

NATIONAL PRESS CLUB LUNCHEON WITH LARRY J. MERLO

SUBJECT: CVS HEALTH PRESIDENT AND CEO LARRY J. MERLO WILL DISCUSS CORPORATE AMERICA'S ROLE IN REDUCING CHRONIC ILLNESS AND DELIVERING BETTER HEALTH OUTCOMES FOR CONSUMERS

MODERATOR: JOHN HUGHES, VICE-PRESIDENT, NATIONAL PRESS CLUB

LOCATION: NATIONAL PRESS CLUB BALLROOM, WASHINGTON, D.C.

TIME: 12:30 P.M. EDT

DATE: FRIDAY, SEPTEMBER 19, 2014

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**JOHN HUGHES:** (Sounds gavel.) Good afternoon, and welcome. My name is John Hughes. I'm an editor for Bloomberg First Word. That's our breaking news desk here in Washington. And I'm Vice-President of the National Press Club. The National Press Club is the world's leading professional organization for journalists who committed to programs such as this. And we foster a free press worldwide. For more information about the Club, visit our website at [www.press.org](http://www.press.org).

On behalf of our members worldwide, I'd like to welcome our speaker and all of you attending today's lunch. Our head table include guests of our speaker, as well as working journalists who are club members. Now, if you hear applause it may be from members of the general public who attend our lunches. It's not necessarily evidence of a lack of journalistic objectivity.

I'd like to welcome our C-SPAN and Public Radio audiences. You can follow the action on Twitter using the hashtag #NPCLunch. After our guest's speech, we'll have a question and answer period. I will ask as many as time permits.

Now, it is time to introduce the head table. I'd ask each person to stand briefly as their names are announced. And please hold your applause until everyone has been introduced.

From your right, Alison Fitzgerald, Senior Reporter at the Center for Public Integrity and a Press Club Board member. Peter Irvin, a reporter for Stevens Washington Bureau. Jennifer Shoenberger, Producer and Assignment Editor at Fox Business. Dina Merrin, Editor at Scientific American. Matthew Perone, health reporter for Associated Press. David Polumbi, a guest of our speaker and CVS Health's Chief Communications Officer. Jerry Zremski of the Buffalo News and Chairman of the Press Club Speakers Committee.

Skipping over our speaker for a moment, John Welsh, account supervisor at Edelman, and a Speakers Committee member who helped organize today's lunch. Thank you, John. Tom Moriarti, a guest of our speaker and CVS Health's Chief Health Strategy Officer and general counsel. Virgil Dixon, reporter at Modern Healthcare. Mark Heller, reporter at Bloomberg BNA. And Terrance Shea, former editor at HR Magazine. A round of applause for our head table guests.

[applause]

Here are two things you can count on. There's no smoking at the National Press Club [laughter]. And now-- [applause]-- And now, you can't buy smokes at CVS. [applause] The second largest retail pharmacy chain voluntarily gave up about two billion dollars in annual sales when it announced, this year, it would stop selling tobacco products. The company viewed cigarette sales as contradicting its plans to expand its healthcare business.

For instance, CVS plans to expand in-store Minute Clinics from 900 to 1,500 by 2017. CVS recently changed its name to CVS Health to reflect this shift in direction. The stock market seems to have reacted favorably to the changes. The price of CVS shares fell slightly the day the company announced it was going tobacco-free. And I saw the shares were down a little bit yesterday. But this week, shares were trading at their highest level this year.

The man in charge of all these changes is our speaker today, the company's CEO, Larry Merlo. The first person in his family to attend college, Merlo graduated from the Pharmacy School at the University of Pittsburgh in 1978. And he took a job as an assistant manager and pharmacist at a People's Drugstore. By 1990, he was a regional manager for the chain. And that's when it was acquired by CVS.

Much of Merlo's career has focused on driving sales, profits, acquisitions, and job growth. But he has long held that CVS would be an important part of the solution to repairing a bogged down healthcare system. Mr. Merlo joins us today to discuss the role of corporate America in improving health outcomes for consumers.

Ladies and gentlemen, please join me in giving a warm Press Club welcome to Larry Merlo.

[applause]

LARRY MERLO: Well thank you, John, for that warm welcome. And good afternoon, everyone. Today, I'll focus my remarks on the transformative changes taking place in our healthcare system, and the impact that that's having on consumers, employers, healthcare providers, certainly our government. I'll also describe some of the solutions that we're bringing forward to address what many have referred to as this cost quality access conundrum that healthcare is facing today. And then I'll share more about how CVS Health is evolving as an integrated healthcare company, and how that led to our decision to stop the sale of tobacco products.

Now I think everyone is familiar with the CVS brand. But let me share a little bit of our history. Because last year, we actually celebrated a significant milestone. It was our 50<sup>th</sup> anniversary. And you know, we've come a long way since that very first store opened up in Lowell, Massachusetts, back in 1963. And you know, all along the way, we have worked hard to stay true to our focus on the customer, working to create value, and constantly innovated-- be innovating to meet customers' needs.

Now I'm sure you know us best through our CVS Pharmacy Stores. We have more than 7,700 locations all across the country. We actually serve about five million customers each and every day. However, we are much more than a retail pharmacy business. We provide prescription benefit coverage to nearly 65 million people across the country, ranging from large and small employers, healthcare, and government-sponsored care when you think about both Medicare and Medicaid.

We also operate more than 900 retail medical clinics. They're branded as Minute Clinic. And our nurse practitioners, to date, have now treated more than 21 million patients. And then finally, specialty pharmacy, it's one of the fastest growing areas in healthcare. And we offer Coram, which is a leading national provider of infusion services. We actually treat more than 20,000 patients a month. We treat them at home or at one of our ambulatory infusion sites.

And for those specialty patients who are managing oftentimes multiple and complex disease, we offer Accordant Case Management Services. We have 17 specialized programs that focus on whole patient care.

So, when you think about all those businesses, it's really this unique combination of assets working together as a single integrated model that allows us to create real value for our patients, our customers, and our clients, all across the country.

Now I'm sure many of you in this room have seen work for companies that, you know, they have their mission. They have their vision. At CVS Health we call it our purpose. And that purpose is simply, we work hard to help people on their path to better health. And all across the organization, it serves as our guidepost as we think about business decisions and focus on healthcare innovation. And I'll come back to that in just a bit.

So with that as a backdrop, I wanted to spend just a few minutes looking at, you know, some of the dramatic changes in the healthcare environment and what that really means for employers, community leaders, and importantly, healthcare consumers. So why don't we start with the current healthcare environment, because it's clear that, you know, the system today is pretty stressed.

According to the Independent Office of the Actuary at CMS, the Centers for Medicaid and Medicare Services, the health share of gross domestic product will increase from 17.2 percent in 2012 to more than 19 percent by 2023. And while this is slower than the growth experienced over the last two decades, health spending is still growing faster than average economic growth.

The real world translation to those numbers is the fact that it becomes more challenging for people to quickly access quality care through the traditional care channels. If you ask the question, "How did we get there?" If you look back over the past 15 years, I think it shows us that healthcare coverage has been dominated by employer funded insurance. And, while employers and insurers and healthcare companies have worked hard to bring innovation to the market, in terms of improving the quality of care, we also know that millions of Americans remain uninsured, and often without needed medications.

At the same time, there's tremendous growth in Medicare. It's driven, in large part, by what we like to call the Silver Tsunami. The fact that there are 10,000 Baby Boomers who become eligible for Medicare every day. Now this means over 16 million new people becoming Medicare eligible by 2019. And it also means we're facing a long-term increase in the demand for services and the use of medications.

Another challenge is the increasing prevalence of chronic disease. Does it surprise you to know that half of all Americans today suffer from one or more chronic diseases? And this is expected to continue to rise for the next 20 years. Chronic disease today accounts for nearly three out of every four dollars being spent on healthcare. At the same time, the number of people who don't take prescription medications as prescribed, we're calling it an epidemic. There are many studies out there that talk about the fact that medication non-adherence is costing our healthcare system about \$300 billion dollars a year in avoidable and unnecessary costs.

So I think you can see, there are a lot of factors that are contributing to healthcare spending. And there is no question that we must, and can do more to slow the growth of healthcare costs.

Now, I think we can all agree the healthcare system is also evolving. You know, first there's the Affordable Care Act. And when the law is fully implemented, we'll see more than 30 million newly insured Americans with coverage provided by employers, by new insurance marketplaces, by Medicaid or other programs. And health plans, as well as the government, will play a growing and important role.

At the same time, with the major thrust of the Affordable Care Act focused on access, payers and providers are also beginning to innovate to solve for this quality and cost dilemma. You know, health plans are piloting new outcomes-based payment models. Physicians, they've traditionally operated in a fee-for-service environment, where they're compensated for volume, not outcomes. This is beginning to change as they now take on more risk through participation in accountable care organizations and patient-centered medical homes. And, as a result, they're now incented to focus on quality improvement and cost efficiency. At the same time, pharmacy is an important part of that equation. And CVS Health is playing an important healthcare role as a healthcare partner to physicians and physician practices.

Another important trend, we call it this retailization of healthcare. You know, consumers are more informed. And they're beginning to play an increasingly active role in healthcare decisions. Now you look at the growth of private exchanges, the emergence of public exchanges, you know, they're putting the decision for plan choice directly into the hands of the consumer. At the same time, there's growth in consumer directed health plans that is also driving consumers to be more involved and take more fiscal responsibility for their healthcare choices and costs.

And then finally, there's this transition to a digital society. We're all experiencing it. It's transformed how we live, how businesses behave, how consumers, you know, act within their day to day lives. And, although this transition has been slower in healthcare, significant and lasting change is underway.

And I think the reality is that this kind of innovation, it's not option. In fact, there are many that believe that the healthcare industry will change more in the next ten years than it has in the past 50. Healthcare will be purchased. It will be delivered. And it will be managed very differently going forward.

Now I'm convinced that one very important avenue to improve quality, cost and access is rooted in pharmacy care. And it's reflected in many of the things that we're doing at CVS Health to drive solutions. Now if you look back in history, traditionally people have thought about pharmacies as pill dispensaries. But you know, we know the pharmacy is much more than that. Pharmacy is extending the frontlines of healthcare to deliver better outcomes more affordably to the people that we serve.

And CVS Health is driving many innovative approaches to reinventing pharmacy, with the ultimate goal to, once again, help more people on their path to better health. And the ways that we're going to do this look very different from how we've served customers in the past. And let me talk about a few of those.

I think one of the greatest assets that we have to drive innovation, it lives in our people. You know, pharmacists are in a very unique position to help. They're highly trusted resources for patients. For many years, now, the annual Gallup Poll has consistently ranked pharmacists among the top three most trusted professionals. Pharmacists today help with a broad range of counseling and interventions. And one of

the biggest opportunities we can address is that issue that I mentioned earlier, patients not taking their medications as prescribed.

Now, if you go back to the statement I made earlier, that about half of all Americans suffer from chronic disease, and most chronic diseases are treated with some type of drug therapy, and this is where the statistics start getting alarming. Because one out of three patients who start a maintenance prescription will decide to discontinue treatment before their first refill is even due. Less than one half of patients take their doses as prescribed by their physician. And three out of four people will stop taking medication within the first year of beginning therapy for a newly diagnosed disease.

Now I mentioned earlier the studies quantifying medication non-adherence, in as much as \$300 billion dollars a year in avoidable and unnecessary costs. So obviously solving this medication adherence epidemic, it presents a huge opportunity to both improve health, and at the same time, lower costs.

We have a solution. We call it Pharmacy Advisor. And it's a portfolio of programs to help people manage chronic disease. It connects patients with pharmacists who help them stay on their prescribed medications, prevent complications. And these touch points can range from phone counseling and email reminders to in-store counseling, and actually home consultation for some of the more complex cases.

Research is showing that it's working. And we looked at interventions for people with diabetes. And the fact that they were very effective at not just increasing adherence, but providing a return on investment. For every dollar spent, there was an ROI of three dollars. And today, Pharmacy Advisor is available for 10 diseases, ranging from diabetes and cardiac care to asthma and osteoporosis.

We developed another program that we call Specialty Connect. It offers patients choice and flexibility in how they access their specialty medications. And you know, if you're wondering, well, exactly what is a specialty med, these are prescription therapies for, you know, very complex conditions, like hepatitis C or MS, rheumatoid arthritis, cancer. And in addition to being very costly, oftentimes the drug requires special handling and storage requirements.

And Specialty Connect offers the patient the option of getting prescriptions by mail or through a new option to drop off and pick up their specialty prescriptions at any CVS Pharmacy. And this increased flexibility and access, it makes it easier for people to get on and stay on their therapy.

Minute Clinic is another innovation helping us to address access to care issues that's being created by this influx of newly insured, and at the same time, a growing shortage of primary care physicians. Minute Clinic is continuing to expand its footprint. As John mentioned earlier, we plan to have 1,500 clinics by 2017.

And today, Minute Clinic provides convenient, affordable, high quality care for both acute needs, as well as chronic and wellness needs, whether it's vaccinations, screenings, weight loss programs, chronic disease monitoring. Minute Clinic is staffed by highly trusted family nurse practitioners who are fully accredited by the Joint Commission. We accept nearly every insurance plan, including government programs. We're open seven days a week, including evenings and holidays. And we see patients on a walk-in basis. No appointments required. And you might find it interesting to know that about 50 percent of all of our visits actually occur during the evening hours and on weekends.

Now we believe Minute Clinic is both replacing the use of higher cost sites, such as emergency rooms, as well as addressing unmet needs for access to primary care. And both of those activities will help to hold down the overall cost of care. At the same time, I want to be clear on one very, very important point. We do not advocate for, or believe that the family physician is going away, or should go away. We see our Minute Clinic offering as both complementary and collaborative, with primary care medical homes, and helpful to our healthcare system overall.

And then finally, there's our focus on digital innovation. We're using connected health tools, customers with both retail and mail prescriptions can have an integrated view of their medications. And the ability to easily refill or even transfer them between the retail and mail channels.

We've added features to our mobile app, like you can scan your refill. You can check drug interactions, giving customers on the go easy access to important prescription information. And, in the next few months, we'll be adding additional tools, like a virtual pillbox and daily reminders to help patients and caregivers actually track medication adherence.

So I think you can see how our unique business model is allowing us to deliver programs and services to improve health and, at the same time, lower costs. So these are just some of the ways in which we're helping people on their path to better health.

So that brings us to this topic of something that hurts health. And that's tobacco. And the numbers here, once again, are pretty staggering. More than 42 million adults smoke, 480,000 people die each year from tobacco-related illness. Smoking today causes 87 percent of lung cancer deaths, 79 percent of all cases of chronic obstructive pulmonary disease. The economic costs attributed to smoking and exposure to smoke is approaching \$300 billion dollars a year on an annual basis.

Now, as a company, we have wrestled with the inconsistency of tobacco sales in a place where healthcare is delivered for some time now. At the same time, there is this \$2 billion dollars in annual tobacco sales to be considered. We listened to what our colleagues, our customers, communities in which we live and serve are saying about tobacco, as well as leading health advocacy groups. We stepped back. We used that purpose, again, of helping people on their path to better health as our decision filter. And

we brought multiple viewpoints to the table, including those of our chief medical officer, colleagues from finance, merchandizing, human resources, operations, the list goes on. And we weighed both the short term and the long term opportunities.

As you might expect, there was very thoughtful debate and discussion. And as a unified management team, along with our Board of Directors, we made the decision to quit tobacco for good. We announced that decision back in February, February 5<sup>th</sup>. And six months later, we're officially tobacco-free, one month ahead of schedule. And we're proud to say that we're the first national pharmacy chain in the country to take this action to support the wellbeing of our patients and our customers.

[applause]

Now we engaged leading health organizations, including Campaign for Tobacco-Free Kids, the American Lung Association, Cancer Society, the AMA, Robert Wood Johnson Foundation, American Pharmacists Association, and these organizations and many others have rallied behind our decision with public statements, adding to the course of why retailers with pharmacies should be tobacco-free.

Social media has amplified the conversation, with countless statements of support from consumers, celebrities, health, business and political leaders. And there's no question that a national conversation about tobacco has been reignited. We do believe that reducing access to tobacco products will help reduce tobacco use. And our chief medical officer, Dr. Troy Brennan, recently shared the results of a new study that showed the effect of enacting policies to eliminate the sale of tobacco products. In Boston and San Francisco, where retailers with pharmacies are not permitted to sell tobacco, there was up to a 13.3 percent decrease in the purchasers of tobacco products.

At the same time, in quitting tobacco, we also launched a comprehensive and uniquely personalized smoking cessation campaign to help the seven in ten smokers who want to quit. We consulted with many experts and took their guidance about what works to build a comprehensive smoking cessation campaign. It taps our entire chain of stores, our 900 Minute Clinics, our leading PBM, the fact that we have 26,000 pharmacists and nurse practitioners all across the country.

And it includes four critical components, an assessment to determine the smoker's readiness to quit, education to provide smokers the information and tools they need to quit, medication support to help curb the desire to use tobacco, and finally, coaching to help individuals stay motivated and prevent relapses. And the combination of medication and coaching, it can be very powerful. It can nearly double quit rates from seven percent to 15 percent.

You might be surprised to know that it takes, on average, seven times before someone is successful in quitting. And we want those people to never quit quitting until they're successful.



Now September 3<sup>rd</sup> was also an historic day for our company for one more reason. It's the day we announced our new name, CVS Health. And our new brand signals a fundamental shift about who we are, and what we do. And it's certainly inspired by that purpose, once again, of helping people on their path to better health.

Now I think all of us at CVS Health have been truly humbled by the outpouring and encouragement and support that we've received since announcing our decision to quit tobacco. And it's come from all corners. And, as we move forward, it is vital that the private sector continue to take a visible leadership role on tobacco, working with nonprofits and the public sector to address and prevent tobacco related disease. It's the right thing to do, just like our decision to quit selling tobacco products. Tobacco has no place in a healthcare setting, including pharmacies.

So to sum it up, we don't see exiting the sale of tobacco is an important decision for just us. We see it as an important decision for public health. So in closing, let me come back to where I started. Because, as dramatic change takes place in healthcare, you know, I believe pharmacy can bring solutions that will make a big difference in the health and the wellbeing and the financial outlook of our country.

And, as a pharmacist myself, I know the value that our profession can play in the lives of others. I also know that there's even more that pharmacy can and will do to improve both care and affordability. And our 200,000 CVS Health colleagues joined me in committing to you that we'll do our part to continue to provide better, more affordable care to people, young and old, all across the country, and help them on their path to better health.

So thank you. And John, I'll turn it back over to you, and we'll open it up for questions.

[applause]

**MR. HUGHES:** Thank you. Well not surprisingly, we've gotten a lot of questions on the tobacco decision. Now initially, when you announced the decision, I think back in February, October 1<sup>st</sup> was going to be the date. Then you moved it up. So, as of this month, you're no longer selling tobacco. So why did you move it forward a month?

**MR. MERLO:** Well, John, you know, when you think about 7,700 stores, coast to coast, there's a lot of work to do to transition that space that previously had tobacco. So we thought it would take us until October 1 to get that work done. I have to say, I'm proud of the CVS team that, you know, mobilized, got everything together. And it was simply a situation that, you know, we were able to execute it a little quicker than what we had thought.

**MR. HUGHES:** I referred earlier to your stock price. To what extent do you think there's been a cause and effect between your decision on tobacco and the

company's bottom line and stock market performance? And have all these comments of support from the White House and elsewhere, have they translated into helping your bottom line?

**MR. MERLO:** Well, you know, that's a great question. I mean I think when we made our announcement, you know, back in February, we were, you know, we were pretty transparent, in terms of the financial impact, the fact that it was \$2 billion dollars in revenues. And, at the same time, you know, we firmly and wholeheartedly believe that it's the right thing to do for the long term growth of our company.

And you know, I talked about some of the ways that CVS Health is playing today a bigger role in our healthcare delivery system. And, you know, whether it's a new partnership with the health system, or a physician practice, or a large health plan client, as we engaged in those discussions, we saw that the sale of tobacco is an obstacle to forming new partnerships.

So I think that the financial community certainly understands the value proposition associated with CVS Health, and the growth trajectory of the company. And, you know, I think it's hard to sit here today and say that there's any one singular event or announcement that makes a difference. But I think collectively, as I mentioned earlier, we have been humbled by the outpouring of support. And I think that collectively, it's resonating in terms of whether they're investors, consumers, or potential clients, the value proposition that CVS Health offers in the marketplace.

**MR. HUGHES:** Electronic cigarettes seem to be becoming more popular. Do you foresee selling them at any point at CVS? Or will they be treated the same as tobacco products from your standpoint?

**MR. MERLO:** Yeah, John, that's another great question, and something that you know, that we're asked a lot. We have never sold e-cigarettes. We do not plan to. I think one of the things that we're troubled by is, you know, if you go in a store later today that sells e-cigarettes, you know, you see the devices that, you know, are branded as "Hello Kitty," okay, or the liquid to put into those devices that, you know, are bubblegum flavored or tootsie roll.

And you know, I think it raises a question in terms of what is the role that you know, e-cigarettes are playing in the country? And who's the target consumer? So we don't sell them today. We have no plans to sell them as we go forward.

[applause]

**MR. HUGHES:** How do you assess the risk of your decision going forward? This questioner notes that they saw a 7-11 down the road from a CVS promoting that it sells cigarettes with an outdoor signs. So perhaps trying to capitalize on your decision. Is there still a risk out there, do you think, by this \$2 billion dollars in revenue, giving that up?

**MR. MERLO:** Well John, I think it goes back to the statement that I made earlier. You know, we think of ourselves as a pharmacy innovation company, you know, a healthcare company. You think about many of the factors that I mentioned earlier, you know, think about those 10,000 Baby Boomers that turn 65 every day. You know, folks over the age of 60 take three times the number of medications as the younger population. So we certainly see a much bigger opportunity to grow, you know, the health segment of our business. Certainly, the pharmacy, and the fact that there are many elements, you know, of our CVS Pharmacy Stores that, you know, we have an opportunity to extend the pharmacy experience into what I'll call the front of store, whether it's OTC products, or the beauty products that we sell in our store, recognizing that there are many more products today, when you think about healthy skin products-- and the list goes on. And that's where our focus will be.

**MR. HUGHES:** To this point, none of your competitors have followed you in foregoing tobacco sales. Why do you think that they're not doing what you did?

[laughter]

**MR. MERLO:** You really want me to answer that question in a different way? [laughter] You know, listen. I certainly can't speak for our competitors. I think that, you know, they've-- you know, they've got to go through the same process we went through. You know, we had to ask the hard questions. We had to look in the mirror. We had to use our purpose, in terms of how we saw ourselves as a company. And, you know, we came to the decision that, you know, that we came to. Somebody had to be first. And we're proud to say that it was CVS.

**MR. HUGHES:** So, as you mentioned, you've branded the store CVS Health. But you still sell things that aren't necessarily good for a person. The store a couple blocks from my house, I've been known to go down and buy maybe a bag of snack foods that aren't particularly good for me. Where will you go in looking at other products? And do you think that other products might follow tobacco, and you'll decide not to sell them?

**MR. MERLO:** And, by the way, I have to say, I love the cupcakes at the table, okay. [laughter] So thank you, whoever came up with that idea, okay. [applause] But no, you know, I think that too is a question we get asked a lot. And you know, I think as we've had many, many discussions with leading health experts, whether you're talking about a candy bar or a bag of chips or soda, or in some places, you know, we sell wine or a glass of red wine. I think, you know, those products, you know, taken in moderation, or the occasional use, if you're talking to your physician, a dietician, a nutritionist, they would tell you have not been proven to cause medical harm. And, by the way, the emphasis is on occasional, moderate use.

You can't say the same thing about tobacco. There is no amount of tobacco use that, you know, that can be considered safe. At the same time, we do think we have an opportunity to educate consumers in a more holistic way about healthier choices. And I

think, as we go forward, you will see the introduction of healthier products. We just launched a new product line within the last couple months. It's a snack line that's called Abound, okay. And it is a healthier alternative to some of the products. And so you'll see those things as we go forward. There'll be more information at the point of decision, when the consumer is picking those products off the shelf.

So, you know, that's where our focus will be. We do not have plans to carry our tobacco decision and eliminate other categories within the store.

**MR. HUGHES:** Washington, D.C., where the National Press Club is located here, is a city that has approved the use of marijuana for medical use, medical marijuana. As CVS looks at the issue, CVS Health looks at the issue of marijuana being used for medical purposes, how do you come at that? How do you assess that?

**MR. MERLO:** Yeah, we have no plans to-- [laughter]-- get into that line. You know, you may find it interesting, because I-- You know, I've been asked this question many times. Like I think that people believe that, in some of the states where the law has passed, because you operate a pharmacy, you can, if you choose, to sell marijuana, you can do that. But you know, the licenses that we have within pharmacy do not permit us to sell marijuana. We would have to go out and be relicensed as another provider. And we have no plans to get into that line of business.

[applause]

**MR. HUGHES:** This questioner asks if ObamaCare played any role in your decision on tobacco products. And in general, has ObamaCare, is it a net positive? Or is it a net negative? And why?

**MR. MERLO:** Yeah, I mean let me take the second question first. I think as we look to 2014, and this is information that we've disclosed in the financial community, that we thought that, from a business point of view, that the Affordable Care Act would be a modest benefit to our business this year. And you know, as we fast-forward, we're almost nine full months into the year, that's pretty much how it has played out. We are seeing more of a benefit from the Affordable Care Act as a result of Medicaid expansion than we are from the enrollment in the exchanges.

I think there are many, many studies out there that, when folks are trying to answer the question, that the six million-plus that have enrolled in exchanges, how many of those enrollees are new to healthcare coverage? You know, the numbers are all over the board. You know, they're as low as 25 percent to as much as 80 percent. So I'm not sure we know the numbers in terms of what percent are really new to insurance. That's not the same in Medicaid. So we're seeing more of a benefit to our business from Medicaid expansion at this point in time.

I think you know, as we think about the tobacco decision, the Affordable Care Act really did not play a role in that decision. I think it goes back to one of the comments that

I made in my prepared remarks, that the Affordable Care Act does deal with access. You know, those 30 million uninsured, and the fact that they should have the same opportunity for care just like all of us in this room have. But, at the same time, we've got to begin to focus on cost and quality. You know, our current healthcare trajectory, when you think about what percent of healthcare makes up GDP, it is not sustainable.

**MR. HUGHES:** This questioner asks about the role of prescription drugs in overall healthcare in coming years. They say that consumers are facing pressures, through rising costs on premiums and copays with prescriptions. Do you expect that to continue? And do you expect consumers to become more cost-conscious and rein in their prescription spending?

**MR. MERLO:** Well, you know, I think some of this goes back to the role that prescriptions play in chronic disease, and the fact that think about whether it's someone who has high cholesterol, okay. And, by the way, when you think about the role that generic prescriptions play, I don't know if you'll be surprised to hear this, but when we look at all prescriptions that we dispense, today about between 83 and 84 percent of all prescriptions are generics, at much lower cost than branded products. And, as you look across those chronic diseases that I mentioned earlier, I think in every one of those disease conditions, there is a generic drug that's available to treat that particular disease, whether we're talking about high cholesterol, or hypertension, or diabetes, and the list goes on.

So I think that we all believe, and the studies substantiate the fact that prescription medication is very effective from, I'll say, a cost benefit point of view, okay, that if keeping someone on a statin to lower their cholesterol prevents a heart attack, I think the average cost of a heart attack today is \$30,000 dollars. So you know, we see-- remember that example that I used, that for every one dollar invested in keeping a diabetic adherent to their prescription regimen, there is a three dollar return in terms of reducing overall healthcare costs.

We were very excited about, a little less than two years ago, the Congressional Budget Office actually came out and scored the fact that keeping people adherent to their medications will reduce overall healthcare costs. So we will work diligently. We will work tirelessly to make sure that our patients, our clients, and every one of the stakeholders across the healthcare delivery system understands the role that prescription therapy, prescription adherence plays, not just in keeping people healthier, but at the same time, reducing overall healthcare costs.

**MR. HUGHES:** So this questioner says that he or she believes that every part of the healthcare sector is sacrificing and changing to hold down costs under ObamaCare. But he or she does not see the pharmaceutical companies acting that way, and sees them as being very protected from change. And the question is, do you agree that that's the case? And is there anything that can be done to change it?

**MR. MERLO:** Well I think, for years, I think it's been commonly known that you know, the prices of prescription medications here in the U.S., those same products in another country cost significantly less. And the fact that the U.S. subsidizes the cost of research and development and what it takes to bring a particular drug to market. And you know, the pharmaceutical manufacturers are rewarded with 17 year patents on those products. Now I don't want to mislead anyone. By the time they get it to market, they've burn up many of those years through clinical trials, etcetera, etcetera.

I do think that there is more competition entering the pharmaceutical space, whether it's coming from generic drugs as drugs lose their patent protection. And, at the same time, there are more new products entering the market that are clinically effective, okay. But, you know, think of them as me-too products within a clinical disease state. And you know, much like all of us here, we're consumers. And you know, we choose competition in the marketplace drives where we choose to shop. And I think we will see increased competition because of more me-too product introductions that will hopefully work to reduce the overall cost of pharmaceuticals.

**MR. HUGHES:** So you talked earlier about CVS ramping up the Minute Clinics. This questioner asks, to what degree might the Minute Clinics contribute to a tiered healthcare system wherein those who have the time and resources will go to see their primary doctors-- primary care doctors, while those who previously received little or no care will depend on Minute Clinics instead of seeing physicians. So will this result in a kind of a tiered healthcare system for the haves and have nots?

**MR. MERLO:** Well, I think that's a great question. You know, I'll give you an example, because we have 200,000 of my colleagues at CVS Health. So it's a great opportunity for us to use our own employee population as our-- as our learning lab. So many years ago, we looked at those of our employees that had access and utilized one of our Minute Clinics. And we went out and did a study, okay. We looked at their overall healthcare costs against a control group, adjusted for age and health status.

And what we found was that, you know, those of our employees that utilized Minute Clinic had eight percent lower overall healthcare costs. Now, if you turn around and say, "Well what's driving that?" Well, remember earlier, I mentioned about 50 percent of all Minute Clinic visits occur at nights and weekends. So one of the key drivers is getting that visit out of the emergency room and into the clinic at a factor of what's average cost of an emergency room visit, it varies geographically. But it could be as much as \$800 dollars. Average visit at a Minute Clinic is about \$80 dollars.

So my answer to that question is, I think in the healthcare system, you know, someone made a comment to me that you know, quality-- How do you define quality? How do you define cost? And someone said, "It's really healthcare value." And healthcare value is defined as the intersection of quality and cost. So you think about the fact that we are delivering high quality, low-cost care at Minute Clinic.

Across our healthcare delivery system, we've got to begin to think about healthcare value as being where should that care be administered at the lowest possible cost. And I think that that's my answer, okay. As I mentioned earlier, we do not want to replace the primary care physician. But there are things that we can perform more effectively-- maybe it's not more effectively, but more costly, okay, and more accessible and more convenient for the patient.

You know, think about the role that pharmacists play in vaccinations today. You know, five years ago, it was the exception that a pharmacist administered a flu vaccine or a shingles vaccine. It's becoming much more commonplace all across the country. So I think some of this gets back to, once again, the fact that pharmacy is extending the frontlines of healthcare. And there's a role for pharmacists to play. There's certainly a role for nurse practitioners to play.

**MR. HUGHES:** I want to package these two together, because they're similar. Do you think that, down the road, perhaps CVS could get into the role of primary care, providing primary care? And another questioner says, access to dental care could be much better in some urban neighborhoods and rural communities. Would CVS ever consider addressing that need by opening retail dental clinics?

**MR. MERLO:** That's another great question, okay. Yeah, we don't have any short-term plans, as you think about the role that we may play in dental, although one of the services that our nurse practitioners provide, or folks that come in and may have a dental abscess, and once again it becomes one of those emergency visits, until they can get to their dentist or endodontist.

You know, I think the fact that our healthcare system is evolving, we continue to evaluate broadening our services. I think we're doing more today than what we were doing three or four years ago. I think that there are some things that we're going to begin to pilot next year that will broaden our services. But once again, we do not see-- we see those services as being complementary to primary care. We do not see replacing the role of the primary care physician.

**MR. HUGHES:** This questioner asks about prescription pain killer abuse as a growing problem nationwide and wonders how CVS Health handles that issue, what you can do at your stores to make sure that this problem can be held in check.

**MR. MERLO:** Yeah, that is a great question and one that I think has all of us in the pharmacy profession worried. And you know, there's a number of things that we're doing today, I think, as an industry. You know, we're working together across the country, in terms of things like shared databases, so that we can separate-- I'll describe it as the liars from the outliers, if you will. You know, I think we're participating in drug take-back programs. And that's something I'd encourage all of you, okay. You go home, look in your medicine cabinet. How many pain killers are sitting there? Maybe you had a dental procedure or a simple procedure. And the physician wrote a prescription. And you know, you took a few and started feeling better. Don't need this anymore, but yet they're

sitting there. And it's not good to flush them down the sink or in the toilet.

And we're sponsoring drug takeback programs across the country. We're working with police departments to make sure that we get those out of the home. And, at the same time, we get them destroyed in an environmentally friendly way. I think one of the other things that, as a pharmacist, you know, I never thought I would see this day. But you know, we have built some technology in our shop that looks at the fact that there are some licensed prescribers that are not running ethical practices. And they are licensed, but they're writing those narcotic prescriptions for all the wrong reasons.

And to date, we have stopped filling prescriptions for over 100 physicians because they have not been able to validate the legitimacy of their practice. And you know, we'll continue to work to support our pharmacists so that they're doing the right thing, in terms of making sure that the right people are getting the medication that they need, okay. And, at the same time, working with all the stakeholders, whether it's the DEA, law enforcement, okay, and others that are involved, to make sure that we get rid of this other segment of pharmacy that is really driving this problem across the country.

**MR. HUGHES:** So we saw Congress acting in the last few days on a continuing resolution to keep the federal government funded temporarily, operating. And when you talked earlier about the importance of research to these products, how much do you worry about the federal funding pipeline being diminished or cut off for these products as Congress struggles more and more to find revenue to balance the budget?

**MR. MERLO:** No, I do think that's a concern. I think there are-- I think the folks in this room know there are many universities all across the country that are research-oriented with many grants from NIH and other government entities. And you know, those grants have led to some terrific innovations in the market. I think that's certainly something that has those universities concerned and other research stakeholders across the system. And I think that's something that must continue to receive ongoing attention and management.

I think we've got to make sure that we don't cut to the bone, that we compromise future research. You think about, we have not found a cure for Alzheimer's as an example. And I think we want to see the research supporting cures for that, for ALS, you know that, are just debilitating diseases. And more to come on that.

**MR. HUGHES:** What do you see as the role of telemedicine and technology in your Minute Clinics and in your services, particularly in rural areas where people might be a distance from your store, and maybe not have transportation to get there? Do you look at integrating more of those services?

**MR. MERLO:** No, there's no question that technology plays an important role in solving the challenges that I mentioned earlier. I've talked about our focus on digital. We are experimenting with telemedicine. You know, we actually have 28 sites in Southern California and Texas. They're staffed by licensed nurses. So a patient comes in,



and you know, they're actually, through technology, actually seeing a nurse practitioner or a physician assistant.

And, by the way, the consumer feedback, patient feedback is off the chart positive. And the reality behind that is that, you know, in the site that they're being seen, there is a TV monitor that that patient is able to look at the same thing that that nurse practitioner is looking at miles away.

So, for the first time, someone can actually-- All these years, we've gone to the doctor and, "Open your mouth. Look in your ear." They're actually seeing what that physician is looking at. And there's an education that's taking place, in terms of why it's an infection, why it may not be an infection. So you know, the feedback is terrific there.

So I think that we're in, as I always describe things, we're in the top of the second inning, okay, in terms of where that's headed. But I think we're off to a terrific start. I do believe that telemedicine will play an important role, John, especially when you talk about the rural areas of the country that do not have access to a primary care physician.

**MR. HUGHES:** So we're almost out of time. But before I ask the last question, I have a couple housekeeping matters to take care of. First of all, I want to remind everyone about upcoming speakers. On September 23<sup>rd</sup>, we'll host former Virginia Senator Jim Webb. And on October 15<sup>th</sup>, Deborah Rutter, President of the John F. Kennedy Center for the Performing Arts will be our guest here at a luncheon. And on October 20<sup>th</sup>, Labor Secretary Thomas Perez will be here.

Another piece of business, I would like to present you with the coveted National Press Club mug. [laughter] [applause] You cannot get one of those at CVS, just like that. But you can have healthy drinks in that mug that are good for you.

So the last question, this is the voice of a customer coming through. So once in a while, these customers find a way to get their voice heard and their questions in. This customer says, how can you possibly run Minute Clinics when you can never fill any of my prescriptions in less than 20 minutes? [laughter]

**MR. MERLO:** Fair question, okay. You know, I think there are a number of things that we're doing to create efficiency and effectiveness. I think we've done an awful lot with technology. And I could remember the early days, as a pharmacist, where when people came in, you filled the prescriptions in the order that they came in. And we're doing a better job, albeit probably not perfect, in terms of being able to separate people that just left the doc, and might have sick child that they want to get home and started on the antibiotic, from someone that is phoning in a refill, and is going to pick it up tonight or tomorrow. And we're doing a number of things with automated refill programs. And I know I talked to some of you earlier, that you appreciate getting those text messages or phone calls reminding you that your prescription is ready and picked up.

So we're working hard to make sure that prescriptions can be ready when promised, by using technology and additional features like that.

[applause]

**MR. HUGHES:** I was going to say, how about a round of applause for our speaker. But you took care of that. So thank you, Larry.

[applause]

**MR. HUGHES:** We thank you for coming today. And thanks to our audience here at the National Press Club for those wonderful questions. And I'd also like to thank the National Press Club staff, including its Journalism Institute and Broadcast Center, for organizing today's event. And remember, for a copy of today's program, and to learn more about the National Press Club, you can go to our website, [press.org](http://press.org) and find all that information.

Thank you for being here. And we are adjourned. [gavel]

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