

CVS HEALTH Corp
Form 10-Q
November 04, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2014

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 001-01011

CVS HEALTH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

05-0494040

(I.R.S. Employer Identification
Number)

One CVS Drive, Woonsocket, Rhode Island 02895

(Address of principal executive offices)

Registrant's telephone number, including area code: (401) 765-1500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
[] No [X]

Common Stock, \$0.01 par value, issued and outstanding at October 30, 2014:

1,146,383,477 shares

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Part I

Item 1

CVS Health Corporation
(formerly CVS Caremark Corporation)
Condensed Consolidated Statements of Income
(Unaudited)

In millions, except per share amounts	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
Net revenues	\$35,021	\$31,932	\$102,312	\$93,931	
Cost of revenues	28,553	25,905	83,578	76,487	
Gross profit	6,468	6,027	18,734	17,444	
Operating expenses	4,222	3,873	12,256	11,624	
Operating profit	2,246	2,154	6,478	5,820	
Interest expense, net	153	122	469	374	
Loss on early extinguishment of debt	521	—	521	—	
Income before income tax provision	1,572	2,032	5,488	5,446	
Income tax provision	624	777	2,165	2,112	
Income from continuing operations	948	1,255	3,323	3,334	
Loss from discontinued operations, net of tax	—	(6) —	(7)
Net income	\$948	\$1,249	\$3,323	\$3,327	
Basic earnings per share:					
Income from continuing operations	\$0.82	\$1.03	\$2.84	\$2.72	
Loss from discontinued operations	\$—	\$—	\$—	\$(0.01)	
Net income	\$0.82	\$1.03	\$2.84	\$2.71	
Weighted average basic shares outstanding	1,157	1,218	1,167	1,226	
Diluted earnings per share:					
Income from continuing operations	\$0.81	\$1.02	\$2.82	\$2.70	
Loss from discontinued operations	\$—	\$—	\$—	\$(0.01)	
Net income	\$0.81	\$1.02	\$2.82	\$2.70	
Weighted average diluted shares outstanding	1,164	1,226	1,175	1,234	
Dividends declared per share	\$0.275	\$0.225	\$0.825	\$0.675	

See accompanying notes to condensed consolidated financial statements.

CVS Health Corporation
(formerly CVS Caremark Corporation)
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

In millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$948	\$1,249	\$3,323	\$3,327
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(29) 3	(14) (15
Cash flow hedges, net of tax	1	1	3	2
Total other comprehensive income (loss)	(28) 4	(11) (13
Comprehensive income	\$920	\$1,253	\$3,312	\$3,314

See accompanying notes to condensed consolidated financial statements.

CVS Health Corporation
(formerly CVS Caremark Corporation)
Condensed Consolidated Balance Sheets
(Unaudited)

In millions, except per share amounts	September 30, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	\$1,132	\$4,089
Short-term investments	78	88
Accounts receivable, net	10,828	8,729
Inventories	11,613	11,045
Deferred income taxes	1,042	902
Other current assets	644	472
Total current assets	25,337	25,325
Property and equipment, net	8,694	8,615
Goodwill	28,151	26,542
Intangible assets, net	9,854	9,529
Other assets	1,540	1,515
Total assets	\$73,576	\$71,526
Liabilities:		
Accounts payable	\$6,033	\$5,548
Claims and discounts payable	5,400	4,548
Accrued expenses	5,433	4,768
Short-term debt	775	—
Current portion of long-term debt	572	561
Total current liabilities	18,213	15,425
Long-term debt	11,709	12,841
Deferred income taxes	4,051	3,901
Other long-term liabilities	1,494	1,421
Commitments and contingencies (Note 12)	—	—
Shareholders' equity:		
CVS Health shareholders' equity:		
Preferred stock, par value \$0.01: 0.1 share authorized; none issued or outstanding	—	—
Common stock, par value \$0.01: 3,200 shares authorized; 1,690 shares issued and 1,153 shares outstanding at September 30, 2014 and 1,680 shares issued and 1,180 shares outstanding at December 31, 2013	17	17
Treasury stock, at cost: 536 shares at September 30, 2014 and 500 shares at December 31, 2013	(22,877) (20,169
Shares held in trust: 1 share at September 30, 2014 and December 31, 2013	(31) (31
Capital surplus	30,310	29,777
Retained earnings	30,845	28,493
Accumulated other comprehensive income (loss)	(160) (149
Total CVS Health shareholders' equity	38,104	37,938

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Noncontrolling interest	5	—
Total shareholders' equity	38,109	37,938
Total liabilities and shareholders' equity	\$73,576	\$71,526

See accompanying notes to condensed consolidated financial statements.

CVS Health Corporation
(formerly CVS Caremark Corporation)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
In millions		
Cash flows from operating activities:		
Cash receipts from customers	\$95,816	\$85,408
Cash paid for inventory and prescriptions dispensed by retail network pharmacies	(77,067)	(67,826)
Cash paid to other suppliers and employees	(11,267)	(10,760)
Interest received	11	5
Interest paid	(458)	(369)
Income taxes paid	(2,321)	(2,213)
Net cash provided by operating activities	4,714	4,245
Cash flows from investing activities:		
Purchases of property and equipment	(1,436)	(1,330)
Proceeds from sale-leaseback transactions	328	156
Proceeds from sale of property and equipment	8	13
Acquisitions (net of cash acquired) and other investments	(2,392)	(354)
Purchase of available-for-sale investments	(161)	(107)
Sales/maturities of available-for-sale investments	119	—
Net cash used in investing activities	(3,534)	(1,622)
Cash flows from financing activities:		
Increase in short-term debt	775	124
Proceeds from issuance of long-term debt	1,483	—
Repayments of long-term debt	(3,086)	—
Dividends paid	(971)	(829)
Proceeds from exercise of stock options	378	431
Excess tax benefits from stock-based compensation	89	48
Repurchase of common stock	(2,801)	(2,272)
Net cash used in financing activities	(4,133)	(2,498)
Effect of exchange rate changes on cash and cash equivalents	(4)	5
Net increase (decrease) in cash and cash equivalents	(2,957)	130
Cash and cash equivalents at beginning of period	4,089	1,375
Cash and cash equivalents at end of period	\$1,132	\$1,505
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$3,323	\$3,327
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,442	1,412
Stock-based compensation	121	101
Loss on early extinguishment of debt	521	—
Deferred income taxes and other noncash items	(64)	129
Change in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable, net	(1,872)	(1,518)
Inventories	(449)	(79)

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Other current assets	(160)	176	
Other assets	(19)	(125)
Accounts payable and claims and discounts payable	1,222		697	
Accrued expenses	676		76	
Other long-term liabilities	(27)	49	
Net cash provided by operating activities			\$4,714	