Recommendation: **HOLD**

**GICS Sector** Consumer Staples

**Sub-Industry** Drug Retail

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

**Key Stock Statistics**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>52-Wk Range</td>
<td>$98.44–69.30</td>
</tr>
<tr>
<td>Trailing 12-Month EPS</td>
<td>$5.02</td>
</tr>
<tr>
<td>Trailing 12-Month P/E</td>
<td>15.5</td>
</tr>
<tr>
<td>$10K Invested 5 Yrs Ago</td>
<td>$18,644</td>
</tr>
<tr>
<td>Oper. EPS 2017</td>
<td>5.88</td>
</tr>
<tr>
<td>Market Capitalization(B)</td>
<td>$79.12</td>
</tr>
<tr>
<td>Yield (%)</td>
<td>2.58</td>
</tr>
<tr>
<td>Dividend Rate/Share</td>
<td>$2.00</td>
</tr>
<tr>
<td>Institutional Ownership (%)</td>
<td>83</td>
</tr>
</tbody>
</table>

**Price Performance**

- **Volume (Mil.):**
  - 12-Mo. Target Price: 104.80
  - Relative Strength: Up

- **Share Price:**
  - Above Avg. STARS: 120
  - Below Avg. STARS: 50

- **Price:**
  - High: $184.1 billion, reflecting the integration of recent acquisitions and $3.4 billion in new pharmacy benefit management client wins, partially offset by lower drug price inflation. We see same store sales declining 3.4% in 2017 on weaker promotion driven traffic and as additional health plan networks restrict the CVS store base, partially offset by increased basket sizes.

- **We expect EBITDA margins to narrow to 7.0% in 2017, down from 7.4% in 2016, reflecting a shift in business mix following recent acquisitions, a less favorable pricing environment and reduced drug reimbursement levels, partially offset by the realization of acquisition synergies and improved drug sourcing. We expect increased sales of generic drugs and private label products to help alleviate some margin pressures in 2017.**

- **Following an estimated 4.1% decline in shares on our expectation for $5.0 billion in company repurchases, we see 2017 operating EPS of $5.88, up slightly from operating EPS of $5.84 reported in 2016 (excluding amortization of intangibles in both years).**

- **Investment Rationale/Risk:**
  - The company acquired Omnicare, a drug and services provider to the long-term and specialty health care industries, in August 2015, for a total enterprise value of $12.7 billion. We view the deal favorably on expected significant synergies being achieved through revenues, purchasing, and operations. We see further long-term purchasing benefits after CVS acquired Target’s (TGT) 1,670 pharmacies for $1.9 billion in December 2015.

- **Risks to our recommendation and target price include a greater-than-expected decline in drug reimbursements from federal and state governments, as well as a loss of market share within the PBM services or retail pharmacy businesses.**

- **Our 12-month target price of $83 applies a forward P/E multiple of 13.8X, at the low end of CVS’s 13.8X-25.5X five-year trading range, to our forward 12-month EPS estimate of $6.05. We see valuation hurt by lower retail prescription volume growth and slowing expected EPS growth due to the expansion of restricted retail drug networks, despite pharmacy benefit management business customer wins for 2018.**

**Analyst’s Risk Assessment**

- Low
- Medium
- High

Our risk assessment reflects the company’s leadership position and strong market share in the relatively stable U.S. retail drug industry, offset by acquisition-integration risk and the growth of non-traditional competitors.

**Revenue/Earnings Data**

- **Revenue (Million U.S. $):**
  - 1Q: 44,514
  - 2Q: 45,685
  - 3Q: --
  - 4Q: --

- **Earnings Per Share (U.S. $):**
  - 2017: 1.31
  - 2016: 1.43
  - 2015: --

- **Fiscal year ended Dec. 31. Next earnings report expected: Early November. EPS Estimates based on CFRA Operating Earnings; historical GAAP earnings are as reported in Company reports.**

**Dividend Data**

- **Amount ($):**
  - 0.425
  - 0.500
  - 0.500

- **Date:**
  - Sep 22
  - Dec 14
  - Jul 6

- **Record Stk. of Div.:**
  - Oct 20
  - Jan 20
  - Jul 20

- **Payment Date:**
  - Nov 3
  - Feb 2
  - Jul 24

Dividends have been paid since 1916. Source: Company reports.

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

Analysis prepared by Equity Analyst J. Agnese on Aug 08, 2017 02:41 PM, when the stock traded at $78.03.

**Highlights**

- We expect total sales in 2017 to rise 3.7% to $184.1 billion, reflecting the integration of recent acquisitions and $3.4 billion in new pharmacy benefit management client wins, partially offset by lower drug price inflation. We see same store sales declining 3.4% in 2017 on weaker promotion driven traffic and as additional health plan networks restrict the CVS store base, partially offset by increased basket sizes.

- We expect EBITDA margins to narrow to 7.0% in 2017, down from 7.4% in 2016, reflecting a shift in business mix following recent acquisitions, a less favorable pricing environment and reduced drug reimbursement levels, partially offset by the realization of acquisition synergies and improved drug sourcing. We expect increased sales of generic drugs and private label products to help alleviate some margin pressures in 2017.

- Following an estimated 4.1% decline in shares on our expectation for $5.0 billion in company repurchases, we see 2017 operating EPS of $5.88, up slightly from operating EPS of $5.84 reported in 2016 (excluding amortization of intangibles in both years).
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 wide 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.

MARKET PROFILE. CVS operated about 9,600 retail drugstores as of December 2015, in 49 states, the District of Columbia, Puerto Rico, and Brazil. As of December 2015, the company had stores in 98 of the top 100 U.S. drug store markets, holding the number one or number two market share in 93 of these markets. It filled more than 823.5 million prescriptions in 2015, accounting for 21.7% of the U.S. retail pharmacy market. Pharmacy operations are critical to CVS’s success, in our view, accounting for about 74% of retail store sales in 2015. Over-the-counter and personal care products accounted for 10.9% of sales. Payments by third-party managed care providers under prescription drug plans accounted for 99% of pharmacy sales in 2014. Private label brands contributed about 21% of non-pharmacy sales in retail stores in 2015.

CVS’s 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 $100.4 billion of sales in 2015, or 65% of total company sales (excluding intersegment eliminations). The company’s specialty pharmacy business operates 24 retail specialty pharmacy stores, 11 specialty mail order pharmacies, and five mail service pharmacies.

CVS is also the largest operator of retail health care clinics in the U.S. As of December 2015, it operated 1,135 retail health care clinics in 33 states under the MinuteClinic name. The clinics diagnose and treat minor health conditions, perform health screenings, monitor chronic conditions, and deliver vaccinations. The company opened 85 new clinics in 2015 and acquired 79 clinics from Target in December 2015.

CORPORATE STRATEGY. Through its retail stores, the company aims to improve customers’ access to care while helping lower overall health care costs and improve health outcomes. As a result, in addition to filling prescriptions, its retail pharmacists are increasing their focus on providing services, such as flu vaccinations and in-person counseling. Additionally, through its many possible interactions with customers through both retail (stores and websites) and pharmacy services (mail and specialty pharmacy, call centers), the company strives to influence plan members in behaviors that lower costs and improve health care outcomes.

IMPACT OF MAJOR DEVELOPMENTS. The company acquired Target’s pharmacy business, consisting of 1,660 locations and 80 in-store health clinics, in December 2015 for approximately $1.9 billion. The 79 clinics purchased are to be re-branded MinuteClinic. In addition, CVS is to open 20 new clinics within Target stores by the end of 2018. Additionally, CVS and Target plan to develop five to 10 small format stores over a two-year period following the close of the transaction.

The company acquired Omnicare, a prescription drug and service provider to the long-term health and specialty healthcare industries, for a total enterprise value of $12.7 billion in August 2015. CVS see’s EPS accretion of $0.20 in 2016 and $0.30 in 2017, reflecting significant synergies in revenues, purchasing and improved operating efficiencies.

The company acquired Coram LLC, a specialty infusion services and enteral nutrition business, from Apria Healthcare Group for $2.1 billion in January 2014.

FINANCIAL TRENDS. Sales in 2015 grew 10.0% on net new pharmacy service client wins, 1.7% rise in drugstore same-store sales and the acquisition of Omnicare in August 2015, despite negative impacts from increased sales of lower-priced generic drugs and the removal of tobacco products from its shelves in September 2014. However, margins narrowed in 2015 on a shift in business mix due to the inclusion of Omnicare, the loss of wider margin tobacco sales, and the associated non-pharmacy products typically purchased on the same shopping trip, despite a favorable shift in product mix toward generic drugs.
**Quantitative Evaluations**

**Fair Value**

<table>
<thead>
<tr>
<th>Rank</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tr>
<td>Value</td>
<td>LOWEST</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

Based on CFRA’s proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

**Fair Value Calculation**

Analysis of the stock’s current worth, based on CFRA’s proprietary quantitative model suggests that CVS is Undervalued by $34.34 or 44.2%.

**InVESTABILITY Quotient**

<table>
<thead>
<tr>
<th>Percentile</th>
<th>LOWEST = 1</th>
<th>HIGHEST = 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>CVS scored higher than 100% of all companies for which a Report is available.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Volatility**

Since August, 2017, the technical indicators for CVS have been BULLISH.

**Insider Activity**

<table>
<thead>
<tr>
<th>Activity</th>
<th>UNFAVORABLE</th>
<th>NEUTRAL</th>
<th>FAVORABLE</th>
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</table>

**Company Financials** Fiscal Year Ended Dec. 31

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Tangible Book Value</td>
<td>NM</td>
<td>NM</td>
<td>0.04</td>
<td>1.58</td>
<td>1.62</td>
<td>1.33</td>
<td>1.65</td>
<td>NM</td>
<td>NM</td>
<td>NM</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>7.22</td>
<td>6.50</td>
<td>5.63</td>
<td>5.28</td>
<td>4.40</td>
<td>3.75</td>
<td>3.56</td>
<td>3.52</td>
<td>3.13</td>
<td>2.71</td>
</tr>
<tr>
<td>Earnings</td>
<td>4.91</td>
<td>4.62</td>
<td>3.96</td>
<td>3.75</td>
<td>3.03</td>
<td>2.59</td>
<td>2.50</td>
<td>2.56</td>
<td>2.27</td>
<td>1.92</td>
</tr>
<tr>
<td>Core Earnings</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>2.27</td>
</tr>
<tr>
<td>Dividends</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>
<td>0.26</td>
<td>0.23</td>
</tr>
<tr>
<td>Payout Ratio</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>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Price-High</td>
<td>106.67</td>
<td>113.65</td>
<td>98.62</td>
<td>71.99</td>
<td>48.00</td>
<td>41.35</td>
<td>37.82</td>
<td>42.27</td>
<td>42.60</td>
<td></td>
</tr>
<tr>
<td>Price-Low</td>
<td>69.30</td>
<td>81.37</td>
<td>64.95</td>
<td>49.00</td>
<td>41.01</td>
<td>31.30</td>
<td>26.84</td>
<td>23.19</td>
<td>30.45</td>
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<tr>
<td>P/E Ratio:High</td>
<td>22</td>
<td>25</td>
<td>25</td>
<td>19</td>
<td>16</td>
<td>16</td>
<td>15</td>
<td>15</td>
<td>20</td>
<td>22</td>
</tr>
<tr>
<td>P/E Ratio:Low</td>
<td>14</td>
<td>18</td>
<td>16</td>
<td>13</td>
<td>14</td>
<td>12</td>
<td>11</td>
<td>9</td>
<td>10</td>
<td>16</td>
</tr>
</tbody>
</table>

**Income Statement Analysis** (Million U.S. $)

| Revenue                 | 177,526 | 153,290 | 139,367 | 126,761 | 123,133 | 107,100 | 96,413 | 96,729 | 87,472 | 76,330 |
| Operating Income        | 12,050  | 11,856  | 10,724  | 9,835   | 8,981   | 7,898   | 7,634  | 7,827  | 7,343  | 5,970  |
| Depreciation            | 2,475   | 2,092   | 1,931   | 1,870   | 1,753   | 1,568   | 1,469  | 1,389  | 1,274  | 1,095  |
| Interest Expense        | 1,078   | 807     | 615     | 517     | 561     | 584     | 536    | 530    | 558    | 492    |
| Pretax Income           | 8,637   | 8,616   | 7,678   | 7,528   | 6,323   | 5,746   | 5,629  | 5,913  | 5,537  | 4,359  |
| Effective Tax Rate      | 38.4%   | 39.3%   | 39.5%   | 39.8%   | 38.6%   | 39.3%   | 38.9%  | 37.3%  | 39.6%  | 39.5%  |
| Net Income              | 5,318   | 5,228   | 4,645   | 4,600   | 3,884   | 3,488   | 3,439  | 3,708  | 3,344  | 2,637  |
| Core Earnings           | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | 3,330  |

**Balance Sheet & Other Financial Data** (Million U.S. $)

| Cash                    | 3,438  | 2,547  | 2,515  | 4,177  | 4,380  | 4,188  | 4,431  | 4,091  | 3,262  | 1,084  |
| Current Assets          | 31,042 | 30,378 | 25,983 | 25,325 | 19,852 | 18,594 | 17,706 | 17,537 | 16,526 | 14,149 |
| Total Assets            | 94,462 | 93,657 | 74,252 | 71,526 | 65,912 | 64,543 | 62,169 | 61,641 | 60,960 | 54,722 |
| Current Liabilities     | 26,250 | 23,169 | 19,027 | 15,425 | 13,790 | 11,956 | 11,070 | 12,300 | 13,490 | 10,766 |
| Long Term Debt          | 25,615 | 26,267 | 11,695 | 12,841 | 9,133  | 9,208  | 8,652  | 8,756  | 8,057  | 8,350  |
| Common Equity           | 36,830 | 37,196 | 37,958 | 37,938 | 37,704 | 38,051 | 37,700 | 35,768 | 34,383 | 31,163 |
| Total Capital           | 62,491 | 64,706 | 50,233 | 51,340 | 46,842 | 47,375 | 48,685 | 46,333 | 43,048 | 40,048 |
| Capital Expenditures    | 2,224  | 2,367  | 2,136  | 1,854  | 2,030  | 1,872  | 2,005  | 2,548  | 2,180  | 1,805  |
| Cash Flow               | 7,793  | 7,320  | 6,576  | 6,470  | 5,637  | 5,056  | 4,908  | 5,097  | 4,604  | 3,717  |
| Current Ratio           | 1.2    | 1.3    | 1.4    | 1.6    | 1.4    | 1.6    | 1.6    | 1.6    | 1.6    | 1.3    |
| % Long Term Debt of Capitalization | 41.0 | 40.6 | 23.3 | 25.0 | 19.5 | 19.4 | 18.2 | 18.8 | 17.4 | 19.4 |
| % Net Income of Revenue | 3.0    | 3.4    | 3.3    | 3.6    | 3.2    | 3.3    | 3.6    | 3.8    | 3.8    | 3.5    |
| % Return on Assets      | 5.7    | 6.2    | 6.4    | 6.7    | 6.0    | 5.5    | 5.6    | 6.1    | 5.8    | 7.0    |
| % Return on Equity      | 14.3   | 13.8   | 12.2   | 12.2   | 10.3   | 9.2    | 10.6   | 10.2   | 12.8   | 12.8   |

Data as originally reported in Company reports; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

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We have a neutral fundamental outlook on the drug retail sub-industry for the next 12 months. We see sales benefiting from increased demand from aging baby boomers and expanded health care coverage. We see margins benefits from increased generic drug purchasing power and improved sales leverage. However, we see margin expansion limited by intense drug reimbursement pressure and increased competition from non-traditional formats.

Companies within the retail drug industry are well positioned, in our view, to benefit in 2017 from increased prescription drug usage and further development of private loyalty card programs. Prescription volumes will likely rise significantly in 2017 as people gain health care coverage due to implementation of the Affordable Care Act. Reflecting convenient locations close to consumers’ homes, retail drugstores are better positioned to take market share from non-traditional competitors. Expansion of loyalty card programs will likely help support increased basket sizes and traffic, reflecting a more personal shopping experience for customers. Additionally, loyalty programs will likely help support retailer margins due to improved marketing and promotional spend efficiency. We think traffic will also be aided as an aging U.S. baby boomer generation, with nearly 10,000 people turning 65 years old every day, results in increased demand for retailers’ prescription drug offerings.

While we do not expect any near-term adverse impacts from potential changes in health care legislation in 2017, longer-term demand would be restricted if people lose health care coverage. Also, we expect prescription revenue growth to be somewhat limited over the next 12 months due to the conversion of branded drugs to lower-priced generic drugs. A near-term peak in benefits from the sale of generic drugs occurred in mid-2013. But we expect a slight acceleration in generic drug sales in 2017 as additional branded drugs lose patent protection. Also, we see in-store health clinic offerings helping drive store traffic and prescription and front-end sales, as services are expanded.

Year to date through June 9th, the S&P Drug Retail Index decreased 0.5%, compared to an 8.2% rise for the S&P 1500. In 2016, the industry index declined 12.5%, compared to a 10.6% increase in the S&P 1500. We think the underperformance in 2016 reflected increased industry drug reimbursement pressures and slowing in-store traffic trends due to increased competition, despite increased demand from favorable demographics (aging baby boomers), and expanded health care coverage in the U.S.

--Joseph Agnese
CVS Health Corp

Analyst Research Notes and other Company News

August 8, 2017
11:08 am ET ... CFRA KEEPS HOLD OPINION ON SHARES OF CVS HEALTH CORPORATION (CVS 79.12***): We lower our 12-month target by $2 to $83, a P/E of 13.8X, at the low end of CVS’s 5-year range, our forward 12-month EPS estimate of $6.05. We see valuation pressured by drug reimbursement pressures and retail share losses. We lift our 1’7 EPS estimate $0.02 to $5.88. Q2 EPS of $1.33 vs. $1.32 is $0.02 above our estimate. Comparable store sales fell 2.6%, narrower than we expected, reflecting restrictions for some pharmacy networks and lower promotional spending. Pharmacy service client retention is strong as CVS has won $1.8 billion in net new business thus far for ’18 season. /J. Agnese

May 2, 2017
09:10 am ET ... CFRA KEEPS HOLD OPINION ON SHARES OF CVS HEALTH CORPORATION (CVS 81.96***): We raise our 12-month target by $3 to $85, a P/E of 13.8X, 25% below CVS’s 5-year average, our forward 12-month EPS estimate of $6.15. We see valuation pressured due to expected prescription market share losses and intense drug reimbursement pressure, despite pharmacy service share gains in 2017. Q1 adjusted EPS of $1.17 vs. $1.18 is $0.07 above our estimate. Same store sales declined 4.7%, narrower than our estimate, as prescription share losses were less than we expected. While CVS will lose a large pharmacy services client in 2018, we don’t expect a significant EPS impact. /J. Agnese

April 7, 2017
CVS Health announced that current executive vice president and general counsel Thomas M. Moriarty has been appointed to the newly created role of chief policy and external affairs officer for the pharmacy innovation company. Moriarty will continue to report directly to President and CEO Larry Merlo, and will bring together corporate communications, legal, government affairs and public policy under one operating unit to manage the company’s external affairs in Washington, D.C. and state capitals across the country. In his expanded role, Moriarty will manage at the epicenter of corporate strategy and counsel, bringing an integrated set of capabilities to impact and shape national and state-specific public policy for CVS Health and its businesses. From this vantage point, Moriarty and his team will help promote the company’s role in reshaping a health care industry that is more accessible and affordable, and that delivers better outcomes for patients. Moriarty joined CVS Health in 2012, and since that time has held several senior roles, including general counsel, chief strategy officer, and chairman of Red Oak Sourcing.

April 4, 2017
CVS Health Corp. has appointed Jonathan C Roberts as its executive vice president and chief operating officer. Prior to this appointment, Roberts worked for CVS Caremark Corp. as president of Caremark Pharmacy Services and executive vice president of CVS Caremark Caremark Co.

March 3, 2017
CVS Health Corporation announced that veteran executive Jonathan C. Roberts has been appointed to the new position of executive vice president and chief operating officer. He will continue to report directly to Larry Merlo, president and chief executive officer. Roberts currently serves as president of CVS Caremark, the company’s leading pharmacy benefit management business. As chief operating officer, Roberts will have responsibility for consolidating operational oversight across CVS Health’s unique suite of assets in order to achieve maximum efficiency, optimize investment of key resources, and most importantly, to deliver differentiated products and services to help people on their path to better health. Roberts also served as EVP of pharmacy purchasing, pricing and network relations from 2009 to 2010 and senior vice president and chief information officer from 2006 until 2008.

February 9, 2017
08:22 am ET ... S&P CAPITAL IQ KEEPS HOLD OPINION ON SHARES OF CVS HEALTH CORPORATION (CVS 77.02***): We keep our 12-month target of $82, a P/E of 14X, 25% below CVS’s 5-year average, our 2017 EPS estimate of $5.86, up from $5.85. We set our 2018 EPS estimate at $6.38. Q4 adjusted EPS of $1.71 vs. $1.53 is $0.03 above our estimate. Pharmacy services results were higher than we expected with strength from specialty pharmacy, Medicare Part D lives and improved purchasing, despite continued pricing and drug reimbursement pressures. Retail store same store sales fell 0.7%, wider than we expected, on fewer promotions. We expect traffic trends to remain pressured by competition. /J. Agnese

November 8, 2016
10:02 am ET ... S&P CAPITAL IQ DOWNGRADES OPINION ON CVS HEALTH SHARES TO HOLD FROM STRONG BUY (CVS 83.39***): We lower our 12-month target price by $37 to $82, a P/E of 14X, 25% below CVS’s 5-year average, our 2017 EPS estimate of $5.85, down from $6.60. We see valuation hurt by lower retail prescription volume growth and slowing expected EPS growth due to the expansion of restricted retail drug networks, despite pharmacy benefit management business customer wins for 2017. We cut our 2016 EPS estimate by $0.05 to $5.81. Q3 adjusted EPS of $1.64 vs. $1.28 is $0.07 above our estimate on better than expected PBM results and as same store sales growth of 2.3% exceeded our 2.0% estimate. /J. Agnese

August 2, 2016
09:46 am ET ... S&P GLOBAL KEEPS STRONG BUY OPINION ON SHARES OF CVS HEALTH (CVS 93.49****): We keep our 12-month target of $119, applying a P/E of 18X, in line with CVS’s 3-year average, to our 2017 EPS estimate of $6.60. Q2 adjusted EPS of $1.32 vs. $1.22 is $0.02 above our estimate reflecting greater than expected share repurchases, improved drug purchasing and the integration of recent acquisitions. While non-pharmacy retail sales growth continues to be weak, we are encouraged by larger basket sizes and margin expansion. We see strength in pharmacy services on new client wins and growth in specialty drugs, despite continued pricing and drug reimbursement pressures. /J. Agnese

May 3, 2016
09:55 am ET ... S&P GLOBAL MAINTAINS STRONG BUY OPINION ON SHARES OF CVS HEALTH CORPORATION (CVS 101.45******): We lift our 12-month target by $12 to $119, applying a P/E of 18X, in-line with CVS’s 3-year average, to our 2017 EPS estimate of $6.60. We increase our 2016 EPS estimate by $0.02 to $5.86. Mar-Q adjusted EPS of $1.18 vs. $1.14 is $0.02 above our estimate. Retail results are in-line with our estimates, with traffic and prescription volumes pressured by fewer promotions and a weak flu season, offset by benefits from leap day and an earlier Easter. We are encouraged by early 2017 pharmacy services wins as profits exceeded our expectations on strong prescription volume growth. /J. Agnese

August 4, 2016
09:06 am ET ... CFRA KEEPS HOLD OPINION ON SHARES OF CVS HEALTH CORPORATION (CVS 85.10***): We lower our 12-month target by $12 to $97, a P/E of 16X, in line with CVS’s 3-year average, to our 2017 EPS estimate of $6.15. Q2 EPS of $1.49 vs. $1.31 is $0.08 above our estimate. Same store sales declined 0.2%, narrower than we expected, as prescription share losses were less than we expected. We are encouraged by larger basket sizes and margin expansion. We see strength in pharmacy services on new client wins and growth in specialty drugs, despite continued pricing and drug reimbursement pressures. /J. Agnese
Analysts' Recommendations

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>No. of Recommendations</th>
<th>% of Total</th>
<th>1 Mo. Prior</th>
<th>3 Mos. Prior</th>
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<tbody>
<tr>
<td>Buy</td>
<td>11</td>
<td>46%</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>Buy/Hold</td>
<td>4</td>
<td>17%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Hold</td>
<td>9</td>
<td>37%</td>
<td>8%</td>
<td>0%</td>
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<tr>
<td>Weak Hold</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Sell</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>No Opinion</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>100%</td>
<td>26%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Wall Street Consensus Estimates

<table>
<thead>
<tr>
<th>Estimates</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2016 Actual $4.91</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Years</td>
<td>2016</td>
<td>2017</td>
<td>2018</td>
<td># of Est.</td>
</tr>
<tr>
<td>2018</td>
<td>6.38</td>
<td>6.99</td>
<td>6.27</td>
<td>23</td>
</tr>
<tr>
<td>2017</td>
<td>5.88</td>
<td>5.92</td>
<td>5.83</td>
<td>22</td>
</tr>
<tr>
<td>2018 vs. 2017</td>
<td>▲9%</td>
<td>▲16%</td>
<td>▲8%</td>
<td>▲5%</td>
</tr>
</tbody>
</table>

Q3'18 | 1.68 | 1.85 | 1.58 | 12 | 46.2 |
Q3'17 | 1.49 | 1.51 | 1.47 | 20 | 52.1 |
Q3'18 vs. Q3'17 | ▲13% | ▲23% | ▲7% | ▼-40% | ▼-11% |

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.
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 Capital IQ 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 Capital IQ's earnings and dividend rankings for common stocks, which are designed to capitalize on 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 | B Below Average |
| A High | B Lower |
| A- Above Average | C Lowest |
| B+ Average | D In Reorganization |
| 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 is 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.

**Core Earnings**
Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company’s after-tax earnings generated from its principal businesses. Included in the definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

**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.

**CFRA Equity Research**
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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 and Amortization
EPS - Earnings Per Share
EV - Enterprise Value

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

**Qualitative 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 Qualitative 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 wide 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 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 wide 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.

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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 June 30, 2017

<table>
<thead>
<tr>
<th>Ranking</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>37.4%</td>
<td>25.9%</td>
<td>36.6%</td>
<td>35.4%</td>
</tr>
<tr>
<td>Hold</td>
<td>55.1%</td>
<td>56.1%</td>
<td>39.4%</td>
<td>53.5%</td>
</tr>
<tr>
<td>Sell</td>
<td>7.5%</td>
<td>18.0%</td>
<td>24.0%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

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