



CVS Health Corporation Q1 2026 Results

Earnings Insight Report for MA Payer Competitive Intelligence



Insights Summarized from May 6, 2026 Earnings Call

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EXECUTIVE SUMMARY

CVS Health's Q1 2026 results delivered the clearest Aetna recovery signal the company has posted in two years. Adjusted EPS of \$2.57 came in 16.3% ahead of consensus, on \$100.4B in revenue, with the Health Care Benefits segment driving over \$1B in year-over-year adjusted operating income improvement. The Medical Benefit Ratio compressed 270 basis points to 84.6%, ahead of internal expectations, on a combination of favorable prior-year reserve development and pockets of genuine medical cost outperformance. Management was direct: the MA business is still generating an adjusted operating loss, but the trajectory is no longer in question. The company raised full-year 2026 adjusted EPS guidance to \$7.30-\$7.50 and affirmed its path toward target MA margins by 2028.

The most strategically significant disclosure is not the Q1 beat but the posture being set for 2027 bids. CEO David Joyner confirmed that CVS has proven, for two consecutive years, that it can prioritize margin over membership in Medicare Advantage. Aetna's MA membership declined intentionally from 4.267M to 4.175M, while government premium revenue grew 11.6%. The 2027 CMS Final Rate Notice was described as a step in the right direction but still insufficient to offset elevated medical cost trends. That gap will not be closed by rates alone. Aetna is closing it through benefit adjustments, tighter market selection, and prior authorization discipline that now exceeds every stated industry benchmark. For competing MA plans: Aetna is not coming back as an aggressive AEP competitor in 2027. It is repricing toward margin with a target date of 2028.

Strategic Positioning & Key Developments

Aetna's Margin Recovery: Structural Progress, Not Just a Good Quarter

The Q1 MBR of 84.6% reflects two distinct drivers. Favorable prior-year reserve development of \$1.1 billion contributed meaningfully. But management also called out core outperformance from strong medical cost management, not just favorable development. Days in Claims Payable rose 4.0 days sequentially to 42.9, and management confirmed reserve adequacy. The fact that management maintained its full-year MBR guidance at 90.5% despite the Q1 beat tells you they are not extrapolating the outperformance forward across every quarter. This is the same disciplined posture that has characterized Aetna's commentary for two years.

MA Membership: Intentional Contraction, Not Lost Business

Aetna ended Q1 2026 with 4.175 million insured MA members, down from 4.267 million at year-end 2025 and modestly below the 4.220 million in Q1 2025. The sequential decline reflects disciplined AEP execution, including geographic and benefit adjustments that management expected would shed some volume. Government premium revenue nonetheless grew 11.6% to \$27.78 billion, confirming that rate improvement and favorable mix more than offset the membership reduction. This is the arithmetic of margin over membership playing out in practice: fewer members, higher revenue per member, better economics.

Prior Authorization: Leading Every Industry Benchmark

Aetna has the fewest medical services subject to prior authorization among major national payers. In Q1 2026, the company approved more than 95% of eligible prior authorizations within 24 hours, with over 83% processed in real time. Standardized data requirements now cover 88% of prior authorization volume, ahead of the industry commitment. More than 1 million provider calls were eliminated through automation and digital tools. CVS also introduced bundling solutions for certain conditions, replacing multiple approval steps with a single determination. Management described this as a competitive matter, not just a regulatory compliance effort.

Health 100: The Consumer Platform Built for Scale

CVS announced Health 100, a new AI-native subsidiary built with Google Cloud, designed to launch later in 2026 as an open consumer engagement platform. The premise is that CVS has the scale, data, and consumer touchpoints that few companies can match across 9,000 retail pharmacies, 1,000+ walk-in clinics, 26 million insured members, and 88 million PBM plan members. Health 100 is designed to be payer-agnostic and pharmacy-agnostic, aggregating a consumer's health interactions regardless of their benefit card or pharmacy choice. This is a long-term strategic positioning play, not a near-term revenue driver, but it signals where CVS sees the consumer relationship heading.

Biosimilar Conversion: STELARA Following the HUMIRA Playbook

Effective July 1, 2026, CVS is excluding brand STELARA from commercial template formularies, replacing it with low-cost biosimilars. The company converted over 90% of eligible HUMIRA patients to biosimilars, with the majority paying \$0 out of pocket, and expects similar conversion rates on STELARA. This affects any health plan whose members use Caremark for pharmacy benefits and has direct implications for 2027 benefit design decisions around specialty drug cost containment.

Caremark: Rebate Guarantee Pressure Tracking, No Surprises Expected

Health Services delivered \$48.2 billion in Q1 revenue, up 11%, driven by pharmacy drug mix and brand inflation. Adjusted operating income of \$1.489 billion declined 7.1% year-over-year, primarily from continued pharmacy client price improvements and rebate guarantee pressure. Management acknowledged that some Q2 earnings pulled forward into Q1 due to timing but confirmed that even adjusting for the pull-forward, the segment modestly exceeded expectations. Rebate guarantee pressure is tracking in line with the 2026 assumption with no H2 surprises anticipated. Caremark also confirmed it passed on point-of-sale rebates to Aetna's fully insured commercial members for the past eight years, framing this as proof of transparency ahead of the FTC settlement direction.

KEY LEADERSHIP QUOTES

Margin Over Membership: The Operating Doctrine



David Joyner

President and CEO, CVS Health

"The rates have not been supportive of the elevated medical trends, and I think our team has proven, at least now in two consecutive years, that we have been able to manage, prioritizing margin over growth. I could not be more proud of the team in terms of their focus on making sure that they are restoring the performance of this business."

Strategic Implication: Joyner is framing this as a multi-year proof of discipline, not a single quarter. Two consecutive years of margin prioritization in MA is now the stated operating model, not a response to adverse conditions. For regional MA plans: Aetna's AEP posture in 2027 will continue to reflect this doctrine. Expect continued benefit rationalization and market-level exits in geographies where economics do not support the 3% target margin by 2028.

2027 Rate Notice: Better, But Still Not Enough



Steve Nelson

Executive Vice President and President, Aetna

"We are going to take the same disciplined approach going into 2027, and feel confident that we can continue the momentum and again make meaningful progress towards target margins in 2027. I will just reaffirm our confidence in hitting target margins in 2028."

Strategic Implication: The 2027 CMS Final Rate Notice was characterized as a step forward but still insufficient to close the gap with elevated medical cost trends. This is the same math every MA plan is running. Management's commitment to 2028 target margins is unchanged, which means 2027 bids will prioritize margin recovery over volume. Any regional plan in markets where Aetna is repricing will see a relative benefit advantage heading into AEP 2027.

PBM Value and Drug Pricing Direction



Prem

President, Caremark, CVS Health

"Over 90% of our clients' costs are coming from 10% of the branded drugs. The PBMs continue to play a really important role in driving competition and creating value. Our clients' biggest challenge still today is that the trends of pharmacy drugs are still too high, and they are pressured with this."

Strategic Implication: Prem is setting competitive framing for PBM value ahead of the FTC settlement negotiations and ongoing regulatory pressure. The STELARA formulary exclusion is the proof point: CVS is willing to make aggressive biosimilar moves at scale. For plans using Caremark as their PBM, this signals more aggressive specialty formulary management ahead. For plans not on Caremark, the benchmark is being set for what biosimilar conversion at scale looks like.

Q1 2026 FINANCIAL PERFORMANCE

A. Key Metrics Summary

Metric	Q1 2026	Q1 2025	YoY Change
Total Revenue	\$100.4B	\$94.6B	+6.2%
Adjusted EPS	\$2.57	\$2.25	+14.2%
GAAP Diluted EPS	\$2.30	\$1.41	+63.1%
Adjusted Operating Income	\$5.15B	\$4.58B	+12.5%
Operating Cash Flow	\$4.2B	\$4.6B	-8.7%
Medical Benefit Ratio	84.6%	87.3%	-270 bps
MA Medical Membership	4.175M	4.220M	-1.1%
Total Medical Membership	26.0M	27.1M	-4.1%
Days Claims Payable	42.9 days	43.2 days	-0.3 days
Leverage Ratio	3.84x		Improved

B. Segment Revenue & Performance

Segment	Q1 2026 Revenue	Adjusted OI	Key Metric	Members
Health Care Benefits (Aetna)	\$35.97B	\$3.04B	MBR: 84.6%	26.0M
Health Services (Caremark)	\$48.24B	\$1.49B	Claims: 464.7M	88M plan
Pharmacy & Consumer Wellness	\$31.99B	\$1.20B	Rx: 451.2M	9,000 stores

C. Key Performance Drivers

The Health Care Benefits segment was the primary driver of enterprise results. Adjusted OI of \$3.04 billion grew 52.6% year-over-year, driven by the MBR compression from 87.3% to 84.6%. Prior-year health care cost payable estimates developed favorably by \$1.1 billion in Q1 2026. Government premium revenue grew 11.6% to \$27.78 billion, reflecting rate increases and improved product mix even as MA headcount declined. Commercial membership declined reflecting the intentional exit from the individual exchange business in 2026, partially offset by growth in commercial ASC membership.

Health Services reported adjusted OI of \$1.49 billion, down 7.1%, primarily driven by pharmacy client price improvements. Pharmacy claims processed held flat on a 30-day equivalent basis at 464.7 million. Management noted Q1 reflected a timing benefit as some Q2 economics pulled forward, and stated that even adjusting for this, the segment modestly exceeded expectations.

Pharmacy and Consumer Wellness delivered \$31.99 billion in revenue, roughly flat year-over-year. Same-store pharmacy sales grew 3.1%, with same-store prescription volumes up 6.8%. Adjusted OI of \$1.20 billion declined 8.8%, pressured by milder seasonal illness compared to Q1 2025, weather disruption, and ongoing reimbursement headwinds. Rite Aid asset acquisitions completed in Q3 2025 contributed incremental prescription volume.

2026 OUTLOOK & STRATEGIC PRIORITIES

2026 Guidance Summary

Metric	Raised 2026	Prior 2026	Commentar
Adjusted EPS	\$7.30-\$7.50	\$7.00-\$7.20	+\$0.30 raise
GAAP Diluted EPS	\$6.24-\$6.44	\$5.94-\$6.14	Raised
Total Revenue	At least \$405B	At least \$405B	Affirmed
Cash Flow from Operations	At least \$9.5B	At least \$9.0B	+\$500M raise
HCB Adjusted OI	\$4.0B-\$4.34B	\$3.58B-\$3.92B	+\$420M raise
Full-Year MBR (HCB)	90.5% +/-50bps	90.5% +/-50bps	Unchanged
PCW Adjusted OI	At least \$6.18B	At least \$6.09B	+\$90M raise
Enterprise Adj. OI	\$15.53B-\$15.87B	Prior range	Raised
H1 / H2 Earnings Split	~60% / 40%		Front-half weighted

B. 2026–2027 Strategic Priorities

- **Restore Aetna MA margins to target by 2028:** Meaningful progress in 2027, target achieved by 2028. Benefit adjustments and geographic rationalization will continue in 2027 bids. The full-year MBR guidance of 90.5% maintains a cautious view and does not bank on Q1 outperformance repeating.
- **Launch Health 100 platform:** AI-native, payer-agnostic consumer health platform built with Google Cloud. Launching late 2026. Positions CVS as the infrastructure layer between consumers and healthcare, regardless of their insurer or pharmacy.
- **Accelerate biosimilar adoption:** STELARA formulary exclusion July 1, 2026. HUMIRA playbook applied with same patient experience. Broader biosimilar conversion pipelines are being developed.
- **Reduce prior authorization friction:** Continue leading industry standards on PA timing, standardization, and real-time approvals. Integration of medical and pharmacy PA decisions ongoing.
- **Navigate FTC settlement:** Working toward resolution with focus on transparency, simpler pricing, and lower out-of-pocket costs. CVS framing this as confirming a direction it has already been moving toward for two-plus years.

KEY RISKS & CONSIDERATIONS

2026 Headwinds

- **Full-Year MBR Guidance Not Updated Despite Q1 Beat:** Management held the 90.5% full-year MBR target unchanged despite an 84.6% Q1 result. These signals expected higher utilization and seasonality through H2. If cost trends accelerate in Q3 or Q4, the guidance range provides limited buffer. The cautiousness is deliberate, not pessimistic, but the spread between Q1 performance and the full-year target is wider than the typical quarterly pattern.
- **MA Business Still Generating an Operating Loss:** Despite the recovery trajectory, Aetna's Medicare Advantage segment did not reach breakeven on an adjusted operating basis in Q1 2026. The 2028 target margin commitment and the 2027 progress language suggest the business remains loss-generating for at least the next 12 months. Any external shock to medical cost trends in 2026 could delay the trajectory.
- **Pharmacy and Consumer Wellness Under Structural Pressure:** Adjusted OI declined 8.8% year-over-year in PCW, driven by reimbursement headwinds, generic introductions, and regulatory-related price reductions. Same-store prescription volume growth is healthy, but it is not enough to offset pricing pressure. The Rite Aid contributions provide incremental volume but not margin relief.
- **Parent Cash and Leverage Constraints:** CVS ended Q1 at a leverage ratio of 3.84x, improved but still elevated. The company returned \$850 million to shareholders via dividends in Q1 while managing \$2.58 billion in current debt maturity. Leverage improvement is a prerequisite for meaningful capital deployment in acquisitions or buybacks.
- **Caremark Rebate Guarantee Residual Risk:** While management characterized the rebate guarantee pressure as tracking in line, this has been a source of noise for multiple quarters. The H2 execution on rebate guarantees is the last piece needed to fully clear the overhang from 2025's PBM client pricing commitments.

Strategic Opportunities

- **Aetna as a 2027 AEP Pricing Floor Signal:** With Aetna explicitly prioritizing margin over volume in 2027 bids and benefit reductions confirmed across the industry, regional plans in markets where Aetna is rationalizing benefits have a genuine competitive window. Members who face reduced benefits or plan exits need alternatives, and plans with stable Stars ratings and competitive benefit designs are the beneficiaries.
- **Health 100 as a Long-Term Infrastructure Moat:** If CVS successfully deploys a payer-agnostic consumer platform on a scale, it reshapes who owns the membership in Medicare Advantage. Plans that are not building equivalent digital engagement capabilities will face a structural disadvantage in member retention and care management over a 3–5-year horizon.

- **Prior Authorization Automation as a Cost Management Lever:** Aetna's prior authorization metrics are the best in the industry by their own account and by external benchmarks. The methods and tools behind these numbers, including bundling, real-time decisioning, and digital intake, are replicable at smaller scale. Regional plans that have not yet been invested in PA automation are facing both a cost and a member experience gap.
- **Biosimilar Conversion Creating Plan Design Opportunities:** As Caremark drives aggressive biosimilar adoption across HUMIRA and STELARA, plans that act early to align formulary design with these transitions will capture cost savings in benefit years 2026 and 2027. Plans that are slow to move will see cost trend impact before they can respond in subsequent bid cycles.

BOTTOM LINE ASSESSMENT

CVS Health's Q1 2026 results are the most credible Aetna recovery evidence the company has produced since the margin deterioration cycle began. The 270-basis point MBR improvement is real, the \$1B year-over-year adjusted OI improvement is real, and the MA membership decline was deliberate. The guidance raise is measured, reflecting management's stated philosophy of committing to what they know and not extrapolating favorable Q1 development forward. The full-year MBR guidance of 90.5% is not pessimism; it is risk management.

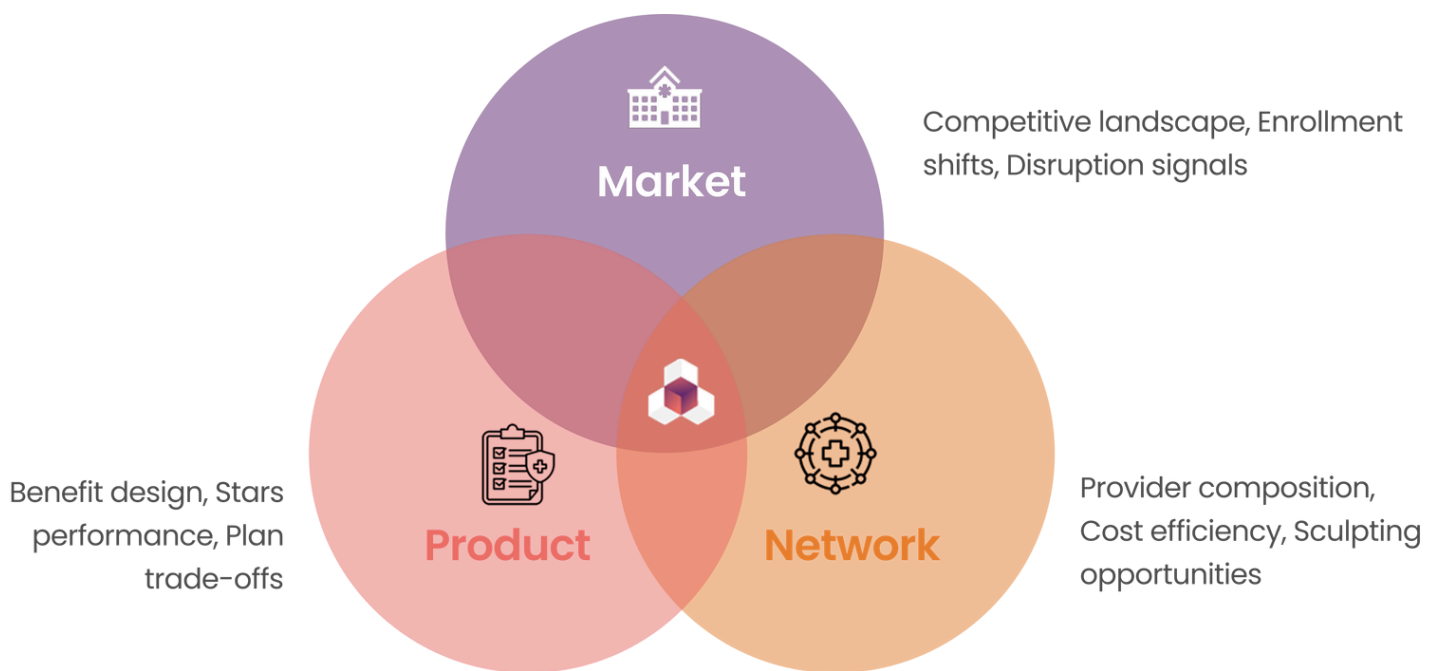
The strategic story for 2026 and 2027 runs on two parallel tracks. Track one is Aetna's margin recovery: methodical, benefit-by-benefit, market-by-market repricing toward 3% by 2028, with 2027 representing meaningful progress toward that target. Track two is CVS building the next layer of its consumer health infrastructure through Health 100, biosimilar acceleration, and prior authorization leadership. Neither track is about membership growth. Both are about margin and durability.

For MA payer competitive intelligence: Aetna's 2027 bid posture is now explicit. It is benefiting rationalization with a retention focus, not competitive aggression. The markets where Aetna is adjusting benefits or exiting service areas represent displaced-member opportunities for regional plans. The October 2026 Stars announcement will be the next major data point that confirms or disrupts the 2028 margin thesis. The monitoring trigger through Q2 is whether the favorable medical cost trend from Q1 holds in Q3 data, and whether the full-year MBR guidance starts to close toward the actual Q1 result.

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