

<b>Company:</b> CVS Health Corporation	<b>Ticker:</b> CVS (NYSE)	<b>Price:</b> \$77.54 (4/6/23)	<b>Industry:</b> Healthcare
Target Price: \$85.77 Stop Loss: \$62.03 52 Week High/Low: \$107.73/\$72.10	TTM P/E: 24.5x Forward P/E: 8.81x EPS (22 FY): \$1.75	Beta (5Y): 0.63 Credit Rating: BBB (S&P) Rating Outlook: Stable	Market Cap: 99.57 billion Avg. Vol. (3M): 9.36 M Div. Yield: 3.12%

#### Company Background:

CVS is a leading American retail pharmacy and healthcare company headquartered in Woonsocket, Rhode Island. Founded in 1963, the company has grown to become one of the largest pharmacy chains in the United States, with over 9,900 retail locations across the country. CVS offers a wide range of healthcare services and products, including prescription medications, over-the-counter drugs, health and wellness products, and beauty supplies. The company also operates walk-in medical clinics called MinuteClinic, which offer basic medical services such as vaccinations, physical exams, and treatment for minor illnesses and injuries. In addition to its retail pharmacies and clinics, CVS also operates a large pharmacy benefits management (PBM) business, which provides prescription drug coverage and related services to employers, health plans, and government programs. CVS is also involved in the specialty pharmacy business, which provides medications and services for patients with complex medical conditions.

#### Industry Outlook:

The healthcare industry is undergoing significant transformation driven by several factors, including technological advancements, changing consumer expectations, and demographic shifts. While the industry is facing challenges such as rising healthcare costs and government regulations, there are also opportunities for growth and innovation. An aging population is driving demand for healthcare products and services, particularly in areas such as chronic disease management, long-term care, and hospice services. This trend is expected to continue in the coming years, creating opportunities for healthcare providers and companies that specialize in these areas. Advances in technology are transforming the healthcare industry, from electronic health records to telemedicine and wearables. These innovations are improving patient outcomes and driving efficiency in the delivery of care. In addition, data analytics and artificial intelligence are being used to improve clinical decision-making and personalize patient care. Consumers are becoming more engaged in their healthcare decisions, driving demand for greater transparency and convenience in the delivery of care. This has led to the rise of digital health solutions, such as telemedicine and mobile health apps, which allow patients to access healthcare services from their own homes. Healthcare companies are facing increasing pressure from government regulations, particularly in areas such as drug pricing and reimbursement. In addition, the COVID-19 pandemic has highlighted the need for greater investment in public health infrastructure and preparedness.

#### Investment Thesis:

- CVS is a leading healthcare provider. With more than 9,000 retail locations and a broader network of 66,000 pharmacies, CVS can serve roughly 35 million customers through its health insurance products and services. Its scale allows the company to provide high quality care at a lower cost than competitors, meeting customers in every market throughout the United States.
- CVS has made various strategic acquisitions that have added tremendous value to the company and transformed it from a retailer to a leading healthcare provider. CVS aims to be an integrated healthcare delivery provider, and by controlling more aspects of healthcare delivery in-house, the company can reduce costs and simplify the customer experience, all by making locations a one-stop shop for all health-related needs.
- CVS is committed to returning value to shareholders, both through dividend payments and share repurchases. The company has consistently increased its dividend over the past decade, with the current dividend yield at 3.12%. Additionally, it has launched a robust share repurchase program, after halting repurchases for the past three years for deleveraging purposes.

#### Investment Risks:

- Acquisition Integration:** If CVS cannot properly integrate Aetna and other companies into its strategy, it will force the company to make a hard pivot and render the capital deployed useless.
- Debt Repayment:** If CVS cannot service its short-term and long-term debt obligations, it will experience significant operational difficulties.
- Regulation & Relationships:** Increasing healthcare costs, coupled with government, consumer, and business pressure to reduce those costs, will lower margins and lead to unfavorable pricing agreements.
- Fierce Competition:** Inability to execute on strategy and innovate across business segments will reduce profitability and growth.

#### 3-5 takeaways from last quarter investor call transcript:

- Total revenues increased to \$322.5 billion, up 10.4% compared to the prior year.
- GAAP diluted EPS of \$3.14 and Adjusted EPS of \$8.69.
- Generated cash flow from operations of \$16.2 billion.
- Repaid \$4.1 billion of long-term debt.

#### 5-Year Financial Performance:

	CVS	XLV	SPY
YTD	-16.54%	-0.44%	7.45%

#### 5-year Total Return

Total Return	%
CVS	↑ 22.24%
RAD (Rite Aid)	↓ -93.24%
WBA (Walgreens)	↓ -43.94%
SPY (S&P)	↑ 54.32%
XLV (Health Care Sector)	↑ 63.09%

#### DCF Valuation:

Implied Perpetuity Growth Rate	
Terminal Year FCF	\$13,110
Discount Rate	9.50%
Terminal Value	\$226,151
Perpetuity Growth Rate	3.50%
Implied Equity Value and Share Price	
PV of FCF	\$56,401
PV of Terminal Value	\$91,255
Enterprise Value	\$147,656
Less: Debt	\$50,476
Add: Cash & Equivalents	\$12,945
Equity Value	\$110,125
Shares Outstanding	1,284
Implied Share Price	\$85.77
Current Price	\$ 77.54
Margin of Safety	10.61%

Comparable Companies:

ESG:

Ticker	Name	Mkt Cap (USD)	Revenue:Y	EBIT:Y	ROE:Y	ROIC:Y	P/E
CVS US Equity	CVS HEALTH CORP	99.57 B	322.47 B	7.75 B	13.88%	7.59%	23.99
CI US Equity	THE CIGNA GROUP	78.80 B	180.52 B	8.41 B	13.13%	7.14%	11.44
PINC US Equity	PREMIER INC-CLASS A	3.9 B	1.43 B	260.07 M	11.71%	8.84%	22.28
OPCH US Equity	OPTION CARE HEALTH INC	5.67 B	3.94 B	240.23 M	11.12%	6.88%	38.23
GDRX US Equity	GOODRX HOLDINGS INC-CLASS A	2.35 B	766.5 M	1.74 M	24.30%	2.69%	-
ELV US Equity	ELEVANCE HEALTH INC	114.73 B	156.60 B	8.62 B	18.04%	11.37%	19.04
HUM US Equity	HUMANA INC	64.98 B	92.87 B	3.8 B	21.80%	12.89%	23.15
CNC US Equity	CENTENE CORP	36.36 B	144.55 B	1.32 B	13.35%	6.01%	30.24
MOH US Equity	MOLINA HEALTHCARE INC	16.64 B	31.97 B	1.17 B	34.72%	20.35%	15.88
UNH US Equity	UNITEDHEALTH GROUP INC	478.37 B	324.16 B	28.43 B	26.91%	15.72%	23.76
HSIC US Equity	HENRY SCHEIN INC	11.12 B	12.65 B	747.00 M	26.66%	15.52%	20.67

Overall ESG Rating :

A

RATING SCALE



CVS Health is average among 50 companies in the health care providers & services industry.

	Score	2Y Change	Vs Peers
Environmental	4.19	-0.40	Below Median
Social	2.11	+0.00	Above Median
Governance	7.68	+0.45	Leading

Initiatives aimed at responsible waste disposal and emission reductions to improve environmental impact.