

CVS Health (CVS) ESG report

Profile:

CVS Health is one of the country's leading pharmacies and health care providers. CVS Health operates three segments: retail stores containing pharmacies that command ~25% of the U.S. pharmacy market, a pharmacy benefit manager (PBM) that negotiates lower drug prices on behalf of clients such as employers and health plans, and its Aetna insurance arm that covers 24 million Americans.

Our firm believes CVS' most important ESG considerations are social issues – health outcomes and treatment of employees – and internal governance – executive compensation and diversity.

What CVS Does Well:

CVS Health has been at the forefront of ESG transparency and disclosure. The company has provided Corporate Social Responsibility reports annually for 15 years. The most notable move CVS Health has made in the last decade was the trailblazing ban of [tobacco sales in 2014](#). This wiped away \$2 billion in annual sales, but management noted it was “inconsistent with our purpose” of providing better health outcomes. CVS Health also announced plans to convert ~15% of their stores into [HealthHUBs in 2019](#), to help “transform the consumer health care experience” in the United States. In 2021, CVS raised its minimum wage to \$15/hour, double the federal mandate.

Concerns:

CVS Health has been involved in opioid lawsuits for the role it played in the crisis. CVS Health consistently denies any wrongdoing, even after settling to pay \$5 billion in 2022. CVS Health's CEO and chairman are two different individuals, but the company voted to retain the right to have them be the same individual, which our firm sees as a potential future conflict for interest. Although CVS Health recently raised its minimum wage, the company's executive compensation is lofty. The CEO was paid more than \$20 million in 2021 – leading to a 458 times CEO-to-median employee pay ratio. Studies have shown that CEOs paid more than 400 times to 2000 times the average worker frequently result in lower shareholder returns. High executive compensation is also a concern as the management team voted against providing all employees with paid sick leave, an issue brought to the surface by Covid. Our firm is concerned that there is a culture of being overworked and underpaid, particularly for the pharmacists, which may result in low morale. Providing paid sick leave would create a better culture and long-term employee retention. Please see the section below for additional information.

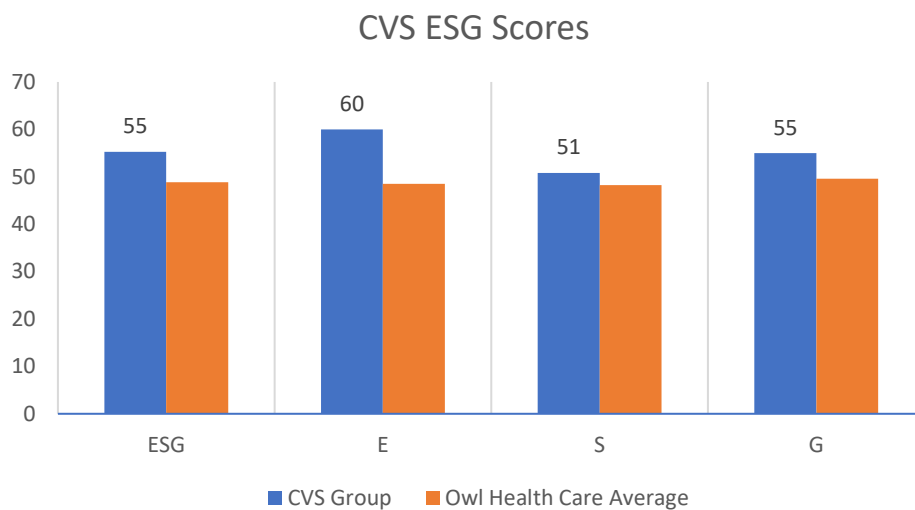
Shareholder Engagement:

The following ESG related shareholder engagements were filed and voted on at the 2022 annual general meeting:

- **Paid Sick Leave:** CVS has been asked to adopt and publicly disclose a policy that all employees, part-time and full-time, accrue some amount of PSL that can be used after working for a reasonable period. There was a fair amount of dialogue with

- CVS Health and the filer, which yielded no movement from CVS Health, resulting in a resolution being voted on in 2022. Our firm did not file the resolution but voted in favor of this proposal (25.9% shareholders voted “For” this proposal).
- **Civil Rights Audit:** CVS Health has been asked to analyze its impact on civil rights and non-discrimination, and the impact on its business. A similar resolution was filed in the prior year, led by our partner As You Sow, but was withdrawn since an agreement was reached where CVS Health committed to report on gender diversity by 2023 and racial diversity reporting by 2024. CVS Health also provided its first publicly available consolidated EEO-1 (equal employment opportunity) report in 2021. Our firm did not file either of these resolutions but voted in favor of both (1.6% of shareholders voted “For” this proposal).

ESG Scores:



Conclusion:

Overall, our firm believes CVS Health has trailblazed an admirable foundation for ESG reporting and accountability. Although not free from controversies, our firm considers CVS Health an ESG-conscious investment. The company’s primary operation involves the delivery of healthcare, and CVS Health is providing substantially more progress in terms of ESG reporting than other industry participants.

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