- with CVS as a partner, we'll be equally focused on the customer experience to make it so-called best-in-class.



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CVS, obviously, is going to focus very heavily on claims processing, fulfillment, et cetera. And given that they are, we believe, best-in-class in that arena, they're going to perform at a level that doesn't necessitate us to do that. So again, by way of contract as well as partnership, we will definitely equally perform with respect to our fields of expertise. So I think the connectedness between the 2 companies really brings out the value that we've always targeted. And you can call it a hybrid model, but quite frankly, at this stage, given the contract terms, this is truly a partnership between 2 great companies. Brian?

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**Brian T. Griffin** - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

Yes. Thanks, Joe. And I'd just add to Joe's comments. I think so what's different is I think -- kind of the fundamental question was what's different with respect to Anthem's new approach in terms of the PBM. Obviously, we're very excited about the fact that we're launching our PBM. What's really critical about it and what makes it different is that, obviously, to Joe's point, we leveraged the competitive market-leading pricing that we have on our agreement with CVS, which is supported by substantial operational and other financial commitments in the agreement. And basically the bottom line is that guarantees that we'll be in the position to have really market-leading performance. And most important, we'll have the flexibility within the agreement to meet the diverse needs of our clients. I think substantially what's different, increased control over key functions within the agreement. So our ability to, for example, create new networks to meet the demands of our business units and our clients within that, a full control of our clinical and formulary strategy and execution. Those are very different and I think will put us in the position out of a significant market competitive advantage. And in terms of the integrated model, I think as I (inaudible) with our major clients are Fortune 500 clients in particular, and the consultants within that area, they're focused on the incremental value that can be created with an integrated value proposition when we're managing medical and pharmacy. And I think that, that will be Ingenio's competitive advantage in the market. So we're very excited about that.

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**John E. Gallina** - *Anthem, Inc. - CFO and EVP*

And Dave, this is John. Just to finalize the answer to your last question associated with costs. We have a lot of capabilities to do these things today. And our new contract, obviously, allows us to do more. In terms of the use of capital and building out of PBM, we decided a long time ago and I think we have been very clear, we don't think that building the bricks and mortar of a mail-order facility is a proper use of capital at this point in time. And we really weighed this entire arrangement associated with what the right use of capital is for the shareholders. And then as we look at the cost structure of having the capabilities, we can certainly make tweaks and we will make tweaks to ensure that we have best-in-class capabilities in 2020 and 2021 and beyond. But it's not going to significantly impact the guidance that we're going to provide from our financials perspective. So we feel pretty good about where we're -- our starting point at this time.

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**Operator**

Next, we'll go to the line of Anagha Gupte with Leerink Partners.

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**Anagha A. Gupte** - *Leerink Partners LLC, Research Division - MD, Healthcare Services and Senior Research Analyst*

My questions have been, again, just a follow-up. Will the entire \$4 billion or the 20% of that be realized in 2021? Or is there kind of a pace of that happening? And then related to that, what is likely to happen to the Aetna, most favored nation clause and have you all negotiated anything as you bring your combined strength and scale on rebating not just with the CVS script volume but your local market strength and prowess.

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**John E. Gallina** - *Anthem, Inc. - CFO and EVP*

Yes, Ana. I'll answer the easy question first and then let Brian discuss the harder of the 2 questions. In terms of the \$4 billion and 20% commentary, we believe that's a run rate number that will start in 2021. So obviously, based on the timing of the transition in 2020, there would be less than 100% of that for how long it takes us to get all of our customer base migrated into the new system. But since we will have the entire customer base migrated by January 1, 2021, then 2021 is a run rate for that. And in terms of the contract terms, we can't go into a lot of detail on contract terms,



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and certainly, we're not going to specify or speculate on other entities and other companies. But I'll let Brian talk a little bit about just the good contract that we do have.

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**Brian T. Griffin** - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

Good morning, Ana. Great to be sharing this with you. So I mean to John's point, naturally we can't get into the specifics of the agreement and certainly can't really comment on CVS' relationship with Aetna. But what we can share with you is that we have every confidence. And as you know, I've been kind of in this industry for 30 years and have negotiated hundreds of these agreements, and I'd say that I'm completely confident. We have the best-in-class agreement overall that brings with it a market-leading pricing and operational performance that puts us in a competitive position. So I'm obviously excited about that. But really key for us, as we launch this new PBM, is the idea that we will be able to leverage those things that CVS brings to the table in terms of market-leading pricing. But when you combine that with what we do as a health plan in terms of our health plan expertise around member and provider engagement, our integrated approach -- our holistic integrated approach to managing total healthcare costs will absolutely drive better outcomes. So I think that's really what I believe is going to resonate in the market with the consultant community with our large clients. So that's I think what it's going to be different about our go-to-market strategy and what's resonating in the market today.

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**Operator**

Next, we'll go to the line of Justin Lake with Wolfe Research.

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**Justin Lake** - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

First, just to make sure I understood a follow-up here is the -- I think a bunch of people have tried to get a specific expected dollar spending for '19 and '20 to stand up this PBM and migrate the business. Do you guys have a number there that you can share with us so it just kind of help us understand how to model that? And then on the 20% savings, is that simply the margin improvement that comes from this deal? I mean the margin -- the \$4 billion of portion that falls to the bottom line? And/or is that a combination of margin benefit and expected top line benefit from having more competitive rates in the market post this deal?

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**John E. Gallina** - *Anthem, Inc. - CFO and EVP*

Justin, John. A couple of good questions. Hopefully, I can provide some clarity on the 2019, 2020 cost structure associated with that. There's going to be a shared accountability for cost between us and CVS associated with getting this done, getting it done appropriately, ensuring there's minimal member disruption along the way. And that we remain confident that our transition cost will not materially hinder or impact to achieve our long-term EPS growth commitments. So the amount that will be our liability associated with the implementation cost, we don't expect to be material over a couple of year period of time. We will obviously be transparent with you as the integration plan has developed and finalized, and we go through it and if there's a change, we'll make sure everybody knows about it. But right now, based on the shared responsibility we have with CVS associated with the transition, we're not expecting a material impact. And then associated with the \$4 billion and the 20% numbers that we talked about those are based on 2017 membership and 2017 membership mix. And the ability to garner those gross savings and then have the amount hit the bottom line for Anthem shareholders. So any incremental growth opportunities that we have, whether it's same-store growth, depending on our existing lines of business or even if it's diversified growth that Brian talked about being a national player, all of that is upside to the \$4 billion and 20%.

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**Operator**

Next, we'll go to the line of Peter Costa with Wells Fargo Securities.



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**Peter Heinz Costa** - Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst

I think you have answered or given us much information as you're going on the shorter-term stuff, so I'm going to ask you a couple of questions on the longer term essentially. Can you tell us what you expect from external customers for your PBM win. Is it more corporate accounts, is it Blue Cross and Blue Shield plans? What are you going to be targeting for external customers? And then do you have any price checks in this contract that have some teeth this time?

**Brian T. Griffin** - Anthem, Inc. - EVP and President of Commercial & Specialty Business Division

Yes, this is Brian. Just relative to last piece, again, we're not going to comment on any of the specific contract terms. Again, I have absolute confidence that over the term of the agreement that we are going to have competitive market pricing. And the first part of your question in terms of what are the likely targets? We are absolutely be going out to the market, again competing with the free-standing PBMs for Fortune 500 business, large local business and our 14 markets. We will go to market and sell overall services as well as component services to other health plans, including Blue Cross and Blue Shield plans. So we'll be out in the corporate account and health plan market place.

**Joseph R. Swedish** - Anthem, Inc. - Chairman, President & CEO

Let me add in here. Very simplistically stated, we had a lot of success factors that we detailed out with respect to the selection that we're ultimately going to make. And I can underscore specifically in response to your question is the growth opportunity that would come to us because of the new contract. We did consider that to be a key driver with respect our success. And I can assure you that some of the points you just made in terms of targets, some of the points that Brian just made, it's all about growth. And we do believe that this does give us a very significant runway in terms of improving our growth trajectory.

**Operator**

And next, we'll go to the line of Zach Sopcak with Morgan Stanley.

**Zachary William Sopcak** - Morgan Stanley, Research Division - VP on the Healthcare Services and Distribution Team

I just wanted to ask a question regarded the contract and is there any competitive boundaries around customers, particularly any current Anthem customers to carve out and use CVS Caremark as their PBM?

**Brian T. Griffin** - Anthem, Inc. - EVP and President of Commercial & Specialty Business Division

So again, yes, we really can't comment on the specific terms of the agreement. But suffice to say that, obviously, with us launching IngenioRx and with the support that we get from CVS, we are going to be approaching our Anthem market as a partnership. So without again reviewing any of the specific terms of the agreement, I'm confident that we've got a partner that is going to go to market with us and win together.

**Operator**

Next, we'll go to the line of Frank Morgan with RBC Capital Markets.

**Frank George Morgan** - RBC Capital Markets, LLC, Research Division - MD of Healthcare Services Equity Research

I think early on you mentioned some of the benefits of this new relationship was more flexibility with network design. So I guess -- could you elaborate any additional color on that notion? And then specifically, would you perhaps have a preferred retail network arrangement with CVS as a result of this arrangement? And then my second question is just does this in any way affect a litigation ongoing between you and Express Scripts?



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**Joseph R. Swedish** - Anthem, Inc. - Chairman, President & CEO

Maybe I will just jump in first on the last point and that is the litigation is still in force, continuing and really has little tied to this contract announcement. So that process does continue and I will leave it at that. Brian?

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**Brian T. Griffin** - Anthem, Inc. - EVP and President of Commercial & Specialty Business Division

Yes. Thanks, Joe. And just with respect to the networks, really the reference that I was making earlier is that from our perspective, we need to have the absolute ability to meet the needs of our customers, whether they're Fortune 500 clients or local accounts within our 14 markets. We need to be able to develop network solutions that will compete in the market. And under this new agreement with CVS, we've got that flexibility and we've got their commitment to working with us to meet those needs. So that's really important in terms of our go-to-market approach. The idea that we'll be in the position to meet the needs of each one of our business units, whether it's the commercial business or the government business, Fortune 500 accounts or local accounts, we'll be in a position to customize as necessary to meet our customers' needs.

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**Operator**

Next, we'll go to the line of Steve Halper with Cantor Fitzgerald.

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**Steven Paul Halper** - Cantor Fitzgerald & Co., Research Division - Analyst

What's the role of MinuteClinic in the relationship?

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**Brian T. Griffin** - Anthem, Inc. - EVP and President of Commercial & Specialty Business Division

This is Brian. We're excited about particularly some of CVS' point-of-sale engagement capabilities. So again from my perspective, looking at this as a value proposition that is an integrated, holistic value proposition, CVS has some assets here that we're really very excited about. So they've got the ability to, as you undoubtedly know, from MinuteClinic to serve our members through the clinic. But importantly, in terms of our integrated approach and having an integrated member experience, we have the ability through the relationship with CVS to message at the point-of-sale. So to the degree that we develop, for example, a gaps in care program, that's something that we'll be able to execute all the way through to the retail setting via CVS' member messaging platform. So we're looking forward to taking advantage of those additional assets that CVS brings to the table. And we think that, that really supports our integrated value proposition and our focus on total health care costs.

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**John E. Gallina** - Anthem, Inc. - CFO and EVP

In terms of total healthcare costs, certainly our network strategy revolves around the members getting the right care in a right setting at the appropriate price point and to the extent that MinuteClinic can be part of that, that's wonderful.

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**Operator**

Next, we'll go to the line of Michael Baker with Raymond James.

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**Michael John Baker** - *Raymond James & Associates, Inc., Research Division - Health Care Services Analyst*

Just a point of clarification in terms of who's going to handle rebate contracting. And then on the specialty side, I know you guys were kind of suggesting that you do a private-label approach. Are you going to take -- are you going to, in essence, build facilities or just leverage what they already have?

**Brian T. Griffin** - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

Yes, great question. I'll start and others can add to it. What we're excited about, again, is the integrated seamless member experience that we've built in the agreement with CVS. So we're basically going to have an Anthem private-labeled service model for everything within that touches our members outside of the retail stores. Naturally, we're not going to private label as it relates to CVS stores as an example. But everything else in the member experience will be private labeled to Anthem and IngenioRx. So with respect to our local health plan markets and our government business, the member experience will reflect that local market. So for example, Empire Blue Cross and Blue Shield to the degree that we're out in the market with a freestanding pharmacy offering, again competing with the other PBMs that will reflect IngenioRx. So it will be a seamless member experience all the way through. And that goes from the relationship that we've got with the member communications, a multichannel web and digital approach that will reflect the Anthem and IngenioRx brands all the way through to the pill bottles that our members will receive from the CVS mail-order facilities. So it will be CVS dispensing our mail-order prescriptions but everything will be branded to either Anthem or IngenioRx.

**Operator**

Next, we'll go to the line of Gary Taylor with JP Morgan.

**Gary Paul Taylor** - *JP Morgan Chase & Co, Research Division - Analyst*

I just had 2 questions. I think you've answered this, so I'm just going to add one more point of clarity. So in a vacuum, \$4 billion times 20%, that's \$800 million, it's almost \$2 a share of EPS. In a vacuum, you would have us raising our 2021 earnings model by roughly \$2 a share, is that correct?

**John E. Gallina** - *Anthem, Inc. - CFO and EVP*

Yes, Gary. This is John. That is correct. Obviously, the 2021 is the first year of run rate, so I agree with your math.

**Operator**

Next, we'll go to the line of Anagha Gupte with Leerink Partners.

**Anagha A. Gupte** - *Leerink Partners LLC, Research Division - MD, Healthcare Services and Senior Research Analyst*

Yes, sorry, just had another follow-up. Is there anything additional to the \$4 billion in savings from preferred retail networks, like if you have a preferred CVS and remove Walgreens? And secondly, it's just related to that if there were to be an Amazon entry in mail-order, does that preclude you from doing something just because CVS, I would imagine, focus more on retail sale?

**John E. Gallina** - *Anthem, Inc. - CFO and EVP*

Yes. So I'll start with the \$4 billion. Again, the \$4 billion is being calculated extremely consistently without the prior \$3 billion number that was our public commentary was calculated. And so it's really -- it's apples-to-apples based on the pricing associated with the assumed drug spend in 2020. It's not -- there is no formulary changes in there, [or networks] or things like that, that are part of it. So it's purely based on pricing. Brian, do you want to comment on the other question on the Amazon?



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**Brian T. Griffin** - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

Yes, so I mean just to add a little bit more color to John's response, I think, to the degree that we deploy additional strategies into the future around formulary and network consistent with my previous comments around the ability to have flexible networks to meet our customers' needs, that would represent upside. So obviously, you can expect that the IngenioRx team is going to be very focused on driving our overall performance into the future. But importantly, to John's point, this was -- the \$4 billion represents an apples-to-apples comparison that's consistent with everything that we've shared previously. Relative to Amazon and what that opportunity might mean in the market, we have every opportunity to pursue any business relationship in the future. And we believe that our relationship with CVS will put us in the position to compete and win given, obviously, the financial and operational commitments that they made in the agreement as well as just their willingness to partner with us to grow our respective businesses.

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**Operator**

Next, we'll go to the line of Steve Willoughby with Cleveland Research.

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**Stephen Barr Willoughby** - *Cleveland Research Company - Senior Research Analyst*

Just following upon another question. I was wondering if you can provide any more color on the rebate contracting and also on the specialty side as well on who's handling what there?

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**Brian T. Griffin** - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

So with respect to the formulary, as we've indicated, we as Anthem and now IngenioRx, are going to be in complete control of our formulary. We have multiple formularies again that meet our various business unit and client needs. And that will continue into the future. So we're excited about being in the position of just having complete control over the formulary and the negotiation around formulary rebates. In terms of the agreement, we will have CVS as our partner in realizing those formulary rebates and we think that there is significant advantage that our collective volume brings to the table so to speak with respect to our negotiations with Pharma. It's clear that Pharma understands the level of control that we bring as a Blue Cross and Blue Shield plan to formulary, our ability to impact our provider relationships through value-based contracting with our providers to really drive formulary outcomes. So I'm excited about the opportunity to work with CVS on this to drive incremental value.

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**Operator**

Next, we'll go to the line of Gary Taylor with JP Morgan.

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**Gary Paul Taylor** - *JP Morgan Chase & Co, Research Division - Analyst*

(inaudible)

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**Joseph R. Swedish** - *Anthem, Inc. - Chairman, President & CEO*

Gary, we're having trouble hearing you.

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**Brian T. Griffin** - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

Yes.



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**Operator**

Gary, your line is open but we can't hear you.

**Gary Paul Taylor** - *JP Morgan Chase & Co, Research Division - Analyst*

Can you hear me?

**Joseph R. Swedish** - *Anthem, Inc. - Chairman, President & CEO*

Yes. Gary you kind of -- go ahead.

**Gary Paul Taylor** - *JP Morgan Chase & Co, Research Division - Analyst*

Just want to quickly ask about specialty drug fulfillment that would continue to run through CVS and no long-term changes contemplated there.

**Brian T. Griffin** - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

Yes. So the CVS will manage the specialty and mail-service fulfillment. Again, we'll control plan design, all of those critical things in terms of our customer expectations but they will be doing the fulfillment on that.

**Operator**

Next, we'll go to the line of Christian Rigg with Deutsche Bank.

**Christian Douglas Rigg** - *Deutsche Bank AG, Research Division - Research Analyst*

Just wanted to make sure I understood how this will work practically with regard to the plan designs. So won't member receive benefits in 2020 with regard to their pharmacy costs? Or does it not really take effect until 2021 with regard to plan designs?

**Brian T. Griffin** - *Anthem, Inc. - EVP and President of Commercial & Specialty Business Division*

No, the members will realize value immediately on our transition to CVS, which obviously will begin 1/1/20. So they'll see immediate value.

**John E. Gallina** - *Anthem, Inc. - CFO and EVP*

The other aspect to that I don't want anyone to not focus on is that every new member that we sign up starting in January 1, '20 and thereafter is on this new contract. So our membership growth that we get in 2020 and beyond is all part of the new contract, and they get the value of it instantaneously. There is not transition, there is no migration with the new membership.

**Joseph R. Swedish** - *Anthem, Inc. - Chairman, President & CEO*

And also let me add here regarding commentary around transition. Obviously, we're not able to give a lot of specificity now with respect to the momentum. That will come about as a result of the transition, planning and then execution. But to John's point about transparency, I can assure you that between now and 12/31/19, we will be bringing more information to you regarding transition to speed that will occur, what that might

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mean in terms of benefit capture for the company and our shareholders. All of that will become known over the next many months leading up to 1/1/20. So a lot of work to be done. Can't answer a lot of questions now with respect to timing and approach and the ultimate result that will occur. But again, I can assure you that we will be bringing that information to you as we progress to the execution of this arrangement on 1/1/20. So more to be said about transition.

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### Operator

Our last question comes from the line of Justin Lake with Wolfe Research.

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### Justin Lake - Wolfe Research, LLC - MD & Senior Healthcare Services Analyst

Just wanted to ask from a longer-term partnership perspective. Has CVS given you any indication or made any commitments around any significant broadening of the clinic strategy into more of their pharmacies or being able to in 2020, 2022 whenever, deliver more types of services maybe lab testing, et cetera, so that there is more value potential to the contract on the medical cost side down the road?

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### Brian T. Griffin - Anthem, Inc. - EVP and President of Commercial & Specialty Business Division

So this is Brian. We haven't gotten into an expansion of the existing MinuteClinic capabilities at this juncture. And yes, to Joe's point, as we literally as of tomorrow get into the deep implementation planning process I'm sure that we're going to be working to identify any potential expansion areas within the clinic. To John's earlier point, our commitment to our consumers is that we identify the lowest-cost opportunity for them to drive savings for them and to the degree that they have additional capabilities that they offer through the clinic that we can leverage, naturally we would be in the position to do so. So more to come on that as, again, as we get into the implementation process. But just I'll finish by saying that we're excited about leveraging the existing capabilities that they have in the retail pharmacy setting to complete our integrated holistic approach, which, again, is focused on total healthcare management.

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### John E. Gallina - Anthem, Inc. - CFO and EVP

Justin, we have a robust data and analytics platform that we use. And we're really focused on getting the member touch points at the proper place and utilizing CVS and MinuteClinic as part of a cost-effective and convenient network. As I said, that would be an upside but it's going to be based on the data analytics that we have in getting the proper care in the proper setting at the most appropriate price point.

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### Operator

Okay. I'll now turn the conference back over for the company's closing comments.

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### Joseph R. Swedish - Anthem, Inc. - Chairman, President & CEO

Great. Thank you, operator. Thank you all for your questions, being with us today and take part in this conversation regarding our announcement. As a company, we are committed to building IngenioRx into truly best-in-class PBM and we believe that, that build-out will enhance the member experience while offering customers lower costs and reducing complexity. We're focused on developing an implementation plan that ensures a seamless transition for our members on to this new platform.

In summary, let me add that we do believe we've successfully achieved success through success based on our objectives. And they are: optimizing control to better serve our customers, ensuring operational excellence, lowering the cost of healthcare, and finally, unlocking growth opportunities for the company. Let me underscore here complements and congratulations to our team led by Brian for this 2-year effort to come to the conclusion that we've announced today. It's really a remarkable achievement with respect to many people who contributed to this success. I also want to



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thank our new partners at CVS for their commitment to helping Anthem drive a truly differentiated solution in the marketplace. And we do look forward to a bright and successful future with our new partner. Thank you for your interest in Anthem, and we look forward to speaking with you at our third quarter earnings call on October 25.

### Operator

Ladies and gentlemen, this conference will be available for replay after 11:00 a.m. Eastern today through November 1 at midnight. You may access the replay system at any time by dialing 1 (800) 475-6701 and entering the access code 431382. International participants may dial 1 (320) 365-3844 and enter the access code 431382. That does conclude our conference for today. Thank you for your participation. You may now disconnect.

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