Express Scripts Holding Co.
Form 10-Q
August 01, 2018
Table of Contents

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 June 30, 2018.
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: 1-35490

EXPRESS SCRIPTS HOLDING COMPANY
(Exact name of registrant as specified in its charter)

Delaware	45-2884094
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Express Way, St. Louis, MO	63121
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (314) 996-0900

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Common stock outstanding as of July 27, 2018: 562,229,000 Shares

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Table of Contents

EXPRESS SCRIPTS HOLDING COMPANY
INDEX

Part I	Financial Information		
	Item 1.	Financial Statements (unaudited)	3
		a) Unaudited Consolidated Balance Sheet	3
		b) Unaudited Consolidated Statement of Operations	4
		c) Unaudited Consolidated Statement of Comprehensive Income	5
		d) Unaudited Consolidated Statement of Changes in Stockholders' Equity	6
		e) Unaudited Consolidated Statement of Cash Flows	7
		f) Notes to Unaudited Consolidated Financial Statements	8
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	45
	Item 4.	Controls and Procedures	45
Part II	Other Information		
	Item 1.	Legal Proceedings	46
	Item 1A.	Risk Factors	48
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	50
	Item 3.	Defaults Upon Senior Securities – (Not Applicable)	—
	Item 4.	Mine Safety Disclosures – (Not Applicable)	—
	Item 5.	Other Information – (Not Applicable)	—
	Item 6.	Exhibits	51
Signatures			52

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
EXPRESS SCRIPTS HOLDING COMPANY
Unaudited Consolidated Balance Sheet

(in millions)	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$2,942.3	$ 2,309.6
Receivables, net	7,338.1	7,056.3
Inventories	2,293.1	2,124.9
Prepaid expenses and other current assets	596.6	466.3
Total current assets	13,170.1	11,957.1
Property and equipment, net	504.7	551.3
Computer software, net	833.1	814.9
Goodwill	31,110.2	31,099.7
Other intangible assets, net	8,828.9	9,625.9
Other assets	230.8	206.9
Total assets	$54,677.8	$ 54,255.8
Liabilities and stockholders’ equity		
Current liabilities:		
Claims and rebates payable	$9,891.5	$ 10,188.5
Accounts payable	4,793.5	3,755.7
Accrued expenses	2,368.6	2,869.3
Short-term debt and current maturities of long-term debt	1,533.1	1,032.9
Total current liabilities	18,586.7	17,846.4
Long-term debt	13,457.6	14,981.5
Deferred taxes	2,426.6	2,562.4
Other liabilities	831.6	740.2
Total liabilities	35,302.5	36,130.5
Commitments and contingencies (Note 12)		
Stockholders’ equity:		
Preferred stock, 15.0 shares authorized, $0.01 par value per share; no shares issued and outstanding	—	—
Common stock, 2,985.0 shares authorized, $0.01 par value; shares issued: 865.4 and 862.3, respectively; shares outstanding: 562.1 and 564.4, respectively	8.7	8.6
Additional paid-in capital	23,704.0	23,537.8
Accumulated other comprehensive loss	(8.0)	(2.9)
Retained earnings	17,819.1	16,318.6
	41,523.8	39,862.1
Common stock in treasury at cost, 303.3 and 297.9 shares, respectively	(22,153.8)	(21,742.5)
Total Express Scripts stockholders’ equity	19,370.0	18,119.6
Non-controlling interest	5.3	5.7
Total stockholders’ equity	19,375.3	18,125.3
Total liabilities and stockholders’ equity	$54,677.8	$ 54,255.8

See accompanying Notes to Unaudited Consolidated Financial Statements

3

Table of Contents

EXPRESS SCRIPTS HOLDING COMPANY
Unaudited Consolidated Statement of Operations

(in millions, except per share data)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Revenues	$25,641.8	$25,347.5	$50,411.2	$50,002.4
Cost of revenues	23,437.6	23,186.3	46,327.6	45,968.5
Gross profit	2,204.2	2,161.2	4,083.6	4,033.9
Selling, general and administrative	892.0	782.6	1,809.8	1,600.7
Operating income	1,312.2	1,378.6	2,273.8	2,433.2
Other (expense) income:				
Interest income and other	8.8	8.8	20.8	15.1
Interest expense and other	(151.3)	(146.5)	(305.3)	(292.2)
	(142.5)	(137.7)	(284.5)	(277.1)
Income before income taxes	1,169.7	1,240.9	1,989.3	2,156.1
Provision for income taxes	290.3	435.4	484.0	800.3
Net income	879.4	805.5	1,505.3	1,355.8
Less: Net income attributable to non-controlling interest	2.1	3.7	4.8	7.7
Net income attributable to Express Scripts	$877.3	$801.8	$1,500.5	$1,348.1
Weighted-average number of common shares outstanding during the period:				
Basic	561.9	582.9	562.4	591.9
Diluted	565.5	585.6	566.3	595.4
Earnings per share:				
Basic	$1.56	$1.38	$2.67	$2.28
Diluted	$1.55	$1.37	$2.65	$2.26

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

EXPRESS SCRIPTS HOLDING COMPANY
Unaudited Consolidated Statement of Comprehensive Income

(in millions)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income	$879.4	$805.5	$1,505.3	$1,355.8
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(2.3)	3.5	(5.1)	4.7
Comprehensive income	877.1	809.0	1,500.2	1,360.5
Less: Comprehensive income attributable to non-controlling interest	2.1	3.7	4.8	7.7
Comprehensive income attributable to Express Scripts	$875.0	$805.3	$1,495.4	$1,352.8

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

EXPRESS SCRIPTS HOLDING COMPANY
Unaudited Consolidated Statement of Changes in Stockholders' Equity

	Number of Shares	Amount						
(in millions)	Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Non-controlling Interest	Total
Balance at December 31, 2017	862.3	$8.6	$23,537.8	$ (2.9)	$16,318.6	$(21,742.5)	$ 5.7	$18,125.3
Net income	—	—	—	—	1,500.5	—	4.8	1,505.3
Other comprehensive loss	—	—	—	(5.1)	—	—	—	(5.1)
Treasury stock acquired	—	—	—	—	—	(411.3)	—	(411.3)
Changes in stockholders' equity related to employee stock plans	3.1	0.1	166.2	—	—	—	—	166.3
Distributions to non-controlling interest, net of contributions	—	—	—	—	—	—	(5.2)	(5.2)
Balance at June 30, 2018	865.4	$8.7	$23,704.0	$ (8.0)	$17,819.1	$(22,153.8)	$ 5.3	$19,375.3

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

EXPRESS SCRIPTS HOLDING COMPANY
Unaudited Consolidated Statement of Cash Flows

(in millions)	Six Months Ended June 30, 2018			2017		
Cash flows from operating activities:						
Net income	$	1,505.3		$	1,355.8	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	1,002.5			894.8		
Deferred income taxes	(127.1		)	(175.6		)
Employee stock-based compensation expense	60.7			52.1		
Other, net	6.8			20.4		
Changes in operating assets and liabilities:						
Receivables	(298.1		)	(26.2		)
Inventories	(168.3		)	40.3		
Other current and noncurrent assets	(125.2		)	(23.6		)
Claims and rebates payable	(299.1		)	240.2		
Accounts payable	1,059.0			475.4		
Accrued expenses	(466.3		)	(818.0		)
Other noncurrent liabilities	78.7			46.0		
Net cash flows provided by operating activities	2,228.9			2,081.6		
Cash flows from investing activities:						
Capital expenditures for property and equipment and computer software	(175.8		)	(105.3		)
Acquisitions, net of cash acquired	(26.4		)	(122.7		)
Other, net	(24.7		)	(7.5		)
Net cash used in investing activities	(226.9		)	(235.5		)
Cash flows from financing activities:						
Repayment of long-term debt	(831.4		)	(575.0		)
	(420.7		)	(2,020.0		)

Treasury stock acquired				
Commercial paper repayments, net	(195.0	)	—	
Net proceeds from employee stock plans	106.2		37.5	
Other, net	(19.8	)	(16.3	)
Net cash used in financing activities	(1,360.7	)	(2,573.8	)
Effect of foreign currency translation adjustment	(8.6	)	3.0	
Net increase (decrease) in cash and cash equivalents	632.7		(724.7	)
Cash and cash equivalents at beginning of period	2,309.6		3,077.2	
Cash and cash equivalents at end of period	$ 2,942.3		$ 2,352.5	

See accompanying Notes to Unaudited Consolidated Financial Statements

Table of Contents

EXPRESS SCRIPTS HOLDING COMPANY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Note 1 - Summary of significant accounting policies

Our significant accounting policies, normally included in financial statements prepared in conformity with generally accepted accounting principles, have been omitted from this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). We believe the disclosures contained in this Form 10-Q are adequate to fairly state the information when read in conjunction with the Notes to the Consolidated Financial Statements included in our consolidated financial statements for the year ended December 31, 2017, included in Item 8 - Consolidated Financial Statements and Supplementary Data, included in our Annual Report on Form 10-K filed with the SEC on February 27, 2018. For a description of our accounting policies, refer to the Notes to the Consolidated Financial Statements included therein.

We believe the accompanying unaudited consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to state fairly the unaudited consolidated balance sheet as of June 30, 2018, the consolidated balance sheet as of December 31, 2017, the unaudited consolidated statement of operations and unaudited consolidated statement of comprehensive income for each of the three and six months ended June 30, 2018 and 2017, the unaudited consolidated statement of changes in stockholders' equity for the six months ended June 30, 2018, and the unaudited consolidated statement of cash flows for the six months ended June 30, 2018 and 2017. Certain amounts in the prior year have been reclassified to conform to the current year presentation. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Subsequent to December 15, 2017, the date of acquisition, our Other Business Operations segment includes medical benefit management services provided by CareCore National Group, LLC and its affiliates d/b/a eviCore healthcare ("eviCore"). See Note 5 - Acquisition for further description. Prior to December 27, 2017, our Other Business Operations segment also included consulting services for pharmaceutical and biotechnology manufacturers to collect scientific evidence to guide the safe, effective and affordable use of medicines. These services were provided by United BioSource Holdings, Inc. ("UBC"), which we sold on December 27, 2017.

On March 8, 2018, we entered into an Agreement and Plan of Merger, as amended by Amendment No. 1, dated as of June 27, 2018, and as it may be further amended from time to time (the "Merger Agreement"), with Cigna Corporation ("Cigna") and certain subsidiaries of Cigna whereby Cigna will acquire Express Scripts Holding Company ("Express Scripts" or the "Company") in a cash and stock transaction valued on announcement at approximately $67.0 billion, including Cigna's assumption of approximately $15.0 billion in Express Scripts debt. The merger consideration per share of Company common stock will consist of (i) 0.2434 of a fully paid and nonassessable share of common stock of the combined company and (ii) the right to receive $48.75 in cash, without interest. Upon closing of the transaction, Cigna stockholders are expected to own approximately 64% of the combined company and Express Scripts stockholders are expected to own approximately 36%. Consummation of the mergers is subject to certain customary conditions, including approval by the holders of a majority of the outstanding shares of Company common stock entitled to vote on the adoption of the Merger Agreement and approval by the holders of a majority of the outstanding shares of Cigna common stock entitled to vote on the adoption of the Merger Agreement (the shares of common stock of the combined company to be issued in the merger having been approved for listing on the New York Stock Exchange), the receipt of certain necessary governmental and regulatory approvals without the imposition of Burdensome Conditions (as defined in the Merger Agreement), the lack of any pending action or proceeding instituted by certain governmental entities to enjoin, restrain or prohibit the merger, and the receipt by each of the Company and Cigna of certain tax opinions. On April 23, 2018, Cigna and Express Scripts each received a request for additional information and documentary material from the U.S. Department of Justice (the "DOJ") in connection with the DOJ's review of the transaction. On July 16, 2018, Express Scripts announced that its special meeting of stockholders to consider and vote on the adoption of the Merger Agreement is scheduled to be held on August 24, 2018 at 9:00 a.m. Central Time, at Express Scripts' corporate headquarters, One Express Way, Saint Louis Missouri 63121. The mergers are expected to be completed by December 31, 2018. Until the closing, we will continue to operate as an independent company.

Adopted new accounting guidance. In May 2014, Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers (ASC Topic 606), which supersedes ASC Topic 605, Revenue Recognition. The new standard requires companies to recognize revenues upon transfer of goods or services to customers in amounts that reflect the consideration which the company expects to receive in exchange for those goods or services. We adopted ASC Topic 606, as of January 1, 2018, using the modified retrospective method applied to all contracts. The effect of initially applying the new revenue standard did not result in an opening balance adjustment to retained earnings as of the beginning of the earliest comparative period presented; however, it did result in an increase to both revenues and cost of revenues for the period ended March 31, 2018. The following are the impacts of the new revenue standard upon adoption:

Table of Contents

- resulted in reclassifications between revenues and cost of revenues,
- provided new guidance for evaluating performance obligations, which affected how we interpret the nature of our promises to customers, the control we have in PBM arrangements, and the principal-agent analysis, and resulted in changing recognition of certain contracts from net to gross, and
- required non-cash consideration associated with a certain contract where the client replenishes inventory to be recognized at fair value.

These changes resulted in an increase to both revenues and cost of revenues of $785.3 million and $1,584.1 million for the three and six months ended June 30, 2018, respectively, with no impact to gross profit.

In August 2016, FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. The guidance addresses the classification of cash flow related to (1) debt prepayment or extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance, including bank-owned life insurance, (6) distributions received from equity method investees and (7) beneficial interests in securitization transactions. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2017 and applied retrospectively. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash. This guidance requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted these ASUs effective January 1, 2018, retrospectively, with no significant impact on our consolidated financial statements for the three and six months ended June 30, 2018 and 2017. In certain historical periods, debt extinguishment costs were reclassified from an operating activity to a financing activity as a result of adoption.

New accounting guidance not yet adopted. In February 2016, FASB issued ASU 2016-02, Leases (ASC Topic 842), which supersedes ASC Topic 840, Leases. This ASU is intended to increase transparency and comparability of organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. The new guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2018, and early application is permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

Note 2 - Revenue

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

Revenue recognition - PBM. Revenues from our PBM segment are earned by dispensing prescriptions from our home delivery and specialty pharmacies, processing claims for prescriptions filled by retail pharmacies in our networks, and providing services to drug manufacturers, including administration of discount programs (see also “Rebate accounting” below).

Our PBM contracts with customers generally obligate us to provide prescription drugs to the client’s members through multiple distribution methods, including retail network, home delivery, and specialty pharmacies as needed. We provide a service of integrating the goods and services selected by our clients into one overall output for which the client has contracted. Thus, PBM contracts generally contain a single performance obligation. We have elected the practical expedient to account for shipping and handling as a fulfillment activity. The nature of our performance obligation is to stand ready to process claims, dispense prescription drugs, and provide other services over the contractual period (generally three years); the quantity or timing of the service provided is in the control of our clients’ members. As such, our performance obligation forms a series of distinct periods of time over which we stand ready to perform. Our performance obligation is satisfied as we complete each period’s (day’s) obligations.

Consideration from PBM contracts is variable in nature because fees are based on services provided to members and claims processed, which can vary from period to period and are outside of our control. Fees are invoiced to our clients either on a periodic basis (e.g., monthly) or as service is provided (e.g., based on volume of claims processed or other

service provided) and payment terms are generally due within 30 days. Variable consideration in our PBM contracts meets the criteria to be allocated to the distinct period of time to which it occurs because (i) it is related to the activities performed to satisfy the performance obligation during that period and (ii) it represents the value provided to our customers over the contract term.

Table of Contents

Revenues related to dispensing prescription drugs by retail pharmacies in our networks consist of the prescription price (ingredient cost plus dispensing fee) negotiated with our clients, including the portion to be settled directly by the member (co-payment), plus any associated fees for services. The variable consideration associated with retail network transactions is recognized as revenue when claims are adjudicated. We act as a principal in the arrangement and we include the total prescription price as revenues. Through adjudication, we control the process of dispensing the drug even though physical delivery is provided by a retail network pharmacy. When a prescription is presented by a member to a retail pharmacy within our network, we are solely responsible for confirming member eligibility, performing drug utilization review, reviewing for drug-to-drug interactions, performing clinical intervention which may involve a call to the member's physician, communicating plan provisions to the pharmacy, directing payment to the pharmacy and billing the client for the amount it is contractually obligated to pay us for the prescription dispensed, as specified within our client contracts. We also provide benefit design and formulary consultation services to clients. We have separately negotiated contractual relationships with our clients and with network pharmacies. These factors indicate we have control over the transaction before the prescription is transferred to the member and, thus, that we are acting as a principal. As such, we record the total prescription price contracted with clients in revenues.

In retail pharmacy transactions, amounts paid to pharmacies and amounts charged to clients are always exclusive of the applicable co-payment. Retail pharmacy co-payments, which we instruct retail pharmacies to collect from members, are included in our revenues and our cost of revenues.

When prescriptions are dispensed from our home delivery pharmacies, control of the prescription transfers and revenue is recognized when drugs are shipped. At the time of shipment, our earnings process is complete; the obligation of our customer to pay for the drugs is fixed and, due to the nature of the product, the member may not return the drugs or receive a refund.

Revenues from our specialty pharmacies are from providing medications/pharmaceuticals for diseases that rely upon high-cost injectable, infused, oral or inhaled drugs which have sensitive handling and storage needs and from providing fertility pharmaceuticals to providers and patients. Control of specialty revenues earned by our PBM segment transfers to the customer at the point of shipment. At the time of shipment, we have performed substantially all of our obligations under our customer contracts and do not experience a significant level of reshipments. Appropriate reserves are recorded for discounts and contractual allowances, which represent variable consideration and are estimated based on collection experience. Any differences between our estimates and actual collections are reflected in operations in the period in which payment is received. Historically, adjustments to our original estimates have not been material. Differences may affect the amount and timing of our revenues for any period if actual performance varies from our estimates. Allowances for returns are estimated based on historical return trends and are not material.

Revenues from our PBM segment are also derived from the distribution of pharmaceuticals requiring special handling or packaging where we have been selected by the pharmaceutical manufacturer as part of a limited distribution network. These revenues include management fees received from these programs.

Many of our contracts contain terms whereby we make certain financial and performance guarantees, including the minimum level of discounts or rebates a client may receive, generic utilization rates and various service guarantees. These clients may be entitled to the payment of performance penalties if we fail to meet a financial or service guarantee. Actual performance is compared to the guarantee for each measure throughout the period and accruals are recorded as an offset to revenues if we determine our performance against the guarantee indicates a potential contract liability. These estimates are adjusted to actual when the guarantee period ends and we have either met the guaranteed rate or paid amounts to clients. Historically, adjustments to our original estimates have not been material.

Revenue recognition - Other Business Operations. Revenues from our Other Business Operations segment are earned from the distribution of specialty pharmaceuticals and medical supplies to providers, clinics and hospitals and performance-oriented fees paid by specialty pharmacy manufacturers. Revenues from our Other Business Operations segment are also earned through integrated medical benefit management solutions that drive cost reductions and improved quality care outcomes. Prior to the sale of UBC on December 27, 2017, revenues from our Other Business Operations also included fee-for-service arrangements which were earned from late-stage clinical trials, risk management and drug safety services associated with UBC.

For contracts in which we are distributing prescription drugs, control transfers to the customer and revenues are recognized at the point of shipment. At the time of shipment, we have performed substantially all of our obligations under our customer contracts and historically have not experienced a significant level of reshipments. Receivables are recorded at the net realizable value and there are no material reserves or allowances.

Table of Contents

Since our acquisition of eviCore on December 15, 2017, Other Business Operations includes revenues from medical benefits management contracts, through which we provide innovative solutions that include utilization management using evidence based criteria, analytics, patient transparency and site of service management as well as access to certain provider specialty networks for our clients and their members. The activity involves developing clinical review criteria for provider inquiries, assessing medical necessity of treatment, and maintaining a network of providers. In some medical benefits management contracts, we earn a per-member-per month fee which is earned over the period in which our client's eligible members are entitled to service, and in other contracts we are paid a per-claim fee for the services we provide which is earned as services are rendered. We are responsible for confirming member eligibility, performing program utilization review, potentially directing payment to the provider and accepting the financial risk of loss associated with services rendered, as specified within our client contracts. We have the ability to influence contractual fees with clients and possess the financial risk of loss in certain contractual obligations. These factors indicate we are the principal and, as such, we record gross fees contracted with clients in revenues.

We provide a significant service of integrating the goods and services selected by our clients into one overall output for which the client has contracted. Thus, medical benefit management contracts generally contain a single performance obligation. The nature of our performance obligation is to stand ready to provide services over the contractual period (generally three years), but the quantity or timing of the service provided is in the control of our clients' members. Also, our performance obligation forms a series of distinct periods of time over which we stand ready to perform. Our performance obligation is satisfied as we complete each period's (day's) obligations. Consideration from medical benefits management contracts is variable in nature because fees are based on member enrollment, credits due to clients and reimbursement of provider costs, all of which can vary from period to period. We have control over pricing. Contractual fees are invoiced to our clients monthly and payment terms are generally due within 30 days. The variable consideration in our medical benefits management contracts meets the criteria to be allocated to the distinct period of time to which it relates because (i) it is due to the activities performed to satisfy the performance obligation during that period and (ii) it represents the consideration to which we expect to be entitled. However, consideration that is impacted by more than one distinct period of service (e.g., annual credits due to clients) are estimated and allocated to the entire period to which performance relates.

Certain arrangements in our medical benefit management contracts include provisions that require us to share with the client the costs or profits of the program in the event medical claims experience is above or below certain specified targets as set forth in the respective contract. The final settlement is dependent on each distinct day's performance within the annual measurement period, but cannot be allocated to specific days until the full measurement period has occurred and performance can be assessed. As such, this is a form of variable consideration estimated at contract inception and updated through the measurement period (i.e. the contract year), to the extent the risk of reversal does not exist and the consideration is not constrained. The estimated profits and costs are recognized net in revenues.

Rebate accounting. We administer a rebate program through which we receive rebates and administrative fees from pharmaceutical manufacturers. If rebates are provided in conjunction with claims processing and home delivery services provided to clients in PBM contracts, they are not considered distinct within the contract from claim processing and other PBM services. Rebates are considered a form of variable consideration. Rebates and administrative fees earned for the administration of this program are recorded as a reduction of cost of revenues and the portion of the rebate and administrative fees payable to clients is treated as a reduction of revenues. The portion of rebates and administrative fees payable to clients is calculated based on historical and/or anticipated sharing percentages as defined within our contracts with clients. These payables are adjusted to actual when amounts are paid to clients subsequent to collections from pharmaceutical manufacturers; historically, these adjustments have not been material. We pay all or a contractually agreed upon portion of such rebates to our clients. We record rebates and administrative fees receivable from the manufacturer and payable to clients when the prescriptions covered under contractual agreements with the manufacturers are dispensed; this is the period to which this variable consideration relates and to which it is allocated, and rebate amounts are not dependent upon future purchases with the pharmaceutical company. If rebates are provided in a contract with a customer that does not include claims processing, our performance obligation is to arrange for the customer to receive rebates from pharmaceutical manufacturers. Rebates and administrative fees for these services are recorded in revenue, net of rebates and

administrative fees payable to the customer. Reserves for estimated uncollectible rebates from the manufacturers are included in accounts receivable.

Table of Contents

Disaggregated revenue. The following table disaggregates our revenue by product and service, distribution method, and segment:

(in millions)	PBM[1]	Other Business Operations[2]	Total
For the three months ended June 30, 2018			
Product revenues:			
Network revenues[3][4]	$12,604.1	$ —	$12,604.1
Home delivery and specialty revenues[4][5]	10,987.4	—	10,987.4
Other revenues	—	1,087.7	1,087.7
Product revenues	23,591.5	1,087.7	24,679.2
Service revenues	298.3	664.3	962.6
Total revenues	23,889.8	1,752.0	25,641.8
For the three months ended June 30, 2017			
Product revenues:			
Network revenues[3]	$12,392.9	$ —	$12,392.9
Home delivery and specialty revenues[5]	11,365.8	—	11,365.8
Other revenues[6]	—	1,130.1	1,130.1
Product revenues	23,758.7	1,130.1	24,888.8
Service revenues	373.0	85.7	458.7
Total revenues	24,131.7	1,215.8	25,347.5
For the six months ended June 30, 2018			
Product revenues:			
Network revenues[3][4]	$24,866.6	$ —	$24,866.6
Home delivery and specialty revenues[4][5]	21,590.1	—	21,590.1
Other revenues	—	2,044.0	2,044.0
Product revenues	46,456.7	2,044.0	48,500.7
Service revenues	605.6	1,304.9	1,910.5
Total revenues	47,062.3	3,348.9	50,411.2
For the six months ended June 30, 2017			
Product revenues:			
Network revenues[3]	$24,799.3	$ —	$24,799.3
Home delivery and specialty revenues[5]	22,194.2	—	22,194.2
Other revenues[6]	—	2,140.3	2,140.3
Product revenues	46,993.5	2,140.3	49,133.8
Service revenues	699.5	169.1	868.6
Total revenues	47,693.0	2,309.4	50,002.4

(1) Includes the results of operations for myMatrixx subsequent to acquisition on May 15, 2017.

(2) Includes the results of operations for eviCore subsequent to acquisition on December 15, 2017, and results of operations for UBC prior to its sale on December 27, 2017.

(3) Includes retail pharmacy co-payments of $2,054.5 million and $2,017.6 million for the three months ended June 30, 2018 and 2017, respectively, and $4,546.9 million and $4,483.9 million for the six months ended June 30, 2018 and 2017, respectively.

(4) Includes the impact of the increase to both network revenues and cost of revenues of $683.6 million and $1,342.4 million for the three and six months ended June 30, 2018, respectively, and the increase to both home delivery and specialty revenues and cost of revenues of $101.7 million and $241.7 million for the three and six months ended June 30, 2018, respectively, related to the adoption of ASC Topic 606 effective January 1, 2018.

(5) Includes home delivery and specialty, including drugs we distribute to other PBMs' clients under limited distribution contracts with pharmaceutical manufacturers, and Freedom Fertility claims.

(6) Includes other revenues related to drugs distributed through patient assistance programs, which were disposed of as part of the sale of UBC on December 27, 2017.

Table of Contents

Contract balances. For PBM contracts, contract liabilities arise due to financial and performance guarantees that we have made to our clients. We measure our performance against these guarantees throughout the period and recognize a contract liability as indicated by our performance. Guarantees also fluctuate based on the timing of payments. Our contract liability balance was $768.8 million and $785.6 million as of June 30, 2018 and December 31, 2017, respectively, and are presented within the "Accrued expenses" line item of the consolidated balance sheet.
Contract liabilities balances also arise when we receive set-up fees or other up-front fees from our customers. This is generally uncommon, but may occur in some cases when we onboard a new client. Upfront fees are recognized as revenue over the contract term (generally three years).
We have no material contract asset balances as of June 30, 2018 or December 31, 2017.
Transaction price allocated to remaining performance obligations. As described above, our performance obligation forms a series of distinct periods of time over which we stand ready to perform, and is satisfied as we complete our obligation. Our contracts with PBM customers generally have a term of three years, while our specialty distribution contracts generally have a term of less than 30 days because each sale of prescription drugs is a separate contract. Our contracts to manage medical benefits and provide utilization management services generally have a term of three years. Since the remaining variable consideration will be allocated to a wholly unsatisfied promise that forms part of a single performance obligation recognized under the series guidance, we have applied the optional exemption to exclude this disclosure.
Note 3 - Fair value measurements
Authoritative guidance regarding fair value measurement establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices for similar assets and liabilities in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.
Cash and cash equivalents include cash and investments in AAA-rated money market mutual funds with original maturities of less than 90 days. Cash and cash equivalents are stated at cost, which approximates fair value. These investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted prices in active markets. The fair values of receivables, claims and rebates payable and accounts payable approximate carrying values due to the short-term maturities of these instruments.
The fair values, which approximate the carrying values, of our 2015 five-year term loan (Level 2) and commercial paper borrowings (Level 2) (as defined in Note 8 - Financing) were estimated using the current market rates for debt with similar maturities. The fair values of our senior notes, which are estimated based on observable market information (Level 2), were $12,701.2 million and $14,215.7 million as of June 30, 2018 and December 31, 2017, respectively. See Note 8 - Financing for further description of the carrying values of our debt. In determining the fair values of liabilities, we took into consideration the risk of nonperformance. Nonperformance risk refers to the risk the obligation will not be fulfilled and affects the value at which the liability would be transferred to a market participant. This risk did not have a material impact on the fair values of our liabilities.
Note 4 - Receivables, net

Included within "Receivables, net" are the following, which are reflected net of our allowance for doubtful accounts, customer credit allowances and contractual allowances:

(in millions)	June 30, 2018	December 31, 2017
Trade receivables, net of total reserves and allowances of $456.2 million and $466.6, respectively	$4,105.4	$4,101.6
Pharmaceutical manufacturers receivables, net of contractual allowances for certain rebates receivable of $476.5 million and $414.1 million, respectively	2,829.8	2,580.8
Other receivables	402.9	373.9
Total receivables, net	$7,338.1	$7,056.3

Table of Contents

Note 5 - Acquisition
eviCore acquisition. Effective December 15, 2017, we acquired 100% of eviCore, a leading provider of integrated medical benefit management solutions that drive cost reductions and improved quality care outcomes, for approximately $3.6 billion. eviCore manages benefits in categories including radiology, cardiology, musculoskeletal disorders, post-acute care and medical oncology, and contracts with health plans and commercial clients to promote the appropriate use of healthcare services. eviCore is reported within our Other Business Operations segment.
We executed a contingent arrangement with certain equity holders, who are key employees of eviCore, in which $81.1 million will be paid 50% upon each of the second and third anniversaries of the effective date of the merger. The employment arrangements provide that payments are forfeited if the employee voluntarily terminates prior to the anniversary dates. The payments are accrued over the three-year period as post combination services are rendered and included as compensation costs within “Selling, general, and administrative” expense in our consolidated statement of operations.
The consolidated statement of operations for the three and six months ended June 30, 2018 includes eviCore’s revenues of $664.2 million and $1,304.9 million and net income (loss) of $3.8 million and $(2.3) million, respectively. Net income (loss) includes amortization expense and $9.9 million and $20.3 million related to the contingent arrangement described above for the three and six months ended June 30, 2018, respectively.
The following represents the unaudited pro forma consolidated income statement as if eviCore had been included in the consolidated results of the Company’s operations for the three and six months ended June 30, 2017. These amounts have been calculated after applying the Company’s accounting policies and adjusting the results of eviCore to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to intangible assets, redemption of debt outstanding and transaction costs incurred had been applied as of January 1, 2016, together with the consequential tax effects.

(in millions, except per share data)	For the three months ended June 30, 2017	For the six months ended June 30, 2017
Total revenues	$25,916.5	$51,066.4
Net income attributable to Express Scripts	809.4	1,336.9
Basic earnings per share	1.39	2.26
Diluted earnings per share	$1.38	$2.25

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

(in millions)	Amounts Recognized as of Acquisition Date
Current assets	$ 494.7
Property and equipment	15.2
Computer software	89.7
Goodwill	1,708.9
Acquired intangible assets	2,328.8
Other noncurrent assets	2.9
Current liabilities	(387.4)
Deferred income taxes	(592.3)
Other noncurrent liabilities	(9.0)
Total	$ 3,651.5

14

Table of Contents

A portion of the excess of purchase price over tangible net assets acquired has been allocated to intangible assets. The acquired intangible assets have been valued using an income approach, which includes unobservable inputs such as assumptions regarding revenues, gross profit, growth rates and discount rates based on the forecasted business plan, economic projections, anticipated future cash flows and marketplace data. The acquired intangible assets are amortized on a basis that approximates the pattern of benefit:

	Asset Value (in millions)	Weighted-average amortization period (in years)
Trade name	$56.1	10.0
Customer relationships	2,272.7	20.0
Total intangibles	$2,328.8	19.8

The excess of purchase price over tangible net assets and identified intangible assets acquired, $1,708.9 million, has been allocated to goodwill. The goodwill recognized as part of the acquisition is reported under our Other Business Operations segment and primarily reflects future economic benefits expected to arise from the Company's growth within the medical benefit management market and the assembled workforce acquired. Approximately $397.0 million of the goodwill recognized is expected to be deductible for income tax purposes. Purchase accounting has been finalized in relation to this acquisition.

Note 6 - Goodwill and other intangible assets

Following is a summary of our goodwill and other intangible assets for our two reportable segments, PBM and Other Business Operations.

	June 30, 2018			December 31, 2017		
(in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Goodwill						
PBM	$29,433.9	$(106.9)	$29,327.0	$29,434.9	$(107.0)	$29,327.9
Other Business Operations	1,783.2	—	1,783.2	1,771.8	—	1,771.8
	$31,217.1	$(106.9)	$31,110.2	$31,206.7	$(107.0)	$31,099.7
Other intangible assets						
PBM						
Customer contracts	$17,530.2	$(11,040.1)	$6,490.1	$17,579.0	$(10,378.4)	$7,200.6
Trade names	232.5	(140.5)	92.0	232.5	(128.8)	103.7
	17,762.7	(11,180.6)	6,582.1	17,811.5	(10,507.2)	7,304.3
Other Business Operations						
Customer relationships	2,282.5	(89.2)	2,193.3	2,272.7	(7.0)	2,265.7
Trade names	56.7	(3.2)	53.5	56.1	(0.2)	55.9
	2,339.2	(92.4)	2,246.8	2,328.8	(7.2)	2,321.6
Total other intangible assets	$20,101.9	$(11,273.0)	$8,828.9	$20,140.3	$(10,514.4)	$9,625.9

Following is a summary of the change in the net carrying value of goodwill by reportable segment:

(in millions)	PBM	Other Business Operations	Total
Balance at December 31, 2017	$29,327.9	$ 1,771.8	$31,099.7
Acquisitions[(1)]	—	11.4	11.4
Foreign currency translation	(0.9)	—	(0.9)
Balance at June 30, 2018	$29,327.0	$ 1,783.2	$31,110.2

(1) Represents the acquisition of a company by eviCore in the first quarter of 2018 (which is not material to our consolidated financial statements) and an adjustment associated with net working capital for the eviCore acquisition. Purchase accounting has been finalized for both the acquisition of eviCore in the fourth quarter of 2017

and the acquisition by eviCore in the first quarter of 2018.

Table of Contents

The aggregate amount of amortization expense of other intangible assets was $403.9 million and $364.1 million for the three months ended June 30, 2018 and 2017, respectively, and $807.4 million and $726.5 million for the six months ended June 30, 2018 and 2017, respectively.
Included in total amortization expense is $55.4 million for each of the three months ended June 30, 2018