CVS Health Corporation

**Summary**

This company is the largest pharmacy health care provider in the U.S.

**GICS Sector**

Health Care

**Sub-Industry**

Health Care Services

**Recommendation**

Strong Buy

**Equity Analyst**

Kevin Huang, CFA

**Price**

USD 53.92 (as of Jul 07, 2019 4:30 PM ET)

**12-Mo. Target Price**

USD 77.00

**Report Currency**

USD

**Investment Style**

Large-Cap Value

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**Key Stock Statistics**

(Source: CFRA, SPGMI, Company Reports)

- **52-Wk Range:** USD 82.15 - 51.72
- **Trailing 12-Month EPS:** Oper. EPS 2019E USD 6.92
- **Trailing 12-Month P/E:** NM P/E on Oper. EPS 2019E USD 7.54
- **$10K Invested 5 yrs Ago:** 97,622 Common Shares Outstanding (M) 1,299.1

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**Price Performance**

- **50-Week Mov. Avg.:** 150
- **10-Week Mov. Avg.:** 120
- **GAAP Earnings vs. Previous Year:** Up
- **Volume Above Avg.:** 60
- **Below Avg.:** 30

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**Past performance is not an indication of future performance and should not be relied upon as such.**

Analysis prepared by Equity Analyst Kevin Huang on May 08, 2019 12:53 PM, when the stock traded at USD 55.74.

**Highlights**

- In early 2019, CVS began testing its first remodeled stores (i.e. "HealthHUBs") in Texas. These stores, with expanded health care services and offerings, aim to help patients avoid the hospital and better manage their health. On its Q1 2019 earnings call, CVS highlighted that it is expanding the HealthHUB model to the entire Houston market, which is encouraging. At the June 2019 analyst day, we expect management to provide detailed updates on the learnings from the pilot stores, the Houston market rollout plan and the company’s long-term outlook.

- Because of the debt taken on for the merger, CVS suspended its share repurchase program and dividend increases until the company achieves a leverage ratio (debt to trailing EBITDA) near 3.0x. We estimate CVS’s post-merger leverage ratio to be approximately 4.6x, which CVS committed to lowering to 3.5x by the end of 2020 through its strong free cash flow (FCF) generation. With AET, we expect CVS’s 2019 FCF to increase 22% to $8.3 billion, which compares with a 7.5% increase in 2018.

- We expect sales in 2019 to rise 29.7% to $252 billion, driven by the late-2018 acquisition of Aetna.

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**Investment Rationale/Risk**

- While CVS presented a dour outlook for 2019 because of a multitude of strong expected headwinds [e.g. rebate issues, pharmacy reimbursement, PBM pricing pressure and the long-term care business], we remain convinced that shares, trading at 7.9x our 2019 EPS, are undervalued. CVS is trading at the low-end of S’s 5-year P/E range of 7.7x to 21.2x. We think that the CVS-AET combination has tremendous upside potential for CVS through AET’s rapidly growing exposure to Medicare Advantage plans and the planned redesign of the in-store experience for pharmacy customers. From a financial perspective, 2019 will be underwhelming not only because of PBM headwinds, but also because it is a transition year in which CVS will invest heavily in integrating AET and streamlining health care delivery through initiatives such as digital health. From a long-term value perspective, we remain optimistic on shares of CVS.

- Risks to our rating and price include integration difficulties, failure to improve patient care, increased industry regulation and supply chain disruption.

- Our 12-month target of $77 applies a forward P/E multiple of 11x our next-12-month EPS of $6.97.

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**Earnings Per Share (USD)**

- **1Q:** $1.67
- **2Q:** $1.31
- **3Q:** $1.56
- **4Q:** $1.92

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**Dividend Data**

- **Amount:** USD 0.50
- **Date Decl.:** Mar 06
- **Ex-Div.:** Apr 22
- **Stk. of Record:** Apr 23
- **Payment Date:** May 03

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CORPORATE OVERVIEW. CVS Health Corporation operates one of the largest drug store chains and pharmacy benefit managers in the U.S. based on revenues, net income, and store count. Drug stores offer prescription drugs and a broad assortment of general merchandise, including OTC drugs, beauty products and cosmetics, film and photo finishing services, seasonal merchandise, greeting cards, and convenience foods. Pharmacy benefit management offerings include mail order pharmacy service, specialty pharmacy services, plan design and administration, formulary management, and claims processing. These reporting segments are the Retail/LTC [long-term care] segment and the Pharmacy Services segment (i.e. PBM business).

With the late-2018 acquisition of insurer Aetna [AET], CVS also operates one of the largest insurers in the U.S., which falls under the Health Care Benefits segment, which was established with the acquisition of AET. The acquisition of AET also resulted in CVS’ SilverScript business being moved to the HCB segment and the acquired pharmacy operations of AET being consolidated into the Pharmacy Services business.

MARKET PROFILE. As of December 31, 2018, CVS operated more than 9,900 retail locations, approximately 1,100 walk-in health care clinics and a leading pharmacy benefits manager with more than 92 million plan members. CVS operated in 49 states, the District of Columbia, Puerto Rico and Brazil. CVS filled more than 1.9 billion prescriptions in 2018, 1.3 billion of which were filled through the retail/LTC segment, accounting for 26% of the U.S. retail pharmacy market.

CVS’ pharmacy services segment provides a full range of pharmacy benefit management [PBM] services, including the operation of mail order pharmacies, specialty pharmacies, Medicare Part D services, formulary management and discounted drug purchase agreements. This business generated $134 billion of sales and $4.7 billion in operating income in 2018. Part of the pharmacy services segment is CVS’ specialty pharmacy business, which operates retail specialty pharmacy stores, specialty mail order pharmacies and mail service pharmacies.

In 2018, CVS’ retail/LTC segment generated revenues of $84 billion and operating income of $620 million. The retail/LTC segment revenues were comprised of pharmacy (76.4% of retail segment revenues in 2018) and front store and other revenues (23.6%). Front store categories and other includes over-the-counter drugs, beauty products and cosmetics, personal care products and convenience food, among other products. CVS’ proprietary brand products accounted for approximately 23% of the company’s front store revenues in 2018. CVS is also one of the largest operators of retail health care clinics in the U.S. The clinics diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions and deliver vaccinations.

The HCB segment is a leading health care benefits provider in the U.S., serving an estimated 38 million people as of December 31, 2018. The Health Care Benefits segment offers a broad range of traditional, voluntary and consumer-directed health insurance products and related services, including medical, pharmacy, dental, behavioral health, medical management capabilities, Medicare Advantage and Medicare Supplement plans, PBM services, workers’ compensation administrative services and health information technology (“HIT”) products and services.

CORPORATE STRATEGY. CVS’ pharmacy services business strategy centers on providing innovative tools and strategies, as well as quality client service, to help improve clinical outcomes for clients’ plan members while assisting them with better pharmacy management and overall health care costs. CVS aims to leverage its expertise in core PBM services, including: plan design offerings and administration, formulary management, Medicare Part D services, mail order, specialty pharmacy and infusion services, retail pharmacy network management services, prescription management systems, clinical services, disease management services and medical spend management.

One of the keys to CVS’ retail pharmacy business strategy is technology, which allows CVS to focus on constantly improving service and exploring ways to provide more personalized product offerings and services. CVS continues to leverage digital tools to empower its customers and patients by making the full breadth of health care and pharmacy services available to them anytime, anywhere. CVS also continues to introduce digital tools to make it easier for people to save time and money and to live healthier lives. In 2017, CVS rolled out CVS Pay nationwide, an end-to-end mobile payment solution that integrates payment, prescription pick-up and CVS’ ExtraCare loyalty program into one spot at checkout.

IMPACT OF MAJOR DEVELOPMENTS. CVS agreed to acquire the third largest health insurer in the U.S., Aetna [AET], for a total enterprise value of $77 billion in December 2017. The combination, which closed in late 2018, makes strategic sense to us as it provides CVS with a greater ability to incent Aetna’s large population of health plan participants to utilize Caremark’s mail order system or CVS retail stores.

FINANCIAL TRENDS. Sales grew at a five-year compound annual growth rate [CAGR] of 9.0% to $194.6 billion for the year ending December 2018. Adjusted EPS grew at slightly higher five-year CAGR of 12.1%. Free cash flow, measured as cash flow from operations less capital expenditures, was $6.8 billion in 2018, up from $6.1 billion in 2017, but down from $7.9 billion in 2016. As of December 31, 2018, CVS had a net debt to capital ratio of 50.7%, which we expect the company to focus on reducing with its immense free cash flow.
### Quantitative Evaluations

<table>
<thead>
<tr>
<th>Fair Value Rank</th>
<th>1</th>
<th>2</th>
<th>3</th>
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<th>5</th>
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<tr>
<td>Fair Value</td>
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<tr>
<td>Calculation</td>
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Based on CFRA’s proprietary quantitative model, stocks are ranked from most overvalued [1] to most undervalued [5].

<table>
<thead>
<tr>
<th>Volatility</th>
<th>LOW</th>
<th>AVERAGE</th>
<th>HIGH</th>
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### Technical Evaluation

Since May, 2019, the technical indicators for CVS have been NEUTRAL.

### Insider Activity

<table>
<thead>
<tr>
<th></th>
<th>UNFAVORABLE</th>
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### Company Financials

**Per Share Data (USD)**

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<tbody>
<tr>
<td>Tangible Book Value</td>
<td>-44.00</td>
<td>-14.19</td>
<td>-14.07</td>
<td>-13.43</td>
<td>0.04</td>
<td>1.58</td>
<td>1.22</td>
<td>1.33</td>
<td>1.65</td>
<td>-0.03</td>
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<tr>
<td>Free Cash Flow</td>
<td>6.54</td>
<td>5.97</td>
<td>7.38</td>
<td>5.52</td>
<td>5.17</td>
<td>3.12</td>
<td>3.65</td>
<td>2.98</td>
<td>2.03</td>
<td>1.04</td>
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<tr>
<td>Earnings</td>
<td>-0.57</td>
<td>6.45</td>
<td>4.91</td>
<td>4.62</td>
<td>3.96</td>
<td>3.75</td>
<td>3.02</td>
<td>2.59</td>
<td>2.49</td>
<td>2.55</td>
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<td>Dividends</td>
<td>2.00</td>
<td>2.00</td>
<td>1.70</td>
<td>1.40</td>
<td>1.10</td>
<td>0.90</td>
<td>0.65</td>
<td>0.50</td>
<td>0.35</td>
<td>0.30</td>
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<td>Payout Ratio [%]</td>
<td>NM</td>
<td>31</td>
<td>35</td>
<td>30</td>
<td>28</td>
<td>24</td>
<td>21</td>
<td>19</td>
<td>14</td>
<td>12</td>
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<tr>
<td>Prices: High</td>
<td>83.88</td>
<td>84.72</td>
<td>106.67</td>
<td>113.65</td>
<td>98.62</td>
<td>71.99</td>
<td>NA</td>
<td>41.35</td>
<td>37.82</td>
<td>38.27</td>
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<td>Prices: Low</td>
<td>60.14</td>
<td>66.46</td>
<td>69.30</td>
<td>81.37</td>
<td>64.95</td>
<td>49.00</td>
<td>NA</td>
<td>31.30</td>
<td>26.84</td>
<td>23.74</td>
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<td>P/E Ratio: High</td>
<td>27.2</td>
<td>18.0</td>
<td>23.1</td>
<td>27.8</td>
<td>25.4</td>
<td>19.3</td>
<td>NA</td>
<td>18.4</td>
<td>14.6</td>
<td>16.4</td>
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<td>P/E Ratio: Low</td>
<td>9.3</td>
<td>13.6</td>
<td>15.8</td>
<td>20.7</td>
<td>18.2</td>
<td>16.7</td>
<td>NA</td>
<td>12.9</td>
<td>10.3</td>
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### Income Statement Analysis (Million USD)

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<tbody>
<tr>
<td>Revenue</td>
<td>193,919</td>
<td>184,785</td>
<td>177,526</td>
<td>153,290</td>
<td>139,367</td>
<td>126,761</td>
<td>123,120</td>
<td>107,080</td>
<td>95,778</td>
<td>98,215</td>
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<tr>
<td>Operating Income</td>
<td>9,713</td>
<td>9,828</td>
<td>10,576</td>
<td>9,695</td>
<td>8,824</td>
<td>7,965</td>
<td>7,210</td>
<td>6,331</td>
<td>6,137</td>
<td>6,425</td>
</tr>
<tr>
<td>Depreciation + Amortization</td>
<td>2,718</td>
<td>2,479</td>
<td>2,475</td>
<td>2,092</td>
<td>1,931</td>
<td>1,870</td>
<td>1,753</td>
<td>1,568</td>
<td>1,469</td>
<td>1,389</td>
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<tr>
<td>Interest Expense</td>
<td>2,619</td>
<td>1,062</td>
<td>1,078</td>
<td>807</td>
<td>615</td>
<td>517</td>
<td>561</td>
<td>588</td>
<td>539</td>
<td>530</td>
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<tr>
<td>Pretax Income</td>
<td>1,406</td>
<td>8,268</td>
<td>8,637</td>
<td>8,616</td>
<td>7,678</td>
<td>7,529</td>
<td>6,305</td>
<td>5,747</td>
<td>5,601</td>
<td>5,900</td>
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<tr>
<td>Effective Tax Rate</td>
<td>14.2</td>
<td>19.8</td>
<td>38.4</td>
<td>39.3</td>
<td>39.5</td>
<td>38.9</td>
<td>38.8</td>
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<tr>
<td>Net Income</td>
<td>-594</td>
<td>6,622</td>
<td>5,317</td>
<td>5,237</td>
<td>4,644</td>
<td>4,592</td>
<td>3,864</td>
<td>3,462</td>
<td>3,427</td>
<td>3,696</td>
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<tr>
<td>Net Income (Normalized)</td>
<td>4,847</td>
<td>5,491</td>
<td>5,946</td>
<td>5,553</td>
<td>5,124</td>
<td>4,660</td>
<td>4,160</td>
<td>3,596</td>
<td>3,504</td>
<td>3,688</td>
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### Balance Sheet and Other Financial Data (Million USD)

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<tbody>
<tr>
<td>Cash</td>
<td>6,581</td>
<td>1,812</td>
<td>3,458</td>
<td>2,547</td>
<td>2,515</td>
<td>4,177</td>
<td>4,130</td>
<td>4,148</td>
<td>4,131</td>
<td>1,091</td>
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<tr>
<td>Current Assets</td>
<td>45,243</td>
<td>31,229</td>
<td>31,042</td>
<td>29,158</td>
<td>25,983</td>
<td>25,325</td>
<td>20,161</td>
<td>18,594</td>
<td>17,706</td>
<td>17,537</td>
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<tr>
<td>Total Assets</td>
<td>186,458</td>
<td>95,131</td>
<td>94,462</td>
<td>92,437</td>
<td>74,187</td>
<td>71,526</td>
<td>66,221</td>
<td>64,543</td>
<td>62,169</td>
<td>61,641</td>
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<tr>
<td>Current Liabilities</td>
<td>44,009</td>
<td>30,648</td>
<td>26,250</td>
<td>23,169</td>
<td>19,027</td>
<td>15,425</td>
<td>14,150</td>
<td>11,956</td>
<td>11,070</td>
<td>12,300</td>
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<td>Long Term Debt</td>
<td>71,444</td>
<td>22,181</td>
<td>25,615</td>
<td>26,267</td>
<td>11,830</td>
<td>12,941</td>
<td>9,132</td>
<td>9,208</td>
<td>8,652</td>
<td>8,756</td>
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<tr>
<td>Total Capital</td>
<td>131,972</td>
<td>64,720</td>
<td>64,365</td>
<td>64,706</td>
<td>50,853</td>
<td>51,940</td>
<td>47,481</td>
<td>48,095</td>
<td>47,791</td>
<td>46,980</td>
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<td>Capital Expenditures</td>
<td>2,037</td>
<td>1,918</td>
<td>2,224</td>
<td>2,367</td>
<td>2,136</td>
<td>1,984</td>
<td>2,030</td>
<td>1,872</td>
<td>2,005</td>
<td>2,548</td>
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<tr>
<td>Cash from Operations</td>
<td>8,865</td>
<td>8,007</td>
<td>10,141</td>
<td>8,539</td>
<td>8,137</td>
<td>5,783</td>
<td>6,671</td>
<td>5,856</td>
<td>4,779</td>
<td>4,035</td>
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<td>Current Ratio</td>
<td>1.03</td>
<td>1.02</td>
<td>1.18</td>
<td>1.26</td>
<td>1.37</td>
<td>1.64</td>
<td>1.42</td>
<td>1.56</td>
<td>1.60</td>
<td>1.43</td>
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<tr>
<td>% Long Term Debt of Capitalization</td>
<td>54.1</td>
<td>34.3</td>
<td>39.8</td>
<td>40.6</td>
<td>29.9</td>
<td>25.0</td>
<td>19.2</td>
<td>19.1</td>
<td>18.1</td>
<td>18.6</td>
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<tr>
<td>% Net Income of Revenue</td>
<td>-0.31</td>
<td>3.58</td>
<td>3.00</td>
<td>3.42</td>
<td>3.33</td>
<td>3.62</td>
<td>3.14</td>
<td>3.23</td>
<td>3.58</td>
<td>3.76</td>
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<tr>
<td>% Return on Assets</td>
<td>4.16</td>
<td>6.48</td>
<td>7.07</td>
<td>7.27</td>
<td>7.57</td>
<td>7.23</td>
<td>6.89</td>
<td>6.25</td>
<td>6.20</td>
<td>6.55</td>
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<tr>
<td>% Return on Equity</td>
<td>-1.2</td>
<td>17.8</td>
<td>14.4</td>
<td>13.9</td>
<td>12.2</td>
<td>12.2</td>
<td>10.2</td>
<td>9.2</td>
<td>9.3</td>
<td>10.5</td>
</tr>
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</table>

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E—Estimated. NA—Not Available. NM—Not Meaningful. NR—Not Ranked. UR—Under Review.
Sub-Industry Outlook

Our fundamental outlook for the health care services sub-industry for the next 12 months is positive, based on our key assumptions that: 1) the U.S. economy is currently in the late-stage of the economic cycle, which means that we expect a slowdown in U.S. economic growth; 2) many of the firms within the sub-industry will see sustained demand for their services even in the face of weaker economic conditions; and 3) there will be no significant adverse changes to the operating and competitive environment of health care service providers. This sub-industry has recently been pressured by headline risks related to legislative and regulatory proposals, such as Medicare-For-All, Amazon’s potential to disrupt the Health Care sector, and the elimination of rebates. We believe these headlines are unlikely to evolve into real threats to the profitability of health care services firms in the near future.

Nonetheless, shares of health care services have underperformed the broader market recently. This is partially due to pressures in certain areas within health care services. For example, laboratory service providers, such as LabCorp and Quest Diagnostics, have been pressured by sustained headwinds to clinical lab test reimbursement. Meanwhile, pharmacy benefit managers (PBMs) have been hurt by lower levels of drug price inflation and increased pressure from third party payers, partially alleviated by high utilization. Other health care services firms, such as Mednax, have had issues finding sufficient qualified staff. We think that these pressures may be more than accounted for in equity valuations, suggesting that there is potential for upside.

We see opportunities for health care services firms to address and take advantage of the recent pressures that they’ve been facing. For example: the major PBMs have all merged with a major insuror to offset pressures – most notably, CVS Health (CVS) acquired Aetna (AET) and Cigna (CI) acquired Express Scripts (ESRX). Lab services providers have opportunities to acquire smaller labs and gain scale as the smaller labs are likely to falter under the pressure of continued, significant reimbursement cuts.

Back to the topic of headline risks: Democrats took control of the House of Representatives in the November 2018 U.S. mid-term elections, resulting in a change to the dynamics in Washington, D.C., which was Republican-dominated for the preceding two years. Many Democrats appear to be running on a Medicare for All platform for 2020, which would likely lower average rates for health care services and hence, substantially adversely impact firms in this sub-industry.

Another headline risk is the potential repeal of the Affordable Care Act (ACA), instigated by a judge in Texas who in a case ruled the ACA to be unconstitutional. Opponents of the decision are now appealing it. We currently expect the ACA to be upheld upon appeal; although, this decision could take a couple years to reach. If the ACA were to be repealed, we expect the impact would be negative to health care services, which have benefitted from the increased insurance coverage of the past several years under the ACA.

Year-to-date through March 15, 2019, the S&P Health Care Services Index declined 8.5% vs. an increase of 12.7% for the S&P Composite 1500. In 2018, the S&P Health Care Services Index increased 2.9% vs. a 6.8% decrease in the S&P 1500 Composite Index.

Source: S&P Global Market Intelligence

/ Kevin Huang, CFA

Industry Performance

GICS Sector: Health Care
Sub-Industry: Health Care Services

Based on S&P 1500 Indexes
Five-Year market price performance through Jun 08, 2019

<table>
<thead>
<tr>
<th>S&amp;P 1500</th>
<th>Sector</th>
<th>Sub-Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).
Past performance is not an indication of future performance and should not be relied upon as such.

Source: S&P Global Market Intelligence

Sub-Industry: Health Care Services Peer Group*: Health Care Services

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>CVS Health Corporation</td>
<td>CVS</td>
<td>NYSE</td>
<td>USD</td>
<td>53.92</td>
<td>70,047</td>
<td>-3.3</td>
<td>-17.1</td>
<td>NM</td>
<td>NA</td>
<td>3.7</td>
<td>-1.2</td>
<td>54.1</td>
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<tr>
<td>AMN Healthcare Services, Inc.</td>
<td>AMN</td>
<td>NYSE</td>
<td>USD</td>
<td>51.48</td>
<td>2,400</td>
<td>-0.7</td>
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<td>19</td>
<td>59.57</td>
<td>Nil</td>
<td>23.6</td>
<td>40.8</td>
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<tr>
<td>Amedian, Inc.</td>
<td>AMED</td>
<td>NasdaqGS</td>
<td>USD</td>
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<td>3,708</td>
<td>-0.4</td>
<td>47.5</td>
<td>31</td>
<td>105.51</td>
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<td>24.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Chemed Corporation</td>
<td>CHE</td>
<td>NYSE</td>
<td>USD</td>
<td>347.97</td>
<td>5,547</td>
<td>5.4</td>
<td>7.6</td>
<td>28</td>
<td>289.83</td>
<td>0.3</td>
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<td>Cigna Corporation</td>
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<td>USD</td>
<td>157.47</td>
<td>59,753</td>
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<td>-11.1</td>
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<td>194.97</td>
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<td>DaVita Inc.</td>
<td>DVA</td>
<td>NYSE</td>
<td>USD</td>
<td>47.69</td>
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<td>61</td>
<td>44.31</td>
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<td>52.3</td>
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<td>Fresenius Medical Care AG &amp; Co. KGaA</td>
<td>FMS</td>
<td>NYSE</td>
<td>USD</td>
<td>37.63</td>
<td>22,909</td>
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<td>NasdaqGS</td>
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<td>12.8</td>
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<tr>
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<td>DGX</td>
<td>NYSE</td>
<td>USD</td>
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<td>-7.7</td>
<td>19</td>
<td>96.47</td>
<td>2.1</td>
<td>15.2</td>
<td>37.0</td>
</tr>
<tr>
<td>Sonic Healthcare Limited</td>
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<td>OTCPPK</td>
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<td>11.6</td>
<td>30.2</td>
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</table>

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.
NA-Not Available NM-Not Meaningful.
Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.
CVS Health Corporation

Analyst Research Notes and other Company News

May 07, 2019
12:40 pm ET... CFRA Raises the S&P 500 Health Care Sector to Overweight from MarketWeight (CVS 47.44****): CFRA is raising the S&P 500 Health Care sector to Overweight from MarketWeight. In a market where valuations have expanded and few sectors trade at a discount to their historical averages, CFRA finds opportunity within the health care sector. Trading at 15.7x on a forward P/E basis, it is below its historical average of 17.0x. In the first quarter of 2019, 75% of companies in the health care sector beat both sales and earnings estimates, for the best performance in the S&P 500 index. Biotech and pharmaceutical companies account for 48% of the market capitalization of the sector. The drug pipeline, approval time reductions and M&A activity make these industries very attractive. Health care has a history of outperforming during the seasonally slow period of the year, from May through October; CFRA forecasts that the sector will not likely disappoint in 2019. LINDSEY BELL - Investment Strategist, CFRA

May 01, 2019
10:00 am ET... CFRA Reiterates Strong Buy Opinion on Shares of CVS Health Corporation (CVS 56.55****): We lower our 12-month target by $11 to $77 on 11x our next-12-month EPS estimate of 6.87. This multiple is near the low end of CVS’s 5-year range because of recent pressures (e.g. drug reimbursement) and risks. Q1 EPS of $1.62 vs. $1.48 was above consensus’ expectation of $1.51. We adjust our 2019 EPS to $6.92 from $6.87 and our 2020 EPS to $7.54 from $7.92. Given the disappointing initial 2019 guidance, we are not surprised to see that CVS revised its 2019 full-year guidance modestly upward. Q1 revenues expanded 3.8%, largely because of the Aetna acquisition, but also because of increased prescription volume and brand name drug price inflation in both the pharmacy services and retail/LTC segments. CVS announced the combination of various productivity programs into one enterprise modernization initiative that aims to generate run rate savings of $1.5–$2.0 billion. We are also encouraged to hear that CVS is expanding its HealthHUB model from three stores to the whole Houston market. /Kevin Huang, CFA

March 18, 2019
11:36 am ET... CFRA Adds CVS Health Corp. to the High-Quality Capital Appreciation Portfolio (CVS 56.6****): We think the negative sentiment around Medicare-for-all, Amazon disruption and higher drug prices have pushed down shares more than warranted, creating an entry point. Further, following CVS’s recently-issued weak ’19 outlook, we think management reset expectations, enhancing future upside, in our view. Longer-term, we like the CVS/AET tie-up, which could have potential upside for the combined entity, given higher exposure to Medicare Advantage plans and in-store redesigns planned for pharmacy customers. At 8.9x our forward EPS estimate, shares are near the low end of CVS’s 10-year range (8.3x to 21.2x), which we think limits downside from here. CVS replaces Boeing (BA) in the High-Quality Capital Appreciation Portfolio, following the Ethiopian plane crash. Although we do not think this alters longer-term prospects at BA, we see a chance of increased share volatility over the short term from news flow related to the investigation of the crash and grounding of BA’s 737-MAX fleet. David Holt

February 20, 2019
10:14 am ET... CFRA Maintains Strong Buy Opinion on Shares of CVS Health Corporation (CVS 63.92****): We lower our 12-month target by $7 to $98 on 12.8x our next-12-month EPS estimate of $6.87. This multiple is near the low end of CVS’ 5-year range because of persistent industry-wide drug reimbursement pressures. Q4 EPS of $2.14 vs. $1.92 was $0.03 lower than our estimate. We lower our 2019 EPS by $0.65 to $6.87 and initiate our 2020 EPS at $7.92. CVS shares traded down this morning, most likely because of disappointing 2019 EPS guidance. While 2019 guidance was significantly below our expectations, we are not surprised by the conservative estimate because 2019 is a critical transition year - a year in which CVS will invest heavily in integrating AET and streamlining health care delivery through initiatives such as digital health. While we’ve reduced our target price to reflect headwinds in 2019, we continue to believe that shares of CVS are undervalued, especially given the company’s robust cash flow generation and the long-term value created by the CVS-AET merger. /Kevin Huang, CFA

February 05, 2019
02:05 pm ET... CFRA Adds Shares of CVS Health Corporation to its Top Ten Portfolio (CVS 65.56****): We think that the CVS-AET combination has tremendous upside potential for CVS through AET’s rapidly growing exposure to Medicare Advantage plans and the planned redesign of the in-store experience for pharmacy customers. The merger will also eliminate CVS’s risk of losing AET’s business (12% of CVS’s revenues) and enables CVS to incentivize AET’s 22 million health plan participants to use CVS services. Shares of CVS, which are currently trading at 8.7x our 2019 EPS estimate, appear discounted to us. CVS replaces Edwards Lifesciences Corp (EW 172 ****) in the Top Ten portfolio. /Catherine Seifert

November 06, 2018
11:28 am ET... CFRA REITERATES STRONG BUY OPINION ON SHARES OF CVS HEALTH CORPORATION (CVS 75.75****): We lift our 12-month target by $3 to 955 on 12.8x our next-12-month EPS estimate of 7.40. This multiple is near the low end of CVS’s 5-year range because of persistent industry-wide drug reimbursement pressures. Q3 EPS of $1.73 vs. $1.50 was $0.01 lower than our estimate. We lift our 2018 EPS by $0.01 to 7.07 and keep our 2019 EPS outlook unchanged ($7.52) as the quarter progressed mostly as we expected. Q3 sales increased 2.4% to $47.3 billion as same-store prescription volume grew 9.2%. Front store same store sales increased 0.8% in the quarter, driven by consumer health care and beauty care categories. Management expects to close the merger with Aetna prior to Thanksgiving (Nov. 22). CVS has a plan to achieve two-year synergies that exceeds its original goal of $750 million, primarily coming from lower corporate expenses, operations integration and medical cost reductions. We expect CVS’s first concept stores that offer new programs and services to be up and running in early 2019. /Kevin Huang, CFA
Forecasts are not reliable indicator of future performance. Note: A company’s earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.
Glossary

STARS
Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs [American Depositary Receipts], and ADSs [American Depositary Shares] based on a given equity’s potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS [Stock Appreciation Ranking System], equity analysts rank equities according to their individual forecast of an equity’s future total return potential versus the expected total return of a relevant benchmark [e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)], based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst’s own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence’s Quality Ranking
[also known as S&P Capital IQ Earnings & Dividend Rankings] – Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence’s earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:
- A+: Highest
- A: High
- A-: Above Average
- B+: Average
- B: Lower
- B-: Below Average
- NR: Not Ranked

EPS Estimates
CFRA’s earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus [average] EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price
The equity analyst’s projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

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Abbreviations Used in Equity Research Reports
- CAGR - Compound Annual Growth Rate
- CAPEX - Capital Expenditures
- CY - Calendar Year
- DCF - Discounted Cash Flow
- DDM - Dividend Discount Model
- EBIT - Earnings Before Interest and Taxes
- EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
- EPS - Earnings Per Share
- EV - Enterprise Value
- FCF - Free Cash Flow
- FFO - Funds From Operations
- FY - Fiscal Year
- P/E - Price/Earnings
- P/NAV - Price to Net Asset Value
- PEG Ratio - P/E-to-Growth Ratio
- PV - Present Value
- ROA - Return on Assets
- ROIC - Return on Invested Capital
- ROE - Return on Equity
- STARS - S&P Equity Analysts’ Risk Assessment System
- SOTP - Sum-of-the-Parts
- WACC - Weighted Average Cost of Capital

Dividends on American Depositary Receipts [ADRs] and American Depository Shares [ADSs] are net of taxes [paid in the country of origin].

Qualified Risk Assessment
Reflects an equity analyst’s view of a given company’s operational risk, or the risk of a firm’s ability to continue as an ongoing concern. The Qualified Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company’s operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

**5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

**4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

**3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

**2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

**1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:
In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.
Stock Report | June 08, 2019 | NYSE Symbol: CVS | CVS is in the S&P 500

CVS Health Corporation

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**Quantitative Stock Reports:**
Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five [six] model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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**STARS Stock Reports:**

Global STARS Distribution as of March 31, 2019

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<tr>
<th>Ranking</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Global</th>
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<tr>
<td>Buy</td>
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<td>35.4%</td>
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<td>Hold</td>
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<td>100.0%</td>
<td>100.0%</td>
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