|  |  |  |  |
| --- | --- | --- | --- |
| **Company: CVS Health Corporation** | Ticker: CVS Current Price: $100.38 | Industry: Health Care | Sub Industry: Health Care Plans |
| Target Price: $117.05  Stop Loss: $80.3  52 Week High/ Low: $113.65/$81.37 | TTM P/E: 22.01  Forward P/E: 19.43  EPS: 4.47 | Beta: 0.87  Credit Rating: A+  Rating Outlook: Positive | Market Cap: $111.1B  Avg Vol (12 Month): 5.4M  Dividend Yield: 1.32 |

|  |
| --- |
| **Company Background:** |
| CVS Health is uniquely positioned to provide access to care that’s most convenient for each patient with its unmatched breadth of assets and channel-agnostic approach. The company is a market leader in retail pharmacy, pharmacy benefits management, specialty pharmacy, and retail medical clinics—and very well positioned in an era of consumer-directed health care. CVS Health has captured one third of total U.S. prescription growth since 2008. Through its 7,800 retail pharmacies, more than 900 walk-in medical clinics, a leading pharmacy benefits manager with more than 65 million plan members, and expanding specialty pharmacy services, CVS enables people, businesses, and communities to manage health in more effective ways. |
| **Industry Outlook:** |
| The U.S. health care landscape is currently undergoing its most transformative change in decades, due in large part to the implementation of the Affordable Care Act (ACA). More than 30 million Americans are expected to gain health care coverage by 2018, with enrollment expansion occurring primarily through Medicare, Medicaid, and the public exchanges. Health care consumers are taking on greater responsibility for choosing their own plans and controlling costs – the “retailization” of health care. In this environment, payers and physicians are increasingly looking for new ways to improve the health care value equation. |
| **Investment Thesis:** |
| * With U.S. health care and prescription drug spending on the rise, CVS offers comprehensive solutions that help clients manage this trend without sacrificing patient care. It helps providers by combining high-quality care with affordable pricing across a range of services. The company’s business model and goal will bring it rapid growth and long-term growth in the future. * The company continues to expand its footprint in existing markets as well as by entering new markets such as Seattle. It opened or acquired 184 new stores in 2014, and opened 400 retail stores since 2010. * The company generates more free cash flow. The company increased 21% in cash from operations since 2010, and increased 48% in free cash flow in 2014. * The company focuses on the shareholder value. The company increased the dividend payout ratio from 14% to 24% since 2010. In addition, shareholders are expected to receive more than $7 billion through dividends and share repurchases in 2015. |
| **Investment Risks:** |
| * The possibility of PBM client loss and/or the failure to win new PBM business. * Risks related to the frequency and rate of the introduction of generic drugs and brand name prescription products. * Risks relating to the market availability, suppliers and safety profiles of prescription drugs that the company purchases and sells |
| **3-5 take away from last quarter investor call transcript:** |
| * Currently expect to achieve adjusted EPS for 2015 of $5.14 to $5.18. * A preliminary outlook of EPS for 2016 in the range of $5.68 to $5.88, reflecting growth in adjusted EPS of approximately 10% to 14% in 2016 * Operating profit in the Retail Long-Term Care business increased 8.4%, while operating profit in the Pharmacy Services Segment increased 7% in the third quarter * Issued debt in July |

|  |  |
| --- | --- |
| **Financial Performance:** | **Discounted Cash Flow** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | 2012 | 2013 | 2014 | Q1-2015 | Q2-2015 | Q3-2015 | | Revenue | 123120.00 | 126761.00 | 139367.00 | 36332.00 | 37169.00 | 38644.00 | | Operating Profit | 7210.00 | 8037.00 | 8799.00 | 2132.00 | 2262.00 | 2331.00 | | Net Income | 3864.00 | 4592.00 | 4644.00 | 1221.00 | 1272.00 | 1246.00 | | Revenue Growth % | 14.96 | 2.96 | 9.94 | 11.14 | 7.42 | 10.35 | | EBITDA% | 7.28 | 7.82 | 7.70 | 7.22 | 7.40 | 7.41 | | Operating Profit % | 5.86 | 6.34 | 6.31 | 5.87 | 6.09 | 6.03 | | Net Income Margin | 3.14 | 3.62 | 3.33 | 3.36 | 3.42 | 3.22 | | D/E | 26.10 | 35.33 | 34.13 | 34.50 | 35.40 | 73.22 | | Interest Coverage | 11.75 | 15.07 | 13.40 | 15.91 | 13.63 | 8.99 | | EPS | 3.04 | 3.77 | 3.98 | 1.08 | 1.13 | 1.11 | | PE Ratio | 15.16 | 19.29 | 22.79 | 23.73 | 23.62 | 21.16 | | Current Ratio | 1.42 | 1.64 | 1.37 | 1.30 | 1.30 | 1.43 | | ROE | 10.21 | 12.15 | 12.19 | 12.60 | 12.66 | 13.44 | | ROA | 5.91 | 6.67 | 6.37 | 6.45 | 6.47 | 6.10 | | Dividend Per share | 0.65 | 0.90 | 1.10 | 0.35 | 0.35 | 0.35 | | Industry relevant |  |  |  |  |  |  | | ratio |  |  |  |  |  |  | | |  |  |  | | --- | --- | --- | |  | 2001-14 | 2015-19 | | Avg Revenue growth | 7% | 9% | | Avg EBITDA Margin | 8% | 7% | | Avg Net Income Margin | 4% | 4% | | Avg Debt/Equity | 35.33% | 73.22% | | Avg Interest / EBITDA | 0.93 | 2.19 | | Cost of Debt | | 1.84%% | | Tax Rate | | 39% | | Cost of Equity | | 8.62% | | WACC | | 7.2% | | Perpetuity Growth Rate (Terminal) | | 2% |   **Analyst Opinion**   |  |  |  | | --- | --- | --- | | Buy: 23 | Hold: 3 | Sell: 0 |  |  |  |  | | --- | --- | --- | |  | Rating | Target | | S&P Net Advantage | 5 star | $112 | | Morning Star | 3 star | NA | | Value Line | 1, 1, A+ | $130-160 |   **cv** |

|  |  |
| --- | --- |
| **Relative Valuation** | **Total Return** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | FY2014 | PJC | FRAGUAB | WBA | RAD | Inds Average | CVS | | P/E | 16.99 | 25.03 | 18.74 | 41.34 | 24.82 | 22.01 | | P/B | 3.38 | 2.70 | 3.06 | 19.30 | 6.29 | 3.00 | | Dividend Yield | 2.13 | NA | 1.59 | 0.00 | 1.26 | 1.32 | | PEG Ratio | 4.72 | NA | 1.24 | NA | 2.43 | 1.32 | | EPS | 1.04 | 0.74 | 4.05 | 2.17 | 2.40 | 3.98 | | Rev Growth (3 Yr) | 4.60 | 10.44 | -0.76 | 3.59 | 5.94 | 11.82 | | NI Growth (3 Yrs) | 0.37 | -7.09 | NA | -83.21 | -14.62 | 31.43 | | Operating Margin | 10.75 | 4.32 | 2.93 | 2.43 | 5.29 | 6.03 | | Debt / Equity | 0.00 | 0.00 | 45.95 | 1732.43 | 370.32 | 73.22 | | Market Cap | 2822.29 | 1447.22 | 94235.08 | 8296.66 | 43590.75 | 111152.49 | | Industry relevant |  |  |  |  |  |  | | ratio |  |  |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  | Stock | Sector | S&P 500 | | YTD | 5.13% | -3.82% | 3.23% | | Last 3 Years | 43.33% | 55.28% | 16.42% | | Last 5 Years | 34.78% | 42.4% | 14.44% |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | Company | Industry | | ESG Disclosure Score | 43.39 | 24.88 | | Governance Disclosure Score | 60.71 | 52.23 | | Social Disclosure Score | 28.07 | 22.81 | | Environmental Disclosure Score | 42.64 | 19.42 | |