"Consumer Value Stores" began as a health and beauty chain in '63. It grew to 17 stores in '64. The first pharmacy opened in '67. In '69, the chain was sold to Melville, which aggressively expanded the operation, and coupled that with an aggressive acquisition strategy that included Revco and Arbor Drug. Melville restructured in '95, and changed its name to CVS on 11/19/96.

BUSINESS: CVS Health Corp. is the nation's foremost integrated pharmacy services company with the country's largest pharmacy chain. It fills more than one billion prescriptions per year and has 9,800-plus locations in 42 states, Puerto Rico, and the District of Columbia. Acquired Drogaria Onofre, giving it a presence in Brazil in '13. New stores average about 1,300 square feet. Pharmacy (Rx) contributes 75.0% of sales; 3rd-party payors, 99.2%

CVS Health out came of the gates in surprisingly good fashion this year. Earnings totaled $1.62 a share for the first quarter, a 9.5% improvement over the year-earlier mark and well ahead of the consensus estimate. The Aetna purchase failed to drive top line growth, which hardly offsets the financing and integration costs associated with the marriage. In fact, the EBITDA margin improved more than a full percentage point to 34.8%.

Guidance was upped a bit, but still suggests a tough road ahead. Management said that it now expects to earn between $6.75 and $6.90 a share, up from its prior $6.68-$6.88 range. The increase failed to inspire us, however, following the March-quarter beat. Indeed, even the top end of CVS's new outlook implies a 5% year-over-year decline over the remaining nine months of 2019. The midpoint of the ongoing income forecast remained at $11.9 billion, pointed to increasing headwinds on the cost front. This makes sense, given the company's ongoing efforts to transition into an one-stop healthcare provider.

Most recently, it announced initiatives to begin rolling out its HealthHub concept (expanded health clinic operations) in about 1,500 stores. While we continue to think that leadership is being a little cautious, our full-year call remains for earnings of $6.90, which would be a 2.5% increase from the 2018 tally. Margin improvement should help drive a bottom-line rebound next year. We see integration expenses subsidizing and cost-cutting efforts bearing some fruit. All told, we think earnings will approximate $7.35 a share in 2020, with stock buybacks and a lower interest expense providing some additional support.

CVS shares have remained relatively steady, trading in a tight range over the last few months. They remain neutrally ranked for Timeliness, but offer above-average total return potential, especially on a risk-adjusted basis. The move to be an all-inclusive healthcare provider sets the company apart from the field, and should enable it to command a premium over competitors in the market. Also, cost-savings benefits seem to be ample over the next three to five years.