



CVS Health Corporation

Q4 2025 Earnings Analysis

Earnings Insight Report for MA Payer Competitive Intelligence



Insights Summarized from February 10, 2026 Earnings Call

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EXECUTIVE SUMMARY

CVS Health delivered Q4 2025 adjusted EPS of \$1.09, beating consensus of \$1.00, on revenue of \$105.7B (up 8.2% YoY). Full year 2025 adjusted EPS of \$6.75 exceeded initial guidance on revenue of \$402.1B (up 7.8%). The company reaffirmed 2026 guidance of \$7.00-\$7.20 adjusted EPS on revenue of at least \$400B and operating cash flow of at least \$9.0B (updated from \$10.0B). The Healthcare Benefits segment delivered a dramatic turnaround with adjusted operating income of \$2.9B versus \$307M in 2024, driven by 130 bps MBR improvement to 91.2% despite elevated medical cost trends.

However, CVS faces significant headwinds from the disappointing 2027 Medicare Advantage rate notice, which management characterized as not matching industry medical cost trends. Despite this pressure, CEO David Joyner maintained that the commitment to margin recovery at Aetna is unchanged. The company is positioning itself as the industry's cost-reduction engine, citing \$280B in annual savings (\$235B from Aetna network negotiations, \$45B from Caremark PBM negotiations) while branded manufacturers imposed 750+ price increases in 2026 adding \$25B to system costs. CVS is also navigating a critical inflection point in PBM regulation, with management framing recent legislation as providing timeline certainty and validating their proactive TrueCost model launched in December 2023.

KEY LEADERSHIP QUOTES

Cost Transparency as Competitive Moat



David Joyner

Chair and CEO

"\$280 billion of annual savings we generate for our clients and members through \$235 billion in Aetna health plan network negotiations and \$45 billion from Caremark's manufacturer negotiations."

Strategic Implication: Positions CVS as the industry's primary deflationary force against brand manufacturers (\$25B in 2026 price increases) and hospital systems. This creates a regulatory defense narrative and client retention argument as policymakers scrutinize PBM economics. The \$280B quantification is designed to dwarf any debate about PBM margins.

MA Rate Disappointment, Margin Discipline Maintained



David Joyner

Chair and CEO

"The 2027 Medicare Advantage rate notice was disappointing and simply does not match the level of medical cost trend in the industry. However, our commitment to margin recovery at Aetna is unchanged."

Strategic Implication: Signals CVS will not sacrifice margins for membership growth, differentiating from volume-chasing competitors. This is a critical test of discipline: will CVS maintain 2026-2027 margin targets despite rate pressure, or does the rate notice force guidance revision. The unchanged commitment suggests CVS is prepared to shrink MA enrolment if necessary to preserve margins.

Pharmacy Retail Moat: Tech-Enabled Colleagues vs. Digital Disruptors



Prem Shah

Executive

"We run the best-run pharmacy in the country. Healthcare is best delivered locally in the community by our tech-enabled colleagues who have built trusted relationships with patients and prescribers."

Strategic Implication: Defending retail footprint against digital mail-order disruptors by positioning CVS stores as healthcare hubs, not transactional dispensaries. The tech-enabled colleague framing acknowledges automation while emphasizing human relationships as the competitive advantage. This is essential as CVS faces Amazon Pharmacy and other digital entrants that offer convenience but lack local touchpoints.

PBM Regulatory Defense: Proactive TrueCost as Validation



Ed Devaney

Executive

"The recent PBM legislation provides timeline certainty, and we believe the changes are manageable. TrueCost is built for transparency, durability, and stable margins. We launched it in December 2023, and it aligns with the direction of recent legislation."

Strategic Implication: Pre-emptively addressing investor concerns that legislation will compress PBM margins. By framing TrueCost as anticipating regulatory direction, CVS positions itself ahead of competitors who must react. The key question is whether TrueCost adoption accelerates and whether it truly preserves margins or simply makes margin compression transparent.

Commercial Momentum Offsets MA Rate Pressure



Steve Nelson

Executive

"Commercial ASC membership of 18 million represents the highest membership level in the last decade, demonstrating that the improvements at Aetna extend well beyond Medicare."

Strategic Implication: Highlighting diversification beyond MA as rate notice threatens that segment. Commercial provides margin stability and growth as MA faces structural headwinds. The decade-high membership level validates Aetna's competitive positioning in employer-sponsored insurance, which typically has more predictable margins than government programs.

FY 2025 FINANCIAL PERFORMANCE

Segment Revenue & Performance Summary

| Metric | Q4 2025 | Full Year 2025 |
|---------------------|----------|-----------------------------------|
| Total Revenues | \$105.7B | \$402.1B (+7.8% YoY) |
| Adjusted EPS | \$1.09 | \$6.75 (+15% vs initial guidance) |
| Operating Cash Flow | - | \$10.6B |

Segment Performance Summary

Healthcare Benefits Segment

- FY 2025 adjusted operating income \$2.9B (857% improvement), validating aggressive margin recovery playbook.
- MBR improved 130 bps to 91.2% despite elevated medical cost trends, demonstrating effective utilization management and network efficiency.
- Medical membership 26.6M (down 504K YoY) as CVS prioritizes margin over volume, shedding unprofitable lives.
- Commercial ASC at decade-high 18.8M members provides margin stability and diversification beyond government programs.

Health Services Segment (PBM/Caremark)

- FY 2025 adjusted operating income \$7.2B (down 1.3% YoY) on revenue of \$190.4B (up 9.7%), reflecting shift to lower-margin TrueCost model.
- Pharmacy claims processed 1.90B (down 0.9% on 30-day adjusted basis) as generic substitution continues and specialty manages growth.
- Caremark closed 2025 with significant customer wins and strong retention despite legislative headwinds.
- Healthcare delivery revenue up 21% excluding accountable care exit, with Oak Street driving patient growth.

2026 OUTLOOK & STRATEGIC PRIORITIES

2026 Guidance Summary

| Metric | 2026 Guidance | YoY Change |
|---------------------|-----------------|----------------|
| Adjusted EPS | \$7.00 - \$7.20 | +3.7% to +6.7% |
| Total Revenues | ≥\$400B | Flat to -0.5% |
| Operating Cash Flow | ≥\$9.0B | -15.1% |

Segment Outlook for 2026

- Healthcare Benefits:** Maintain momentum on margin recovery despite 2027 MA rate notice pressure. Target continued MBR improvement through network optimization, utilization management, and Stars performance. Commercial membership expected to remain at decade-high levels. MA enrollment may moderate as CVS prioritizes profitability over market share.
- Health Services:** TrueCost model adoption expected to accelerate following legislative clarity. Margins anticipated to remain stable and durable through regulatory transition. Healthcare delivery growth continues with Oak Street and other care delivery assets. Caremark retention remains strong despite competitive PBM environment.
- Pharmacy & Consumer Wellness:** At least flat earnings trajectory maintained. Rite Aid integration benefits realized through network density and market share gains. Front store stabilization continues with focus on healthcare services and differentiated merchandising.

Segment Outlook for 2026

- Advocate for Adequate 2027 MA Rates:** Engage CMS and policymakers to demonstrate that rate notice does not match industry medical cost trends. Leverage Signify Health's 3.5M consumer reach and 500K+ care reconnections annually to strengthen rate advocacy position.
- Maintain Margin Discipline at Aetna:** Remain committed to margin recovery trajectory despite rate pressure. Willing to moderate enrollment growth to preserve profitability, differentiating from volume-focused competitors.

- **Accelerate TrueCost PBM Adoption:** Position regulatory changes as validation of proactive strategy. Drive client migration to transparent pricing model while maintaining margin stability. Demonstrate that legislation creates competitive advantage for early movers.
- **Defend Cost-Reduction Narrative:** Amplify \$280B annual savings message to counter brand manufacturer pricing power (\$25B in 2026 increases across 750+ drugs). Position CVS as healthcare affordability champion against hospital consolidation and pharmaceutical pricing.
- **Strengthen Retail Pharmacy Moat:** Invest in tech-enabled colleagues and community healthcare hub positioning to defend against digital mail-order competition. Leverage 29%+ script share and local relationships as sustainable advantage.
- **Realize Rite Aid Integration Synergies:** Convert 9M new patients into long-term loyalty. Integrate 3,500 colleagues and achieve network density benefits. Capture cross-selling opportunities across pharmacy, front store, and MinuteClinic.
- **Scale Oak Street and Care Delivery:** Continue 21% revenue growth trajectory in healthcare delivery. Expand value-based care capabilities despite relatively small impact compared to broader Aetna business.
- **Optimize Capital Allocation:** Balance growth investments (Oak Street, Signify Health) with shareholder returns. Maintain balance sheet flexibility for M&A opportunities as industry consolidation accelerates.

KEY RISKS & CONSIDERATIONS

Downside Risks

- **2027 MA Rate Adequacy and Enrollment Trade-offs:** The disappointing rate notice creates a zero-sum choice between margin preservation and market share. If CVS maintains its unchanged margin commitment, 2027 MA enrollment could decline significantly as the company reprices or exits unprofitable geographies. Conversely, if competitive pressure forces CVS to chase volume, margins deteriorate and the Aetna turnaround narrative unravels. The rate notice is particularly problematic because it arrives after 2026 bids are substantially complete, limiting CVS's ability to course-correct until 2027-2028.
- **Medical Cost Trend Persistence Above Expectations:** CVS's margin recovery assumes medical cost trends moderate from elevated 2025 levels. If structural factors (aging population, chronic disease prevalence, behavioral health demand, specialty pharmacy growth) sustain elevated trends, the rate-trend gap widens. Every 100 bps of unexpected trend pressure on a \$100B+ medical cost base represents \$1B+ of operating income risk. The 2027 rate notice compounds this by providing less rate relief than anticipated.

- **PBM Margin Compression from Regulatory Implementation:** While management frames legislation as manageable and aligned with TrueCost, the reality is untested. If regulatory changes reduce PBM margins more than CVS projects, or if TrueCost adoption lags because clients balk at transparency, the Health Services segment faces structural margin pressure. The \$7.2B FY 2025 operating income could decline to \$6B-6.5B range if spread compression accelerates beyond management's base case.
- **Oak Street Profitability Timeline Extends:** While healthcare delivery revenue grew 21%, Oak Street and other care delivery assets remain subscale relative to core insurance/PBM businesses. If the path to profitability takes longer than expected or requires more capital than budgeted, these investments become a drag on consolidated margins. Management has already acknowledged Oak Street's impact is relatively small compared to broader Aetna—signaling it's not yet a material earnings contributor.

Upside Scenarios

- **Aetna Margin Momentum Exceeds Trajectory:** The 857% YoY operating income improvement demonstrates CVS's ability to execute aggressive turnarounds. If management can sustain 50-100 bps of annual MBR improvement through 2026-2027, Aetna operating income could reach \$4B-5B range, providing \$1-2B upside to consensus. This would more than offset 2027 MA rate pressure and validate the unchanged margin commitment.
- **Competitive Differentiation Through Cost Transparency:** If CVS's \$280B savings narrative and TrueCost model resonate with policymakers and employers, it creates competitive separation from traditional PBMs. This could accelerate client wins and retention, particularly among sophisticated buyers who value transparency. The Press Ganey Health Plan of the Year award for Aetna suggests quality differentiation is already emerging. If this translates to pricing power, margins expand rather than compress under regulation.
- **TrueCost Adoption Creates Regulatory Tailwind:** Management's December 2023 TrueCost launch preceded recent legislation, positioning CVS as ahead of the curve. If regulatory changes force competitors to restructure while CVS already operates under transparent pricing, it creates a first-mover advantage. Client migration to TrueCost could accelerate as buyers seek compliant partners, and CVS's early positioning allows premium pricing for transparency.
- **Enterprise Synergies Realize Faster Than Expected:** CVS's integrated model (health plan + PBM + retail pharmacy + care delivery) creates cross-selling and coordination opportunities that pure-play competitors lack. If Aetna members preferentially use CVS pharmacies, Caremark steers to CVS retail, and MinuteClinic/Oak Street drive medical cost savings for Aetna, the enterprise synergies could be worth \$500M-1B annually. Rite Aid integration and Signify Health scaling accelerate these network effects.

BOTTOM LINE ASSESSMENT

Strategic Direction

- CVS Health is navigating a critical inflection point defined by three strategic pillars:

(1) Aetna margin recovery despite 2027 MA rate pressure,
(2) PBM regulatory transition with TrueCost as the proactive solution, and
(3) retail pharmacy defense against digital disruption through community healthcare positioning.

The company's thesis is that operational excellence and integrated model differentiation will overcome structural headwinds in government health insurance and PBM regulation. The Aetna turnaround validates CVS's execution capability, but the disappointing 2027 MA rate notice tests management's commitment to margin over volume. The unchanged margin recovery commitment signals discipline but creates binary risk: either CVS successfully navigates rate pressure through Stars performance and network efficiency, or enrollment declines materially as unprofitable lives are shed.

Key Dependencies for 2026–2027 Success

- **Industry Pricing Discipline:** CVS needs competitors to similarly prioritize MA margins over volume. If rivals chase market share by accepting lower margins, CVS faces share loss or margin compression.
- **Medical Cost Trend Trajectory:** Aetna margin recovery assumes trends moderate from elevated 2025 levels. Persistent structural trend above expectations threatens both margin targets and rate adequacy.
- **PBM Regulatory Implementation:** TrueCost must prove that transparent pricing preserves margins. If spread compression exceeds expectations or client adoption lags, Health Services faces structural pressure.
- **2027 MA Rate Advocacy Effectiveness:** CVS must successfully demonstrate to CMS that rates are inadequate relative to trend. Failure means accepting enrollment declines or margin deterioration.
- **Retail Pharmacy Excellence:** Defending script share requires flawless execution on tech-enabled service, community positioning, and front store stabilization. Digital disruptors are well-funded and patient.
- **Integration Execution:** Rite Aid and Signify Health must deliver synergies without operational disruption. Any significant integration issues undermine the enterprise value narrative.

Forward-Looking Credibility Assessmen

CVS's 2026 guidance credibility is high based on FY 2025 performance: the company beat initial EPS guidance by 15% and demonstrated strong operational execution. However, the 2027 MA rate notice introduces uncertainty that could force mid-year guidance revision if competitive dynamics or trend pressures worsen.

The company's margin recovery track record (857% Aetna operating income improvement) and successful navigation of cost-based reimbursement transition provide confidence. The unchanged commitment to Aetna margin recovery despite rate pressure signals conviction, but also creates binary risk if rate advocacy fails or competitors behave irrationally.

MA payers should monitor Q1 2026 earnings closely for any signs of margin pressure emerging earlier than expected, as well as May-June AEP enrollment results as a leading indicator of CVS's willingness to sacrifice volume for profitability. The May Investor Day will be critical for detailing 2027 positioning and rate advocacy strategy. Watch for Star Ratings announcements and CMS rate advocacy outcomes as key catalysts through mid-2026.

REAL-TIME INTELLIGENCE WITH STRATEGIC ADVANTAGE

It's earnings season and while others wait for industry roundups, our clients already have the insights.



Key executive quotes



Market movements



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For support with your **2027 bid strategy**, contact **Dan Paladino** (dan.paladino@healthworksai.com) or your **Client Success Manager**.