Express Scripts Holding Company (NASDAQ: ESRX)
Sector: Health Care (NAICS: 446110)

<table>
<thead>
<tr>
<th>Intrinsic Value</th>
<th>Current Price</th>
<th>52 Week High</th>
<th>52 Week Low</th>
<th>Beta</th>
<th>P/E</th>
<th>Market Cap</th>
<th>Dividend Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>$87.57</td>
<td>$74.35</td>
<td>$79.37</td>
<td>$59.20</td>
<td>1.56</td>
<td>24.52</td>
<td>$55.42B</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**Industry Trends**
The Pharmaceutical Benefit Management industry is in the mature phase of its life cycle. As such, the industry is characterized by consolidation, merger and acquisition activity and a shift in focus toward operational efficiency. Macroeconomic trends that will impact the industry include rising drug costs, higher consumer spending on healthcare, and the Affordable Care Act.

**Investment Thesis**
Express Scripts is a PBM that has seen significant success in the industry. The company has a strong position in the market, with 40% of total PBM market share and 52.3% of home delivery market share. Part of this large market share is attributed to the recent strategic Medco acquisition, which significantly increased the size of the company. While in the past, the company focused on increasing volumes, the focus is changing towards operational efficiency. Demographic changes and an increasing older population create large volumes of scripts and an increasing demand for benefit managers. The company has rewarded shareholders through generous share buybacks over the past few years and expects to continue the program in the future. Overall, investors will continue to receive share price appreciation through these share buybacks, market share, macroeconomic growth, and increased operational efficiency.

**Business Summary**
Express Scripts is a pharmacy benefit manager (PBM) primarily offering services in the United States and Canada. A PBM’s primary role is to provide healthcare and prescription management on behalf of its clients. The company’s PBM services operate primarily through a large retail pharmacy network, but also increasingly through a direct mail delivery system. The business also includes drug formulary management, clinical solutions, and other drug interaction studies. Express Scripts makes money by taking spreads between the negotiated and charged price. As there are very low margins, the focus has turned to increasing operational efficiency.

**ESRX 5-year stock performance vs. S&P 500:**

![Graph of ESRX 5-year stock performance vs. S&P 500](image)

**Corporate Social Responsibility:**
- ESG Disclosure Rating: 14.05
- Social Disclosure Score: 8.77
- Governance Disclosure Score: 51.79

Additional information about corporate responsibility is attached

**Value Estimate:** $85-$115 (2014-2020)
**Estimated Real Annual Return:** 9%-15%

**Key Valuation Data:**
- Estimated Revenues: -1% in first 2 years, 1% thereafter
- Terminal Growth Rate: 4%
- WACC: 11%
- Calculated CAGR: 9%

**Key Financial Data:**
- Expected inflation: 3%
- Current EPS: $4.42 (LTM)
- Forecasted EPS Growth: 9%
- Credit Quality: Baa3/BBB+/BBB
- ROE: 8.25%
- ROA: 4.89%
- Price/Book: 2.71
- Debt/Equity: 63.9%
- Debt/Assets: 26.0%
- Current Ratio: 0.6
- Price/Cash Flow: 12.2

Report Prepared By: Kelly McCourt
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Source: Bloomberg, Value Line, Yahoo Finance, ValuePro