



# CVS Health Corporation (NYSE: CVS)

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United States Coverage Group

October 16<sup>th</sup>, 2023





## Discussion materials for NYSE: CVS

- I. Executive Summary
- II. Company Overview
- III. Industry Overview
- IV. Thesis I
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# I. Executive Summary

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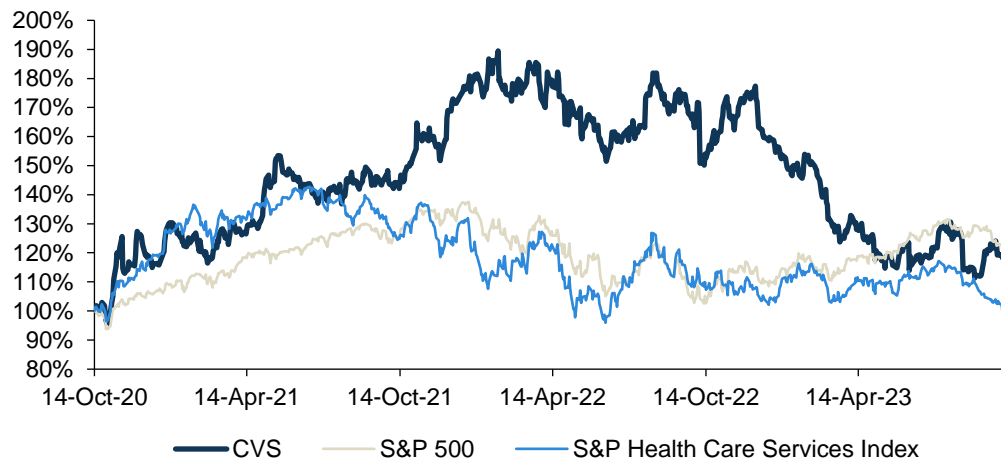
CVS Health Corporation (NYSE: CVS)

# Long CVS Health Corporation

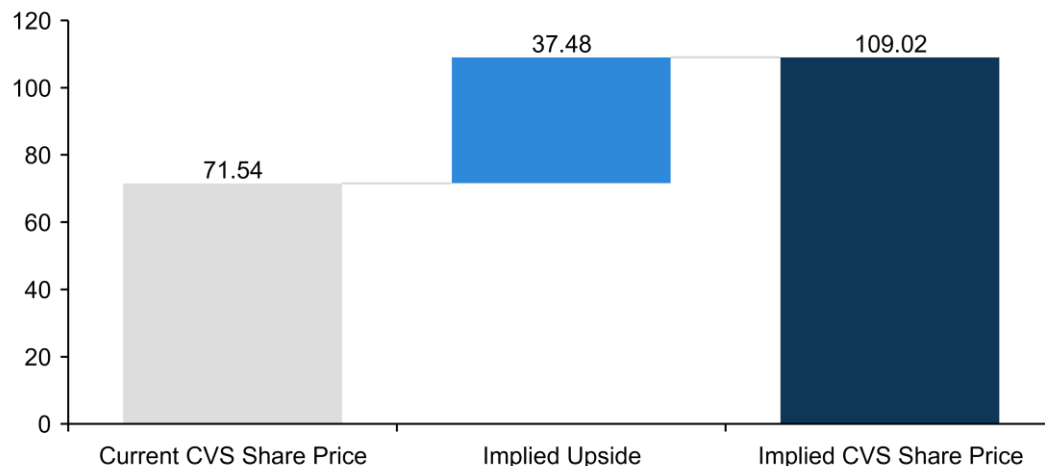


Rating: Strong Buy (~52% Implied Upside)

## 3 Year Historical Performance vs. S&P 500 & S&P Healthcare



## Implied Share Price Bridge (in USD)



Note: All market data is as of October 13<sup>th</sup>, 2023

## Summary Statistics

General Information		
Price	/share	71.54
Headquarters		Woonsocket, RI
Accounting Rules		GAAP
Currency		USD
Historical Performance		
52 Week Range	USD	104.83 / 64.62
YTD Return	%	(23)%
LTM Market Values		
P/Diluted EPS Ratio		33.2x
P/BV Ratio		1.2x
EV/Revenue		0.5x
EV/EBITDA		7.3x
Solvency		
Credit Rating	S&P	BBB
EBITDA/Interest		9.0x
Valuation Summary		
Implied Share Price	\$	109.02
Implied Upside	%	52%



## II. Company Overview

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Leader in diversified health solutions committed to helping make healthier happen for more Americans

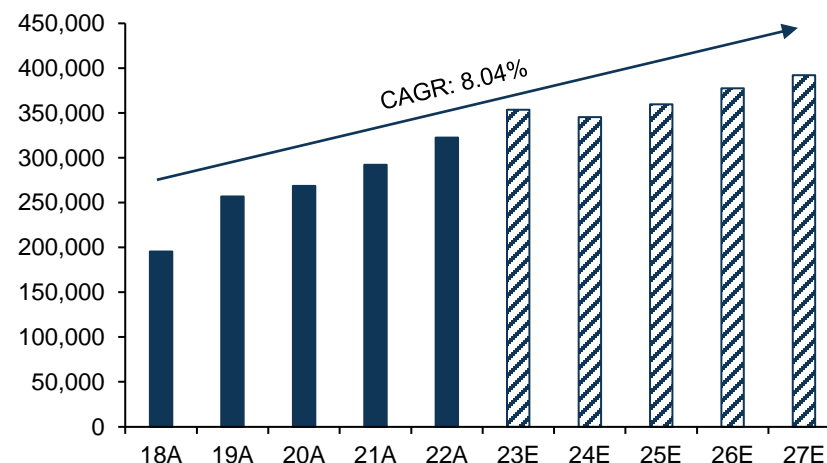
## Overview

- CVS Health Corporation is a large healthcare services company serving only the United States. The company focuses on providing integrated healthcare, which CVS believes increases access to quality care, improves health outcomes, and lowers overall healthcare costs
- CVS operates more than 9,000 retail locations, 1,100 walk-in clinics, and 177 primary care clinics. A leader in pharmacy benefits, CVS has around 110mm plan members, growing specialty pharmacy solutions, and currently serves 1mm seniors through its senior pharmacy care business. Additionally, CVS serves around 35mm people through its consumer-directed healthcare insurance products

## Business Strategy

- CVS aims to improve the healthcare experience by making it more affordable and simpler to help consumers live healthier
- Delivering personalized, simple-to-use, and increasing digital solutions so consumers can better manage healthcare needs
- Shift from transaction-based care to a focus on holistic health
  - Leads to better care and lower cost for consumers
- Leader in key segments seeking to create new value through expansion in next gen care delivery and services
  - Goal of improving consumer and provider satisfaction
- CVS's consumer-centric approach will deliver value to stakeholders while driving sustainable long-term growth

## Revenue Growth (in USD mm)



## CVS Ownership Summary

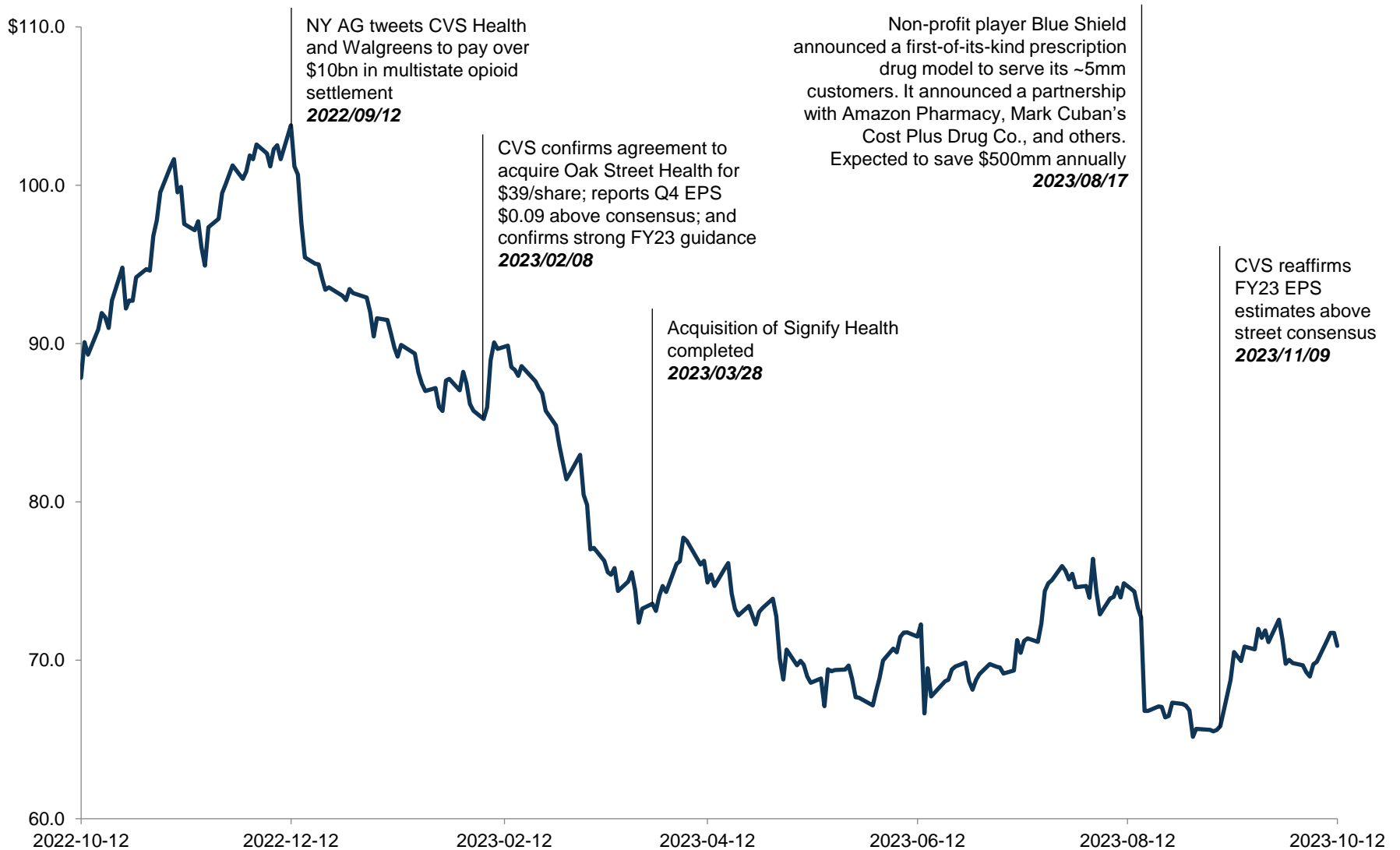
Investor Type	% of Ownership
Institutions	79.04%
Corporations (Private)	0.00%
Individual/Insiders	0.24%
State Owned Shares	0.05%
Public and Other	20.67%

*Top institutional holders include Vanguard, BlackRock, State Street, Capital Research and Management, and Morgan Stanley*

# Annotated Stock Chart



## Recent PBM selloff has been unjustifiably harsh on CVS



Sources: FactSet



## Significant investments through M&A activity

### Acquisition of Signify Health

- CVS acquired Signify Health, a healthcare information technology company that specializes in the development of healthcare software
- The transaction closed on March 30th, 2023 for \$8bn all in cash
- The acquisition will allow CVS to expand its home care and virtual care services as a part of its pharmacy services segment
- Signify has already built a 10,000+ clinician network across all 50 states in the US

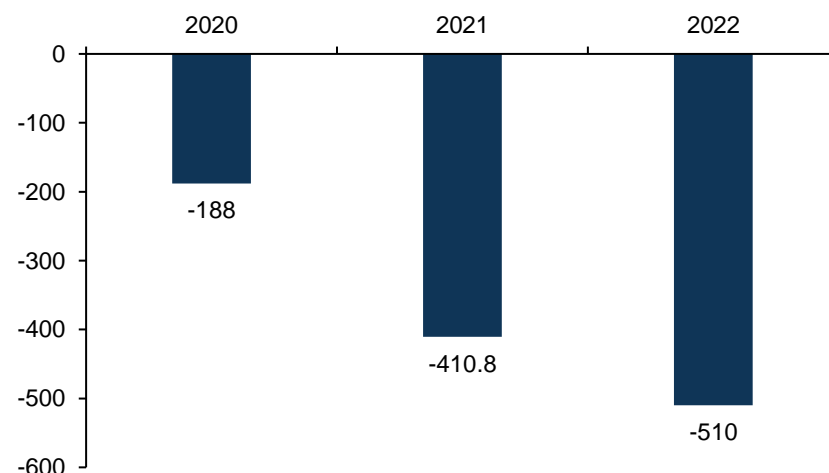
### \$5bn Settlement of Opioid Lawsuit in 2022

- CVS and Walgreens Boots Alliance were sued by multiple state governments for their alleged roles in the opioid crisis
- The government accused the pharmacies of filling drug prescriptions that should have been flagged as inappropriate
- CVS agreed to pay \$5bn over 10 years on November 2, 2022. Cash would not be all paid out immediately, OCF would not be significantly impacted
- Despite the payout, CVS still reported a strong Q4 reporting \$7.75bn in EBIT
- CVS launched educational programs regarding opioid use and committed to making significant improvements to its drug dispensing practices to make it harder to abuse and obtain opioids

### Acquisition of Oak Street Health

- CVS acquired Oak Street Health, a healthcare service provider that specializes in senior care and at-risk patients
- The transaction closed on May 2nd, 2023 for \$10.6bn all in cash—took a \$5bn term loan to help finance the transaction
- CVS paid about a 50% premium to acquire Oak Street Health, buying its shares at \$39 per share
- Oak Street Health has 169 medical clinics across 21 states serving about 159,000 at-risk patients
- Expected to grow to over 300 centers by 2026
- Projected to be profitable in 2025, more than \$500mm in expected synergies

### Oak Street Health Net Income (in USD mm)







## 3 main product and service offerings

### Pharmacy Services

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- The pharmacy services segment provides a full range of pharmacy benefits and solutions such as clinical services, drug dispensary and patient consultations
- CVS has over 110mm members actively using its pharmacy services as of the end of 2022
- Customer retention is at 98% and overall member satisfaction is at 96%
- CVS is expanding its pharmacy services to at-home care and virtual services through the software technology acquired through Signify Health
- The acquisition of Oak Street Health will help CVS reach more customers and expand its clinical services

### Retail

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- The retail segment provides a wide variety of health & wellness products, prescription drugs and medication
- Filled over 1.6bn prescriptions in 2022
- Administered about 28mm vaccines and more than 15mm diagnostic tests in 2022
- The retail segment consists of 3 sub-segments; pharmacy, Front Store, and MinuteClinic
  - Pharmacy revenues represent 75% of the retail segment revenues
  - Front Store revenues are driven by ExtraCare, a loyalty card program that offers a subscription-based membership
  - The MinuteClinic, with over 1,100 locations across the US, gives customers access to on-site and remote care services led by staff physician assistants and nurse practitioners

### Health Care Benefits

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- The health care benefits segment offers a broad range of traditional and voluntary health insurance products and services which includes Medicare Advantage coverage for eligible individuals
- CVS has a medical benefits ratio of 84% as of the end of 2022, for every 1 dollar of premiums earned, CVS spends 84 cents on claims
- CVS has over 3mm Medicare Advantage active members
- CVS acquired Aetna Insurance in 2018 for \$69bn allowing the company to further expand in the health insurance market

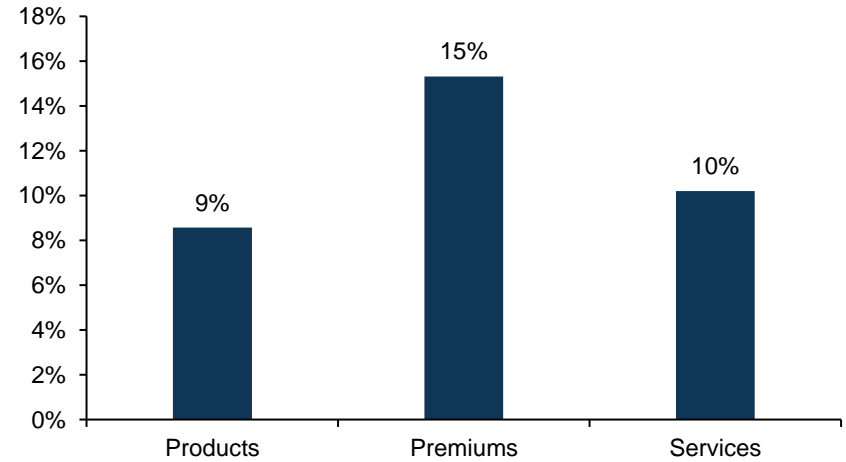
# Revenue Breakdown

## Segmented revenue breakdown

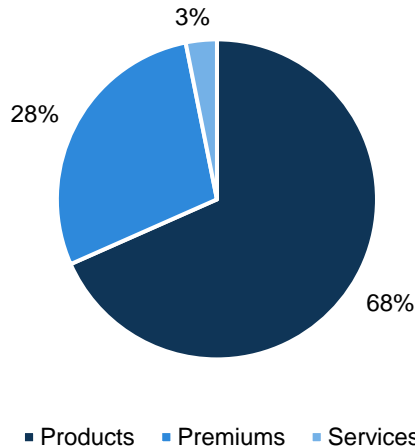
### Revenue Segments

- CVS Health has two main revenue streams, healthcare insurance benefits (makes up 28% of total sales) and healthcare products (makes up 68% of total sales)
- The healthcare products segment is broken down into two categories; pharmacy services and retail
- CVS plans to expand its services segment through the two recent acquisitions of Oak Street Health and Signify Health
- Revenues for the healthcare insurance benefits (premiums) segment grew 15% year-over-year (YoY), compared to 9% for the products segment and 10% for the services segment

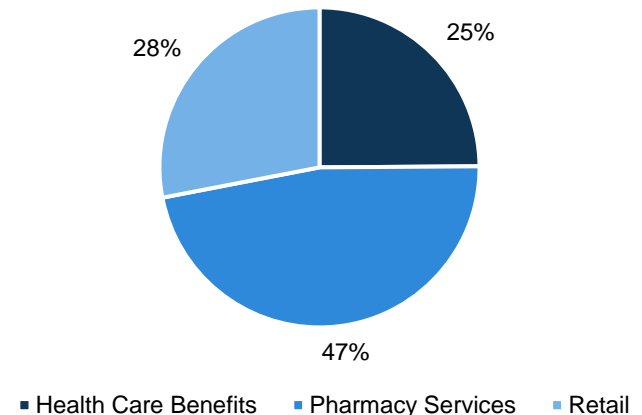
### YoY Revenue Growth (6mo ended FY23)



### % of Total Revenue (6mo ended FY23)



### % of Total Revenue (6mo ended FY23)



Sources: CVS 2022 10-K, CVS 2023 Q3 10-Q



## Segmented revenue breakdown

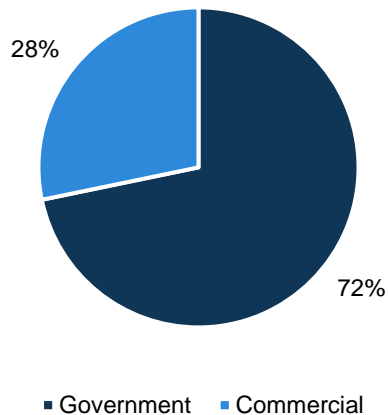
### Health Care Benefits Segment Customer Breakdown

- For the health care benefits segment, CVS's main two customers are the US Government and commercial employers
- Government contracts for Medicare coverage to eligible individuals represents all revenues from the US Government
- Private employers' employee coverage plans and universities' student coverage plans represents revenues from the commercial sector

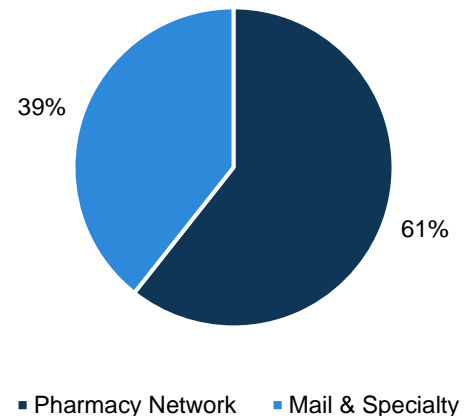
### Pharmacy Services Segment Delivery Breakdown

- CVS is prioritizing home and virtual care—39% of revenues from the pharmacy services segment come from prescription drug and healthcare product delivery and virtual services
- CVS earned over \$1bn in omni-commerce initiated sales in 2022

### HCB<sup>(1)</sup> Segment Breakdown (6mo ended FY23)



### Pharmacy Services Breakdown (6mo ended FY23)





## III. Industry Overview

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## Future growth is promising for healthcare in the United States

### Industry Outlook

- The US retail pharmacy market faces saturated retail locations, labor shortages, inflationary pressure, and a leveling-off of generic drug penetration
- Market size is valued at approximately \$527bn in 2022 and is expected to reach \$547bn in 2023
- The market is projected to grow 3.7% CAGR till 2030

### Chronic Illness in the USA

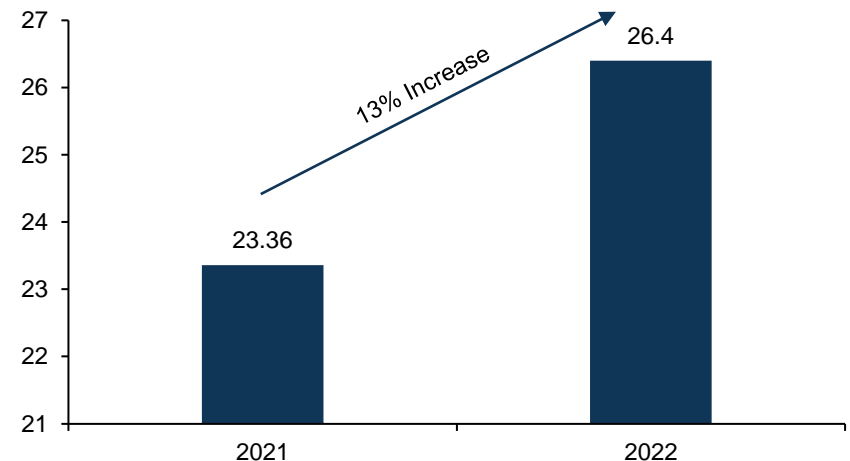
- The prevalence of chronic diseases, such as diabetes, cardiovascular conditions, and respiratory disorders, is on the rise, leading to a higher demand for medications and healthcare products. This trend significantly boosts the retail pharmacy market, as more individuals require long-term medication management and disease management solutions, relying on retail pharmacies to meet their needs efficiently
- Efforts to improve healthcare access globally have yielded positive results, with better healthcare infrastructure, government initiatives, and health insurance programs making medications and healthcare services more accessible to a broader population. This increased accessibility to healthcare services plays a crucial role in driving the growth of the retail pharmacy sector, ensuring a larger customer base and a wider reach for pharmaceutical products

Sources: Grand View Research

### Consolidation is the Name of the Game

- From 2010 to 2021, CVS and Walgreens acquired a total of nearly 5,000 pharmacy locations, including CVS acquisitions of 1,700 Target pharmacies
- Currently, companies including CVS are shifting their focus to improving operating margins
- Companies have announced plans to reduce their footprint. In late 2021, CVS announced that it would "reduce store density in certain locations" and close 900 stores by 2024. As part of this strategic shift, national chains have also begun to explore growth opportunities in adjacent areas, such as healthcare services, primary care, and virtual care

### MedTech Big 100 R&D (in USD bn)



# Competitor Market Share

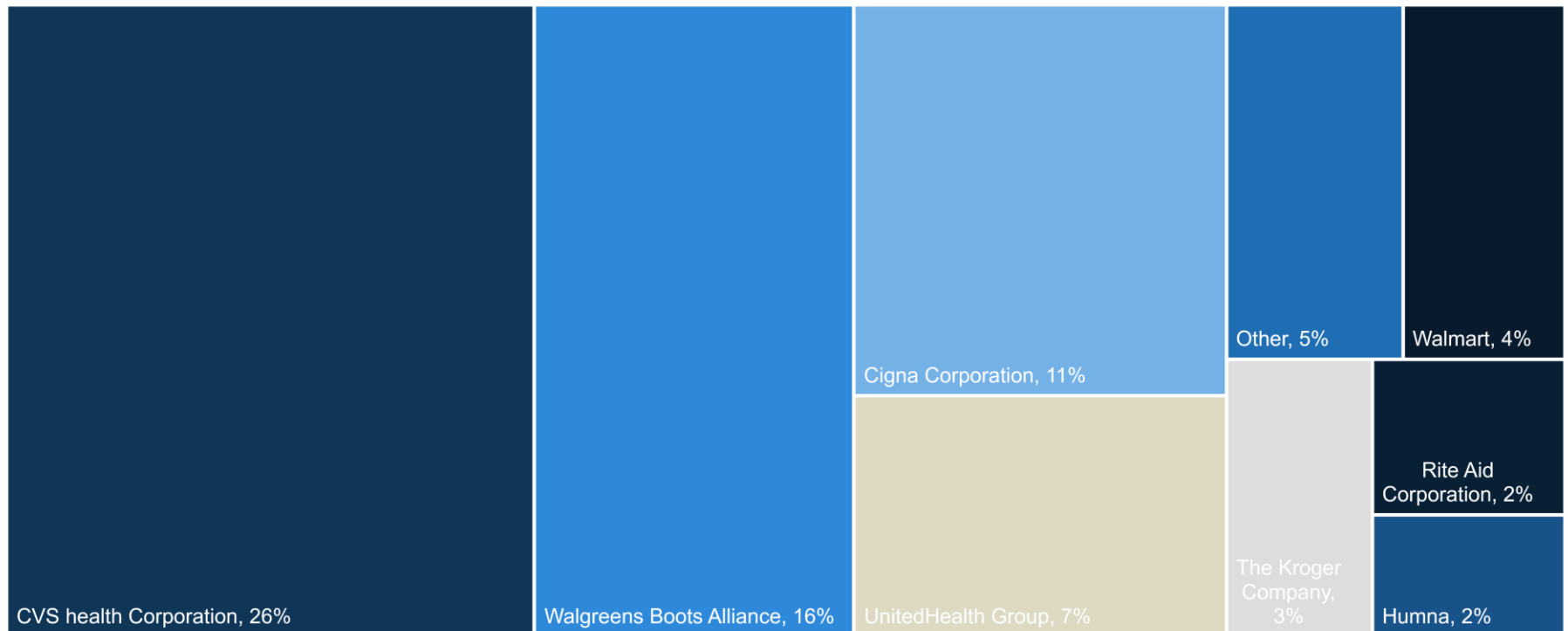


## Pharmacy services & retail segments competitor market share

### CVS Holds a Dominant Position in the Market

- CVS leads the prescription drug market with the highest market share of 25.6% in the US
- The two biggest competitors to CVS are Walgreens Boots Alliance and Cigna Corporation who have 15.5% and 11.2% market shares, respectively
- CVS is competing with health care companies and large retailers like Walmart

### US Prescription Drug Market (2022)



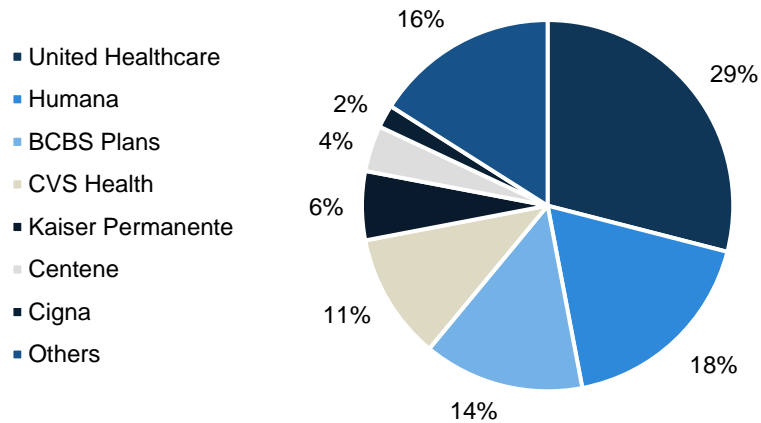
Sources: Statista

## Health care benefits segment competitor market share

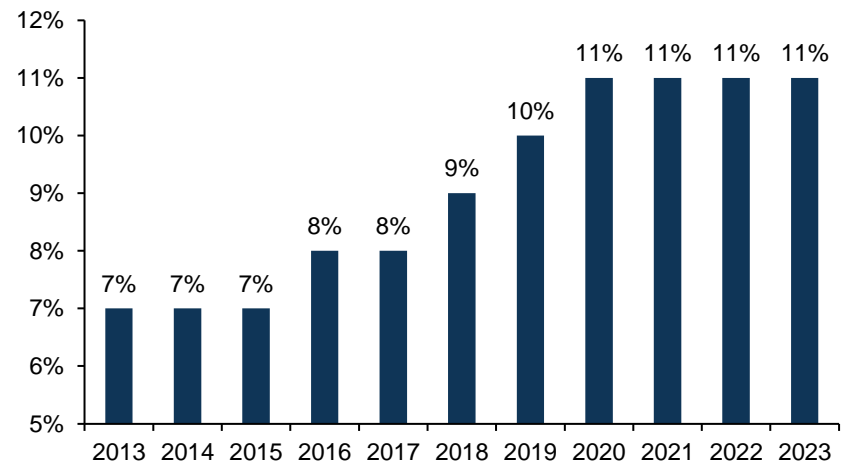
### CVS Is Gaining in Additional Markets

- The top two players in the Medicare Advantage market are United Healthcare and Humana who own 47% of the market share
- CVS's stake of 11% makes it the fourth largest Medicare Advantage provider by market share in the US
- Over the past decade, CVS has acquired an extra 4% of the market share—however, it has remained unchanged over the last four years
- The total number of eligible individuals for Medicare Advantage in the US is around 30.8mm

### US Medicare Advantage Market Share



### % of Medicare Advantage Enrollment with CVS



Sources: Statista

# Competitors to CVS Health Corporation



Due to a lack of direct peers, we have placed a heavy emphasis on intrinsic valuation. Many of CVS Health Corp's competitors include NGOs, FIGs that offer health coverage plans, or government programs

<b>Company Name</b>	<b>Ticker</b>	<b>Rationale for Inclusion</b>
United Health Group Inc.	NYSE: UNH	Offers health benefit plans and services for employers and individuals
The Cigna Group	NYSE: CI	Offers products and services including medical, pharmacy, behavioural health, etc.
Elevance Health, Inc.	NYSE: ELV	Engages in the pharmacy business with a pharmacy services portfolio
Centene Corporation	NYSE: CNC	Offers managed healthcare services
Humana Inc.	NYSE: HUM	Operates as a health and wellbeing company by offering insurance and medical plans
Molina Healthcare, Inc.	NYSE: MOH	Provides healthcare and long-term services and support to low-income Americans
Alignment Healthcare, Inc.	NASDAQ: ALHC	Consumer-centric healthcare platform to provide coverage for seniors
Clover Health Investments	NASDAQ: CLOV	Provides seniors with preferred provider organization and health maintenance plans
Amedisys, Inc.	NASDAQ: AMED	Provides services in the homes of individuals who are recovering from illness
Laboratory Corp. of America	NYSE: LH	Segment that offers occupational and wellness services for employers

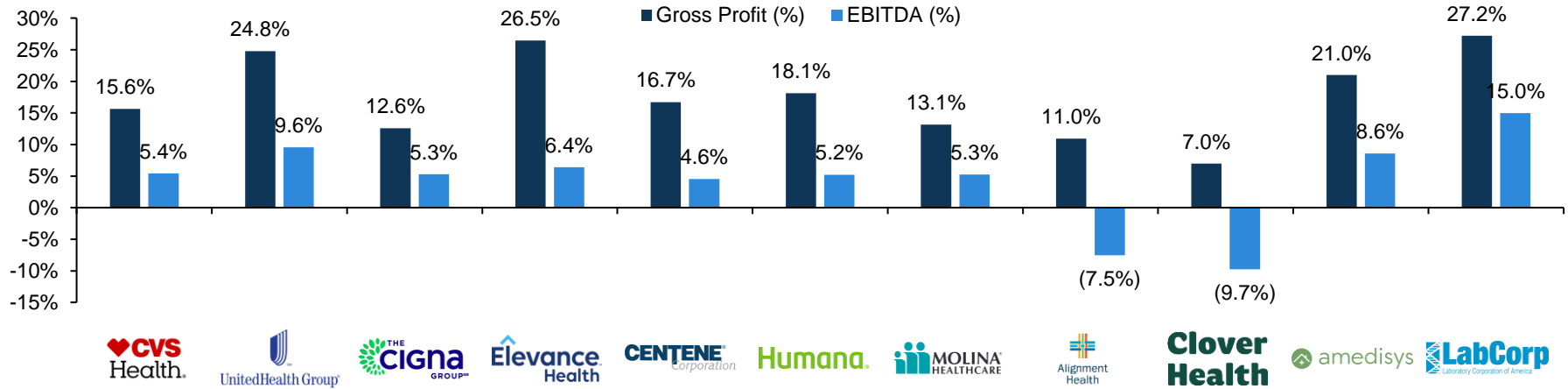


# Benchmarking Relative to Peers

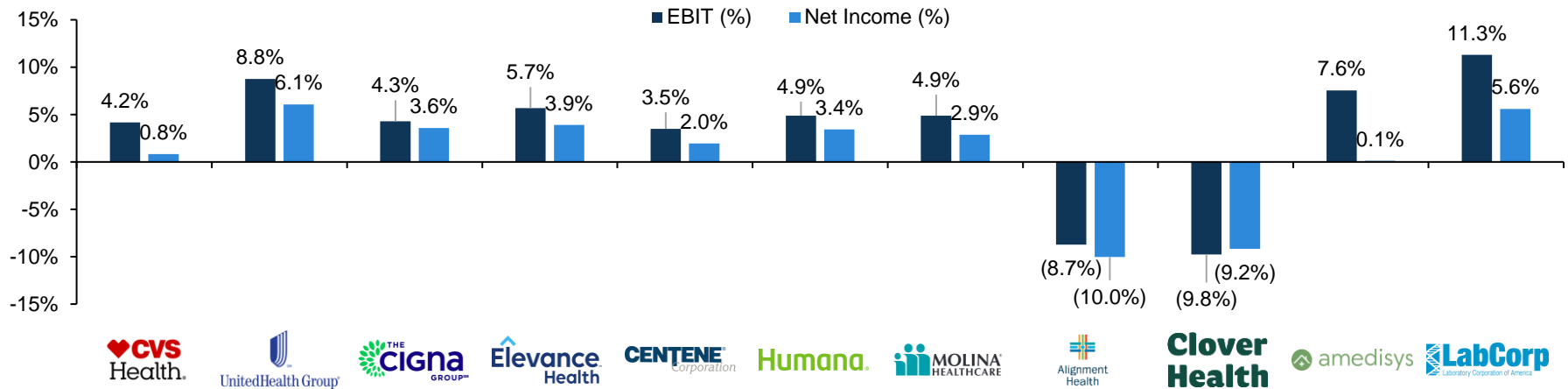


CVS is among the median in profitability margins against directly comparable companies

## Profitability Benchmarking | Gross Profit and EBITDA



## Profitability Benchmarking | EBIT and Net Income



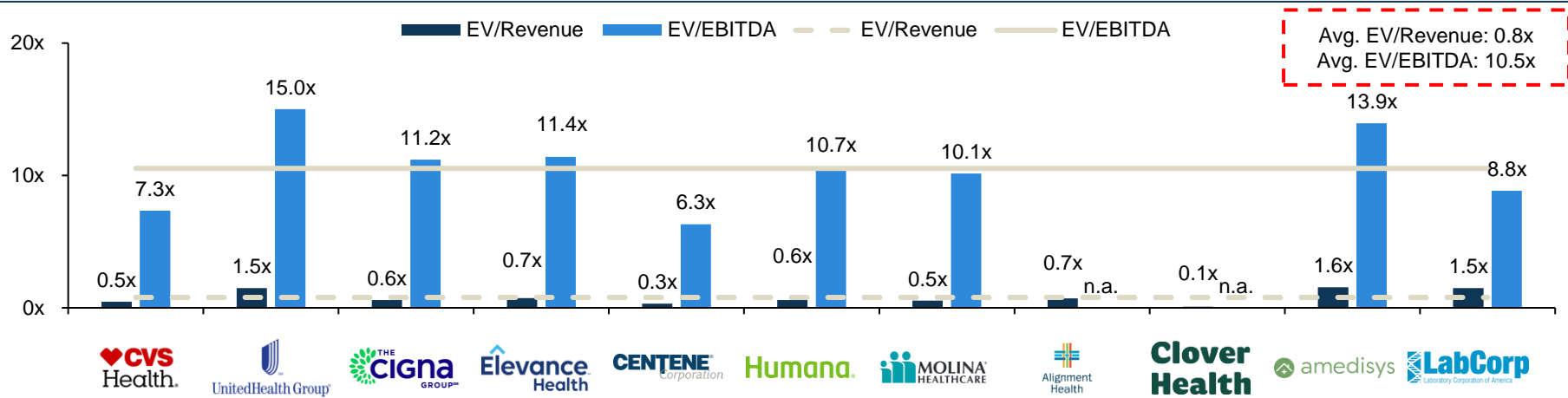
Sources: Capital IQ, CVS News Releases

# Relative Valuation

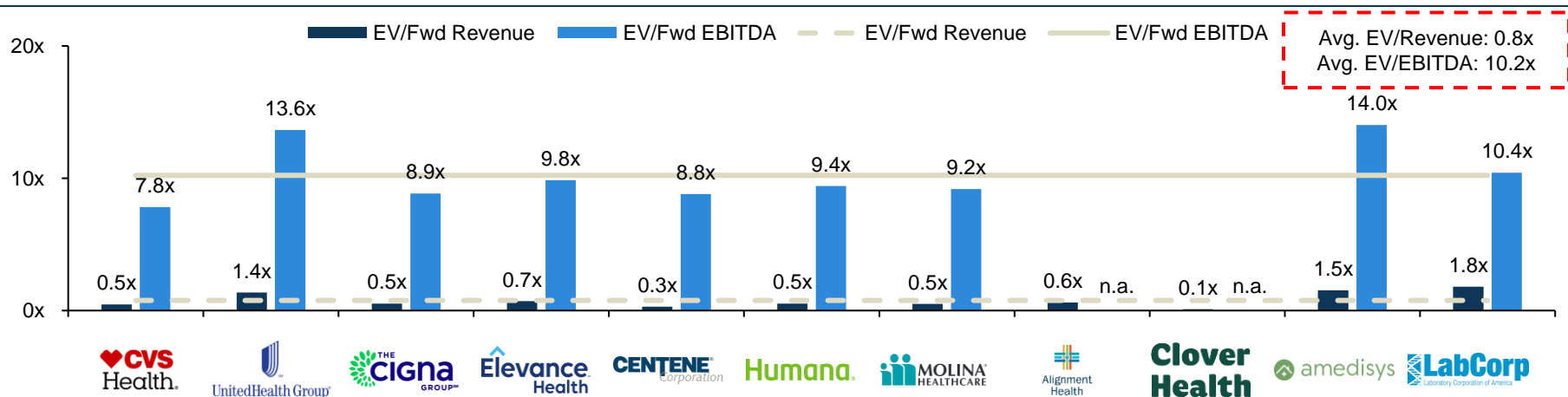


CVS is trading at a discount relative to their competitive peer group

## Relative Valuation | EV/Revenue and EV/EBITDA



## Relative Valuation | Forward EV/Revenue and Forward EV/EBITDA



Sources: Capital IQ, CVS News Releases



## IV. Thesis I

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Vertical Integration will Dominate the Healthcare Services Sector



Unique combination of assets and scale position CVS to maintain itself as a global healthcare leader

## Synergistic Acquisitions Providing Strong Position

- As part of a broad strategy to have a strong technology focus, CVS closed the acquisitions of Signify and Oak Street Health earlier this year—two of the premier value-based care providers in Medicare
- Acquisition of provider assets, specifically primary care, provider enablement, and home health capabilities will complement its already strong position in the market
  - **CVS currently holds an 11% share in Medicare Advantage and a 26% share in US Drug prescriptions**
- Further acquisitions will only bolster their already strong market position—inorganic growth is a key driver of management's long-term double-digit EPS growth forecasts

## Vertical Integration

- Synergies between Oak Street Health and Signify are already being realized only ~3 months post-acquisition
  - Signify Health patients are being recommended Oak Street Health primary care physicians
  - Not only does executing on synergies create membership and long-term customers, but it more importantly lowers overall acquisition costs
  - Signify Health acquisition **added >10,000 physicians across all 50 states**
  - Oak Street Health acquisition **added 169 medical centers across 21 states**

## Unrivaled Customer Engagement

- Vertically integrated care delivery platform is the strategy for CVS which allows them to serve the broadest customer base
  - Goal is to build a multi-payor, multi-channel health service that drives consumer engagement
- **Nearly 70% of commercial Medicare spend is with providers in value-based contracts**
  - Long-term contracts create strong revenue with high cash flow visibility



## V. Thesis II

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Digital Transformation will Bolster CVS' Already Impressive Footprint



## CVS' market power and positioning allow it to dominate the industry and propel further growth

### Unrivaled Footprint

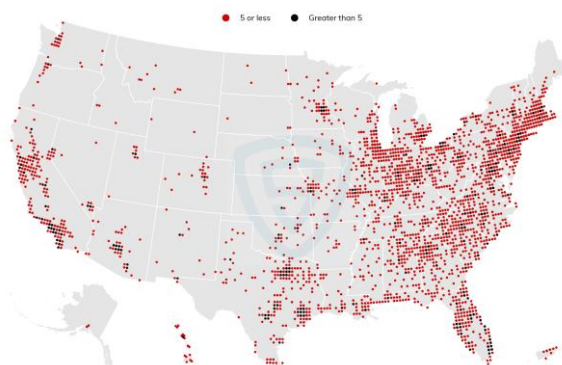
- CVS has more than **9,000 retail locations**, more than **1,100 walk-in medical clinics**, a leading pharmacy benefits manager with over **110mm plan members** with expanding specialty pharmacy solutions, and a dedicated senior pharmacy care business serving more than 1mm patients each year
- Also offers traditional, voluntary, and consumer-directed health insurance products and services to more than **35mm people**
- This initial footprint provides a dominant standing for further expansion in the industry

### Growing Digital Customer Base

- CVS Health now **serves ~55mm unique digital customers**
  - Digital customers are on average twice as engaged as non-digital customers which carries lower customer acquisition costs and customer servicing costs
  - This was represented in Q2 2023 as Digital sales were up 24% YoY, including an increase of 65% in OTC offerings

### US Coverage Map

- Wide geographical coverage of United States offers unmatched footprint for walk-in locations



### Closure of Retail Stores Pushing Profit Margins

- Between 2022 and 2024, approximately 300 stores will be closed each year for a total of ~900 stores to further push a digital transformation and optimize lagging real estate
- This is following an asset-impairment test that determined a \$1.4bn store impairment charge with a \$1.1bn write-down relating to operating lease right-of-use assets and \$261mm relating to property and equipment within Retail/LTC
- Cost-savings from retail store closures will further push profit margins in their Retail/LTC segment as their real estate portfolio is optimized through FY2024



## VI. Risks & Catalysts

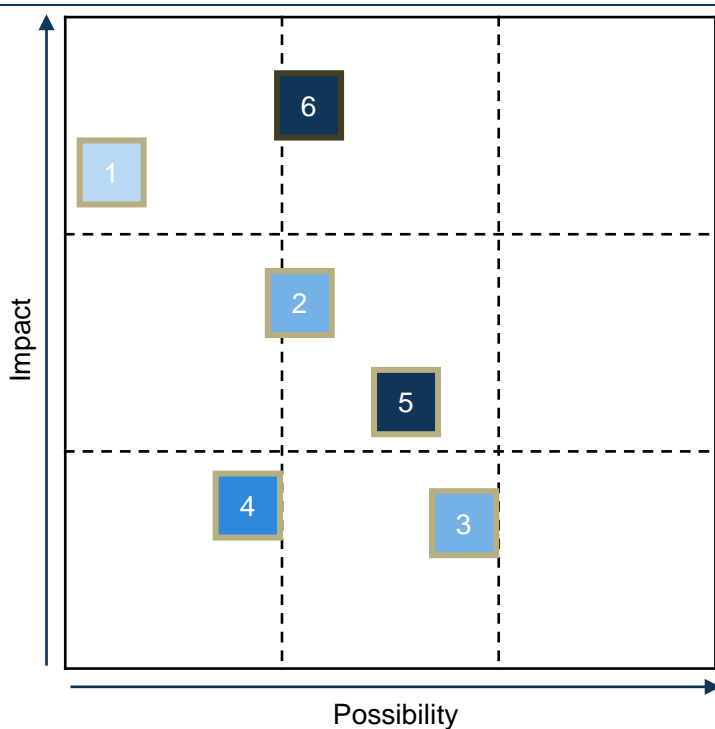
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# Risks and Potential Mitigants



Navigating the United States healthcare industry is a difficult task, however, CVS has a strong track record

## Risk Matrix



### Mitigation Feasibility



Risk Type	Key Risk	Mitigation
M&A Risk	1. Unable to recognize synergies from recent acquisitions	<ul style="list-style-type: none"> <li>Aetna, Oak Street, and Signify have all been executing on synergies. Continuing the integration between companies is key</li> </ul>
Business Specific Risk	2. HealthHUB model rollout is expensive and there is a risk of poor adoption from consumers 3. Each CVS segment operates in a highly competitive and evolving market	<ul style="list-style-type: none"> <li>Continue pushing a digital model similar to what they have done with telehealth platforms for virtual physician visits</li> <li>Continue innovating through strategic initiatives and inorganically growing</li> </ul>
Pharmaceutical Pricing Risk	4. Ongoing efforts to reduce drug prices could have unintended effects on the PBM and MCO business lines	<ul style="list-style-type: none"> <li>Reduced prices would result in an increased customer base and a better served America lines</li> </ul>
Legal and Regulatory Risk	5. Subject to potential changes in public policy 6. Subject to future litigation and lawsuits	<ul style="list-style-type: none"> <li>Continuing trips to Washington to educate policymakers on CVS' initiatives</li> <li>Carefully navigate new products and their rollouts</li> </ul>

Sources: RBC Capital Markets, CVS Health 10-K





CVS is well poised to create future value for shareholders

## Potential Catalysts

### Capturing Value from Future M&As

Either realizing synergies from current acquisitions or future acquisitions can lead to price target increases from the street

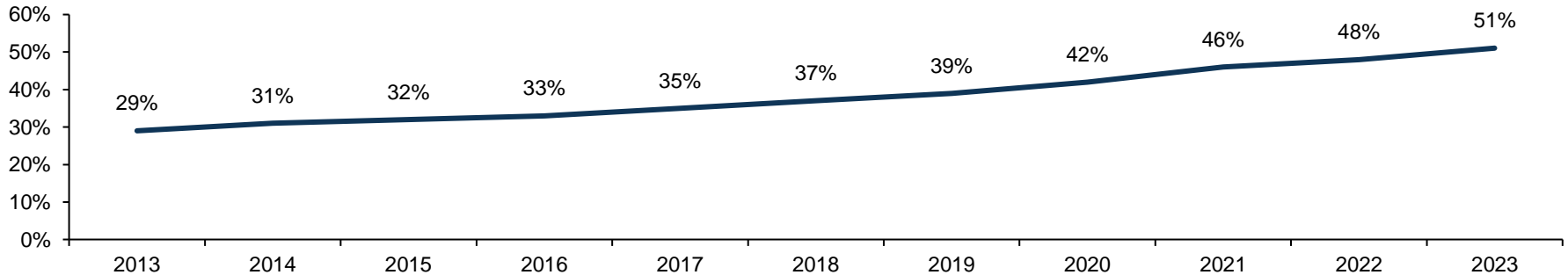
### Increasing Medicare Advantage Market Share

Delivering on anticipated value creation and capturing market share beyond the current 11% should help improve market perception and valuation

### Adoption of Digital Platform Advancements

With an already strong digitally-based client pool, further adoption of this in conjunction with closure of retail stores should bolster profit margins and establish CVS as a more senior player

## % of Eligible Beneficiaries Medicare Advantage Enrollment



Sources: Statista, RBC Capital Markets



## VII. Valuation

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# Base Case DCF Assumptions



Base case assumptions are a conservative take of street estimates

## Operating Assumptions

Assumption	Key Metric	Justification
Total Revenue (CAGR '23 -'27)	2.1%	Strong revenue growth into 2023 with 2024 having slightly lower growth, recovery into 2025 where it tapers into 2027
Cost of Products Sold (% of revenue) (Average '23 -'27)	(57.8)%	Continuing trend of tapering down cost of products sold in accordance with management guidance
Benefit Costs (% of revenue) (Average '23 -'27)	(23.3)%	Slight increase of benefit costs where it is then straightliend at (26)% from 2025 onwards
Operating Costs (% of revenue) (Average '23 -'27)	(11.7)%	In line with historicals, slight increases in 2024 and 2025 due to expected headwinds but then a tapering off in 2027
Capex (% of revenue) (Average '23 -'27)	0.8%	Keeping capital expenditures low as they begin to stop investing in new stores and begin their shift to full health coverage
D&A (% of capex) (Average '23 -'27)	150.0%	High D&A as physical stores depreciate without new stores being added, in-line with management guidance and street consensus

## Valuation Assumptions

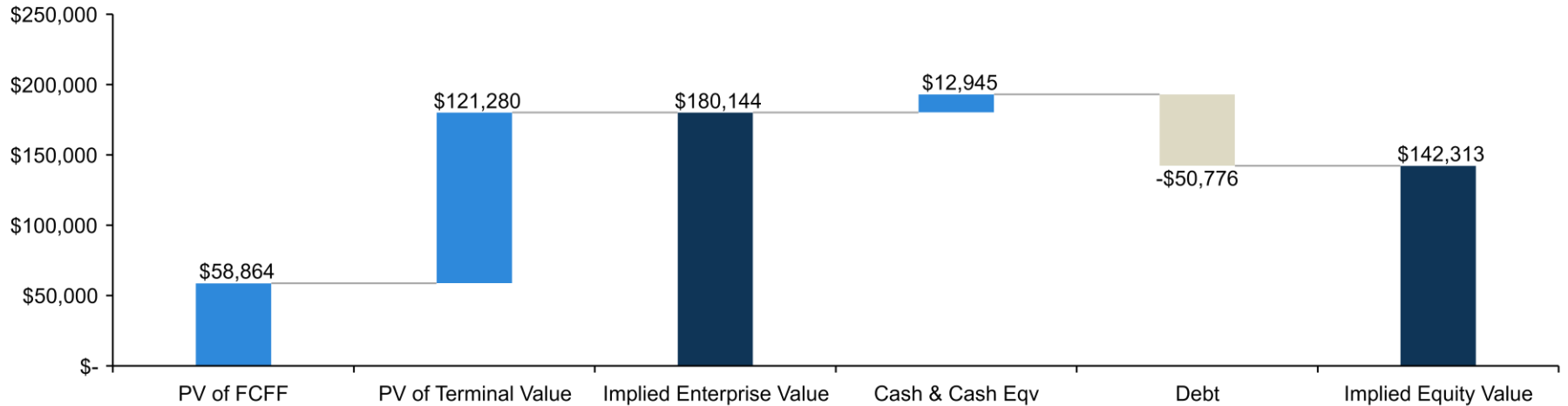
Assumption	Key Metric	Justification
Beta	0.907	CVS unlevered and re-levered beta using selected peer group
Risk-free Rate	4.6%	Standard Rf using 10-yr US Government Bonds
Cost of Debt (pre-tax)	5.5%	Average of last 5 issued bonds
Perpetual Growth Rate	2%	Below DCF growth and below US GDP growth
Exit Multiple	7.3x	Current EV/EBITDA multiple, below forward multiples to maintain conservatism

# Base Case DCF Valuation and Sensitivities

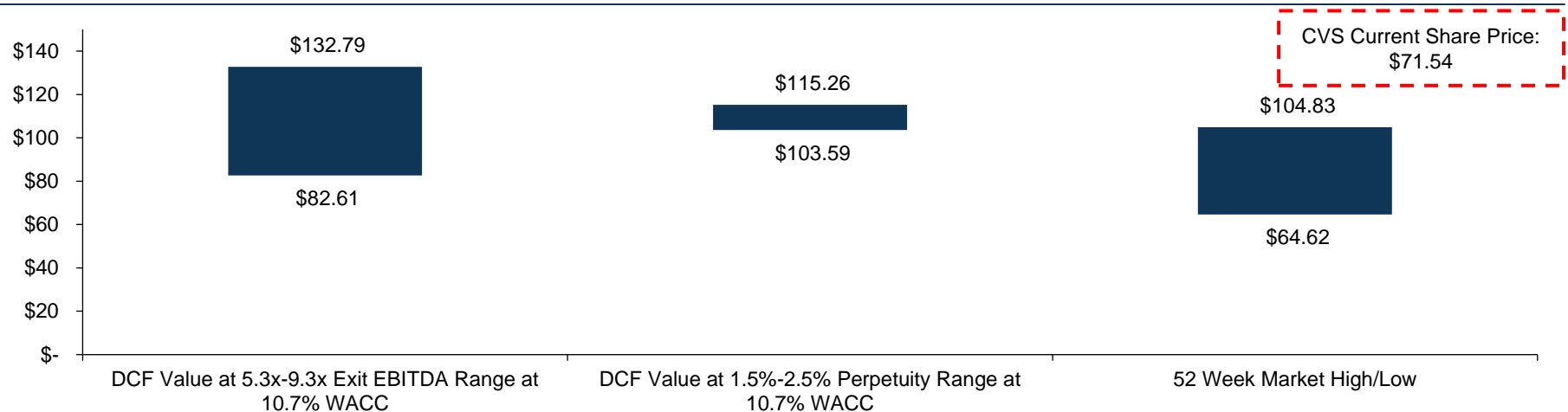


Implied ~50% upside in the base case

## Implied Enterprise and Equity Value Bridge | Base Case (in USD mm)



## Base Case DCF Equity Valuation Range (in USD mm)

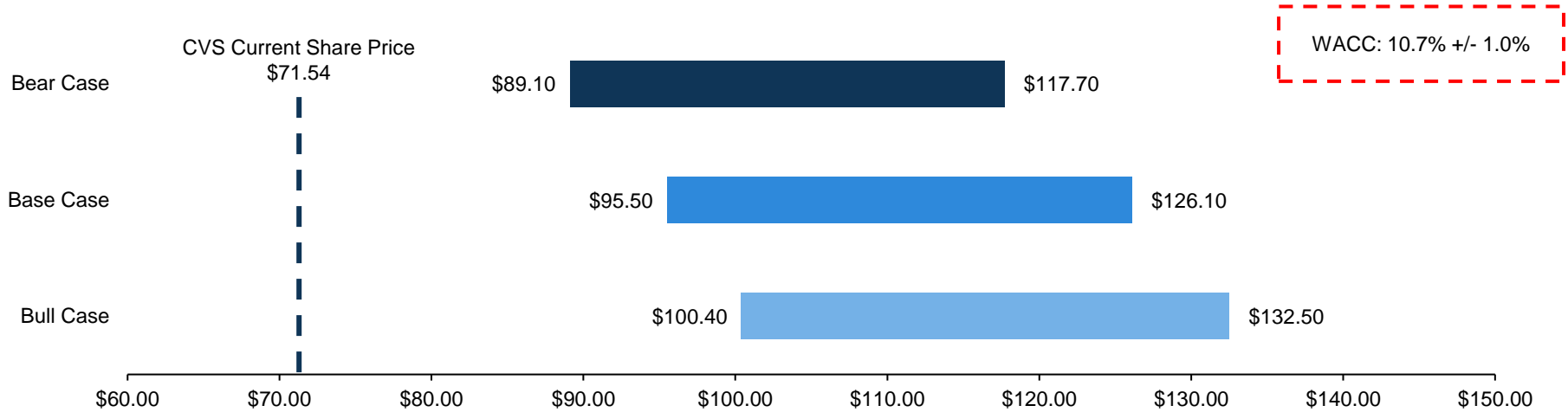


# Scenario DCF Valuation and Sensitivities

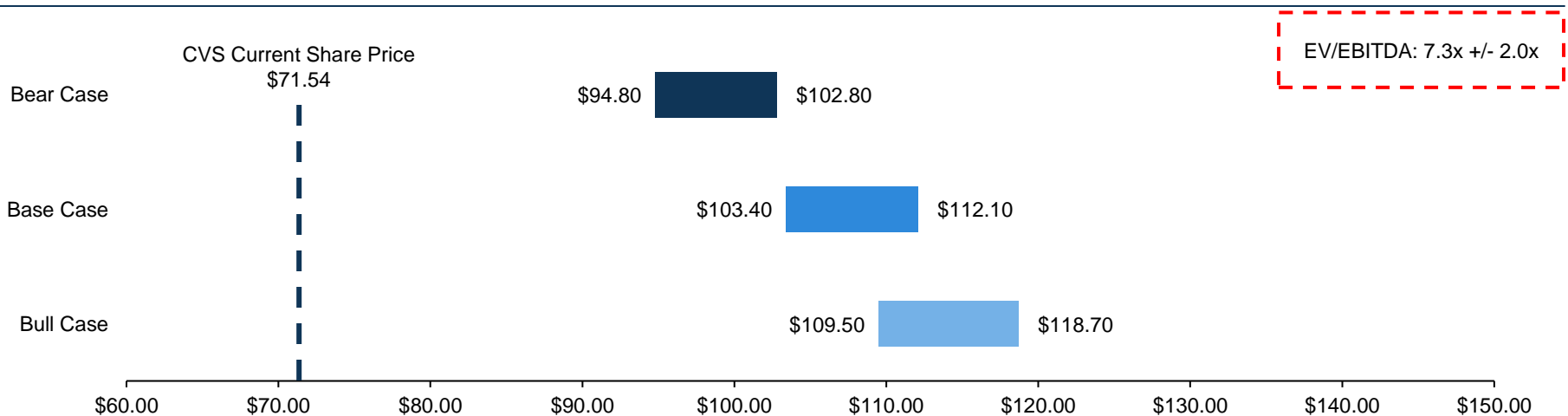


The recent PBM sell-off was overdone and particularly harsh on CVS following the news of Blue Shield, this represents an extremely attractive entry point with a high upside of ~50%

## Scenario Sensitivity Analysis | WACC Sensitivity



## Scenario Sensitivity Analysis | Terminal Multiple Sensitivity



# Valuation Summary



Base Case<sup>(1)</sup> discounted cash flow model using a 2% perpetual growth rate and a 7.3x exit multiple

## DCF Summary

<i>In Millions of USD</i>	Projected Fiscal Years Ending December 31									
	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<b>Total Revenues</b>	<b>194,579</b>	<b>256,776</b>	<b>268,706</b>	<b>292,111</b>	<b>322,467</b>	<b>353,424</b>	<b>345,295</b>	<b>359,797</b>	<b>377,428</b>	<b>392,147</b>
<i>Revenue Growth</i>	5%	32%	5%	9%	10%	10%	(2%)	4%	5%	4%
Cost of Products Sold	(156,447)	(158,719)	(163,981)	(175,803)	(196,892)	(215,589)	(198,545)	(203,645)	(215,134)	(223,524)
Benefit Costs	(6,594)	(52,529)	(55,679)	(64,260)	(71,281)	(82,701)	(86,324)	(93,547)	(98,131)	(101,958)
<b>Gross Profit</b>	<b>31,538</b>	<b>45,528</b>	<b>49,046</b>	<b>52,048</b>	<b>54,294</b>	<b>55,134</b>	<b>60,427</b>	<b>62,605</b>	<b>64,163</b>	<b>66,665</b>
<i>Gross Margin %</i>	16%	18%	18%	18%	17%	16%	18%	17%	17%	17%
Total Operating Costs	(21,368)	(33,310)	(35,135)	(37,066)	(38,212)	(37,816)	(41,435)	(44,255)	(43,782)	(46,273)
<b>EBIT</b>	<b>4,025</b>	<b>12,111</b>	<b>14,117</b>	<b>13,375</b>	<b>7,915</b>	<b>17,318</b>	<b>18,991</b>	<b>18,350</b>	<b>20,381</b>	<b>20,392</b>
<i>EBIT Growth</i>	(57%)	201%	17%	(5%)	(41%)	119%	10%	(3%)	11%	0%
<i>EBIT Margin %</i>	2%	5%	5%	5%	2%	5%	6%	5%	5%	5%
NOPAT	2,999	9,023	10,517	9,951	5,976	12,902	14,148	13,671	15,184	15,192
Capex	2,037	2,457	2,437	2,520	2,727	2,827	2,762	2,878	3,019	3,137
D&A	2,718	4,371	4,441	4,512	4,247	4,241	4,144	4,318	4,529	4,706
Change in NWC	4,121	5,710	5,445	3,822	133	1,968	(255)	1,001	1,103	947
<b>FCFF</b>	<b>(441)</b>	<b>5,227</b>	<b>7,076</b>	<b>8,121</b>	<b>7,363</b>	<b>12,347</b>	<b>15,784</b>	<b>14,109</b>	<b>15,591</b>	<b>15,814</b>

## DCF Valuation Results

<i>In Millions of USD</i>	Projected Fiscal Years Ending December 31				
	2023E	2024E	2025E	2026E	2027E
<b>FCFF</b>	<b>12,347</b>	<b>15,784</b>	<b>14,109</b>	<b>15,591</b>	<b>15,814</b>

### Perpetual Growth Rate Method

Perpetual Growth Rate	2.0%
<i>US GDP LT Growth Rate</i>	3.0%
Terminal Value	186,060
PV of Terminal Value	121,377
<i>Terminal Value as % of EV</i>	67%
PV of FCFF	58,884
<i>Forecast Period as % of EV</i>	33%
<b>Enterprise Value</b>	<b>180,261</b>
(+) Cash	12,945
(-) Debt	(50,776)
<b>Equity Value</b>	<b>142,430</b>
Diluted Shares Outstanding	1,305
Implied Share Price	\$109.02
Current Share Price	\$71.54
<b>Implied Upside (Downside)</b>	<b>52%</b>

### EBITDA Exit Multiple Method

EBITDA Multiple	7.3x
Terminal Year EBITDA	25,097.4
Terminal Value	183,211
PV of Terminal Value	119,519
<i>Terminal Value as % of EV</i>	67%
PV of FCFF	58,884
<i>Forecast Period as % of EV</i>	33%
<b>Enterprise Value</b>	<b>178,403</b>
(+) Cash	12,945
(-) Debt	(50,776)
<b>Equity Value</b>	<b>140,572</b>
Diluted Shares Outstanding	1,305
Implied Share Price	\$107.72
Current Share Price	\$71.54
<b>Implied Upside (Downside)</b>	<b>51%</b>

### WACC Assumptions

Market Risk Premium (Rm - Rf)	7%
Multiplied by: CVS Bottom-Up Beta	0.91
Adjusted Market Risk Premium	6.3%
Risk-Free Rate of Return	4.6%
Cost of Equity	10.9%
Multiplied by: CVS E/(D+P+E)	52.6%
<b>Cost of Equity</b>	<b>5.7%</b>
CVS Cost of Debt	5.5%
Tax Rate	26.0%
After-Tax Cost of Debt	4.1%
Multiplied by: CVS D/(D+P+E)	47.4%
<b>Cost of Debt</b>	<b>1.9%</b>
Weighted Average Cost of Capital	7.7%
Adjustments <sup>(2)</sup>	3.0%
<b>Adj. WACC</b>	<b>10.7%</b>

(1) Base Case is based off a Street Case pulling numbers from Capital IQ, RBC Capital Markets, and Deutsche Bank

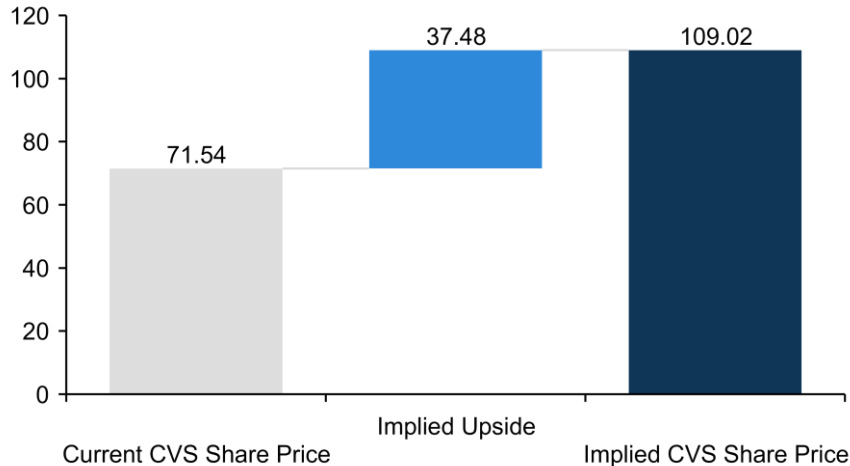
(2) Adjustment to increase WACC applied to bring down price target to a more reasonable price target that is in-line with the street consensus

# Recommendation Summary



Long NYSE: CVS—projected implied upside of ~50% after recent PBM selloff

## Target Price Summary



## Valuation Summary

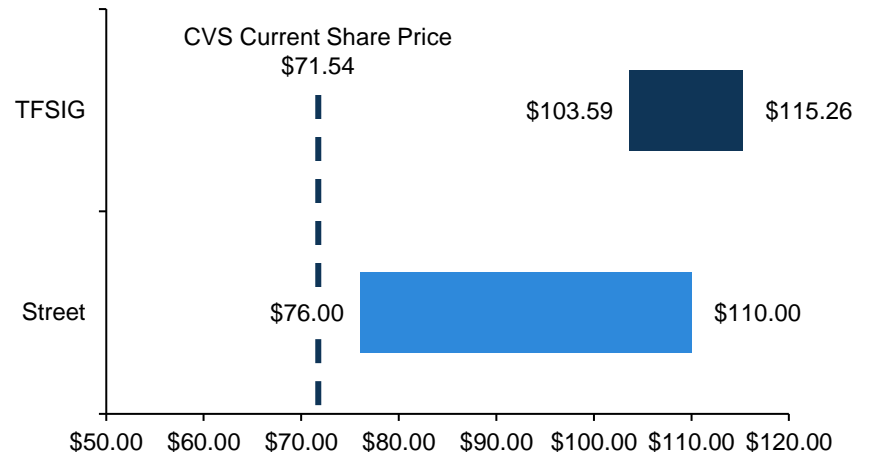
DCF Target Price (2% PGR @ 10.7% WACC)	\$109.02
Current Price (As of October 13 <sup>th</sup> )	\$71.54
Implied Upside (%)	52%

**Rating: Strong Buy**

## Investment Theses Summary

- Successful recent and future vertical acquisitions position CVS to be a total-market leader
  - Synergies that are already being captured between 2023 deals Oak Street Health and Signify Health support this
  - Acquisitive growth will bring CVS closer to major players in the industry such as United Health Group
- CVS' shift away from revenue-eating retail towards a digital healthcare delivery platform will be a major driver of revenue
  - 24% YoY digital customer growth—digital customers are twice as engaged compared to non-digital
  - Commitment to close 300 stores per year between 2022 and 2024

## TFSIG Target Price vs Street Estimates





## VIII. Appendix

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# Appendix I: DCF Sensitivity Analyses



WACC and TGR & WACC and EBITDA Exit Multiple sensitivities in the base case DCF

		WACC				
		9.7%	10.2%	10.7%	11.2%	11.7%
Terminal Growth Rate	1.50%	118.91	110.77	103.53	97.03	91.17
	1.75%	122.38	113.81	106.20	99.39	93.27
	2.00%	126.07	117.02	109.02	101.88	95.48
	2.25%	130.02	120.45	112.01	104.51	97.81
	2.50%	134.24	124.09	115.18	107.29	100.27

		WACC				
		9.7%	10.2%	10.7%	11.2%	11.7%
EBITDA Exit Multiple	5.3x	86.11	84.36	82.65	80.97	79.33
	6.3x	99.15	97.15	95.19	93.28	91.41
	7.3x	112.18	109.94	107.74	105.59	103.49
	8.3x	125.22	122.73	120.29	117.91	115.57
	9.3x	138.26	135.52	132.84	130.22	127.66

# Appendix II: Income Statement



<b>Income Statement</b>						
For the Fiscal Period Ending	12 months Dec-31-2017	12 months Dec-31-2018	12 months Dec-31-2019	12 months Dec-31-2020	12 months Dec-31-2021	12 months Dec-31-2022
<i>Currency</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>
Units	Millions	Millions	Millions	Millions	Millions	Millions
<b>Revenues</b>						
Products	180,063	183,910	185,236	190,688	203,738	226,616
Services	1,144	1,825	7,407	7,856	11,042	9,683
Premiums	3,558	8,184	63,122	69,364	76,132	85,330
Net Investments Income	21	660	1,011	798	1,199	838
<b>Total Revenues</b>	<b>184,786</b>	<b>194,579</b>	<b>256,776</b>	<b>268,706</b>	<b>292,111</b>	<b>322,467</b>
<b>Expenses</b>						
Cost of Products Sold	(153,448)	(156,447)	(158,719)	(163,981)	(175,803)	(196,892)
Benefit Costs	(2,810)	(6,594)	(52,529)	(55,679)	(64,260)	(71,281)
Operating Expenses	(18,809)	(21,368)	(33,310)	(35,135)	(37,066)	(38,212)
Store Impairments	-	-	(231)	-	(1,358)	-
Goodwill Impairments	(181)	(6,149)	-	-	(431)	-
Interest Expense	(1,062)	(2,619)	(3,035)	(2,907)	(2,503)	(2,287)
Other Income/expense	(208)	4	124	206	182	169
Loss on Early Extinguishment of Debt	-	-	(79)	(1,440)	(452)	-
Loss on Assets Held for Sale	-	-	-	-	-	(2,533)
Legal Settlement	-	-	-	-	-	(5,803)
<b>Earnings before Taxes</b>	<b>8,268</b>	<b>1,406</b>	<b>8,997</b>	<b>9,770</b>	<b>10,420</b>	<b>5,628</b>
<b>Taxes and Other Expenses</b>						
Provision for Income Tax	(1,637)	(2,002)	(2,366)	(2,569)	(2,522)	(1,463)
Minority Interest (After Tax)	(1)	2	3	(13)	12	(16)
Earnings of Discontinued Operations	(8)	-	-	(9)	-	-
<b>Net Income (Loss)</b>	<b>6,622</b>	<b>(594)</b>	<b>6,634</b>	<b>7,179</b>	<b>7,910</b>	<b>4,149</b>

# Appendix III: Balance Sheet



<b>Balance Sheet</b>							
Balance Sheet as of:	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	
Currency	USD	USD	USD	USD	USD	USD	
Units	Millions	Millions	Millions	Millions	Millions	Millions	
<b>Current Assets</b>							
Cash and Cash Equivalents	1,696	4,059	5,683	7,854	9,408	12,945	
Short-term Investments	111	2,522	2,373	3,000	3,117	2,778	
Accounts Receivable, Net	13,181	17,631	19,617	21,742	24,431	27,276	
Inventories	15,296	16,450	17,516	18,496	17,760	19,090	
Asset Held for Sale	-	-	-	-	-	908	
Other Current Assets	945	4,581	5,113	5,277	5,292	2,685	
<b>Total Current Assets</b>	<b>31,229</b>	<b>45,243</b>	<b>50,302</b>	<b>56,369</b>	<b>60,008</b>	<b>65,682</b>	
<b>Non Current Assets</b>							
Operating Lease Right-of-use Assets	-	-	20,860	20,729	19,122	17,872	
Property and Equipment, net	10,292	11,349	12,044	12,606	12,896	12,873	
Long-term Investments	112	15,732	17,314	20,812	23,025	21,096	
Goodwill-net	38,451	78,678	79,749	79,552	79,121	78,150	
Intangible Assets, Net	13,630	36,524	33,121	31,142	29,026	24,754	
Other Assets	1,417	5,046	4,600	4,624	4,714	4,620	
Separate Accounts Assets	-	3,884	4,459	4,881	5,087	3,228	
<b>Total Assets</b>	<b>95,131</b>	<b>196,456</b>	<b>222,449</b>	<b>230,715</b>	<b>232,999</b>	<b>228,275</b>	
<b>Current Liabilities</b>							
Accounts Payable	8,863	8,925	10,492	11,138	12,544	14,838	
Accrued Expenses	6,581	10,711	12,133	14,243	17,670	18,745	
Health Care Costs Payable	5	6,147	6,879	7,936	8,808	10,406	
Short-term Borrowings	1,276	720	-	-	-	-	
Current Portion of Long-term Debt	3,545	1,265	3,781	5,440	4,205	1,778	
Current Portion of Operating Lease Liabilities	-	-	1,596	1,638	1,646	1,678	
Other Insurance Liabilities	23	1,937	1,830	1,557	1,303	1,140	
Policyholders' Funds	-	2,939	2,991	4,270	4,301	1,500	
Liabilities Held-for-sale	-	-	-	-	-	228	
Pharmacy Claims and Discounts Payable	10,355	11,365	13,601	15,795	17,330	19,423	
<b>Total Current Liabilities</b>	<b>30,648</b>	<b>44,009</b>	<b>53,303</b>	<b>62,017</b>	<b>67,807</b>	<b>69,736</b>	
<b>Non Current Liabilities</b>							
Long-term Debt	22,181	71,444	64,699	59,207	51,971	50,476	
Long Term Operating Lease Liabilities	-	-	18,926	18,757	18,177	16,800	
Deferred Income Taxes	2,996	7,677	7,294	6,794	6,270	3,880	
Minority Interest	4	318	306	312	306	300	
Other Long-term Liabilities	1,277	2,780	2,162	2,351	1,904	6,732	
Separate Accounts Liabilities	-	3,884	4,459	4,881	5,087	3,228	
Other Long-term Insurance Liabilities	334	8,119	7,436	7,007	6,402	6,108	
<b>Shareholders' Equity</b>							
Common Stock - Par Value	32,096	45,440	45,972	46,513	47,377	48,193	
Treasury Stock - Common	(37,796)	(28,228)	(28,235)	(28,178)	(28,173)	(31,858)	
Retained Earnings	43,556	40,911	45,108	49,640	54,906	56,145	
Accumulated Other Comprehensive Income (Loss)	(165)	102	1,019	1,414	965	(1,465)	
<b>Total Shareholders Equity</b>	<b>37,691</b>	<b>58,225</b>	<b>63,864</b>	<b>69,389</b>	<b>75,075</b>	<b>71,015</b>	
<b>Total Liabilities &amp; Shareholders Equity</b>	<b>95,131</b>	<b>196,456</b>	<b>222,449</b>	<b>230,715</b>	<b>232,999</b>	<b>228,275</b>	

# Appendix IV: Cash Flow



<b>Cash Flow</b>						
For the Fiscal Period Ending	12 months Dec-31-2017	12 months Dec-31-2018	12 months Dec-31-2019	12 months Dec-31-2020	12 months Dec-31-2021	12 months Dec-31-2022
<i>Currency</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>	<i>USD</i>
Units	Millions	Millions	Millions	Millions	Millions	Millions
<b>Operating Activities</b>						
Net Income (Loss)	6,623	(596)	-	-	-	-
Net Income	-	-	6,631	7,192	7,898	4,165
Depreciation and Amortization	2,479	2,718	4,371	4,441	4,512	4,247
Gain/loss on Sale of Subsidiaries	-	86	205	(269)	-	(475)
Loss on Asset Held for Sale	-	-	-	-	-	2,533
Store Impairments	-	-	231	-	1,358	-
Goodwill Impairments	181	6,149	-	-	431	-
Stock based Compensation	234	280	453	400	484	447
Deferred Income Taxes	(1,334)	87	(654)	(570)	(428)	(2,075)
Others-non-cash Items	53	253	33	72	(390)	332
Loss on Early Extinguishments of Debt	-	-	79	1,440	452	-
Loss on Settlement of Defined Benefit Pension Plans	187	-	-	-	-	-
Accounts Receivable, Net	(941)	(1,139)	(2,158)	(1,510)	(2,703)	(2,971)
Inventories	(514)	(1,153)	(1,075)	(973)	735	(1,435)
Accounts Payable and Pharmacy Claims and Discounts Payable	1,710	2,329	3,550	2,769	2,898	4,260
Other Liabilities	(333)	165	1,476	2,740	2,852	6,468
Other Assets	(338)	(3)	(614)	364	(3)	(566)
Health Care Costs Payable and Other Insurance Liabilities	-	(311)	320	(231)	169	1,247
<b>Cash Flow from Operating Activities</b>	<b>8,007</b>	<b>8,865</b>	<b>12,848</b>	<b>15,865</b>	<b>18,265</b>	<b>16,177</b>
<b>Investing Activities</b>						
Purchase of Property and Equipment	(1,918)	(2,037)	(2,457)	(2,437)	(2,520)	(2,727)
Acquisitions, Net of Cash and Investments	(1,181)	(42,226)	(444)	(866)	(146)	(139)
Proceeds from Sale of Subsidiary	-	-	-	840	-	(1,249)
Proceeds from Sale of Subsidiaries and Other Assets	-	832	-	-	-	-
Purchase of Investments	(137)	(692)	(7,534)	(9,639)	(9,963)	(7,746)
Proceeds from Sales/maturities of Investments	61	817	7,049	6,467	7,246	6,729
Proceeds from Sale-leaseback Transactions	265	-	5	101	-	-
Others	33	21	42	-	122	85
<b>Cash Flow from Investing Activities</b>	<b>(2,877)</b>	<b>(43,285)</b>	<b>(3,339)</b>	<b>(5,534)</b>	<b>(5,261)</b>	<b>(5,047)</b>
<b>Financing Activities</b>						
Others	(1)	1	196	432	155	(79)
Reductions in Long-term Debt	-	(5,522)	(8,336)	(15,631)	(10,254)	(4,211)
Issuance of Long-term Debt	-	44,343	3,736	9,958	987	-
Additions to (Reductions In) Short-term Borrowings	(598)	(556)	(720)	-	-	-
Proceeds from Exercise of Stock Options	329	242	210	264	549	551
Repurchase of Common Stock	(4,361)	-	-	-	-	(3,500)
Payments for Taxes Related to Net Share Settlement of Equity Awards	(71)	(97)	(112)	(88)	(168)	(370)
Dividends Paid or Payable	(2,049)	(2,038)	(2,603)	(2,624)	(2,625)	(2,907)
Derivative Settlement	-	446	(25)	(7)	-	-
<b>Cash Flow from Financing Activities</b>	<b>(6,751)</b>	<b>36,819</b>	<b>(7,654)</b>	<b>(7,696)</b>	<b>(11,356)</b>	<b>(10,516)</b>
<b>Other Adjustments</b>						
Foreign Exchange Rate Effect on Cash and Cash Equivalents	1	(4)	-	-	-	-
<b>Cash Flow Net Changes in Cash</b>	<b>(1,620)</b>	<b>2,395</b>	<b>1,855</b>	<b>2,635</b>	<b>1,648</b>	<b>614</b>

# Appendix V: Management Overview



Experienced management team with decades of experience and low insider ownership

## Top C-Suite Executives



### **Karen S. Lynch, CEO, President, Director**

- Three decades of experience in the healthcare industry
- Prior to becoming CEO was Executive VP of CVS Health and President of Aetna
- Total Compensation: \$21,317,055
- Tenure: 5 years



### **Shawn M. Guertin, CFO, Executive VP**

- Prior to joining CVS Health Shawn spent 8 years at Aetna as CFO
- Previously he served as CFO of Coventry Health Care and also held leadership roles at UnitedHealthcare
- Total Compensation: \$14,630,713
- Tenure: 2 years



### **Tilak Mandali, Executive VP, Chief Digital, Data, Analytics and Tech Officer**

- Previously held Chief Strategy, Innovation & Technology Officer at MGM Resorts
- Prior to that, he served in senior strategy roles for Disney Parks and American Express
- Total Compensation: \$13,991,858
- Tenure: 1 year

## Management Stats

- **Average Age**
  - ~61 Years
- **Average Tenure**
  - ~9 Years
- **Insider Ownership %**
  - 0.107%



## Team overview



### Lucas Raponi

*President, US Portfolio Manager*

#### Education

- Telfer School of Management
- 4<sup>th</sup> Year Finance

#### Key Experiences

- M&A Fall Analyst at Harris
- Summer Analyst at RBC
- Investment Banking Fall Analyst at WCP



### Mahmoud Azab

*Analyst*

#### Education

- Telfer School of Management
- 4<sup>th</sup> Year Finance & BTM

#### Key Experiences

- Consolidation Accounting Intern at Brookfield Renewable
- Accounts Payable Intern at Finance Canada



### Sergio Watanabe Trianto

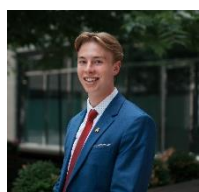
*Analyst*

#### Education

- Telfer School of Management
- 3<sup>rd</sup> Year Accounting

#### Key Experiences

- Winter Staff Accountant at EY
- Summer Internship at CRA



### Jack Brady

*Analyst*

#### Education

- Telfer School of Management
- 3<sup>rd</sup> Year Finance

#### Key Experiences

- Financial Planning & Analysis Intern at Mitel



### Joshua Brule

*Analyst*

#### Education

- Telfer School of Management
- 2<sup>nd</sup> Year Finance

#### Key Experiences

- Summer Analyst at RBC Dominion Securities



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