CVS Health Corp. operated 9,700 retail drugstores at the end of 2016, including over 1,600 locations in Target stores, a leading specialty pharmacy, and one of the largest pharmacy benefit managers in the U.S. The combined company posted 2016 revenue of $177 billion with more than half in the PBM business. Approximately 75% of the $81 billion in Retail and long-term care revenue came from prescriptions, 10% from over-the-counter, 4% from Beauty and 11% from General Merchandise. CVS operated 1,139 Minute Clinics, primarily within CVS pharmacy stores. The corporate headquarters is in Woonsocket, Rhode Island.

Analyst's Notes

Analysis by Christopher Graja, CFA, August 9, 2017

ARGUS RATING: BUY

- Maintaining BUY and $92 target
- We continue to believe that the company’s integrated model, which includes the CVS retail pharmacies, the Caremark PBM, a growing Specialty pharmacy business, pharmacies within Target Stores, and MinuteClinic, is the right structure to deliver cost savings, better care, and attractive shareholder returns.
- On August 9, CVS reported non-GAAP earnings of $1.33 per share. Adjusted EPS in 2Q was up $0.01 from the prior year, and above the average analyst estimate of $1.31.
- The company raised the midpoint of its full-year 2017 adjusted (non-GAAP) earnings guidance. The new range is $5.83-$5.93, compared to $5.77-$5.93 previously.
- At a terminal multiple of 16, the shares would be worth $136 in five years. The five-year average for CVS is about 20-times and peers are trading at 20-times. Discounted to the present at 8.5%, CVS would be worth approximately $91 per share, about 14% above current levels.

INVESTMENT THESIS

We are reiterating our BUY rating on CVS Health Corp. (NYSE: CVS) with at target price of $92. Despite intense competition, we continue to believe that the company’s integrated model, which includes the CVS retail pharmacies, the Caremark PBM, a growing Specialty pharmacy business, pharmacies within Target Stores, and MinuteClinic, is the right structure to deliver cost savings, better care, and attractive shareholder returns.

We are seeing increasing evidence of proprietary technology and clinical programs that enhance the company’s competitive position as a healthcare partner. We believe that the healthcare landscape is becoming more focused on outcomes than simply dispensing pills or processing claims. In this context, we are increasingly optimistic about the company’s healthcare landscape is becoming more focused on outcomes than simply dispensing pills and processing claims. In this context, we are increasingly optimistic about the company’s ability to identify gaps in patient care, encourage patients to get the treatment and medicines they need to stay healthy, and identify opportunities for patients and plan sponsors to save money with generic medicines.

Market Data

Pricing reflects previous trading week’s closing price.

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Please see important information about this report on page 8

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Analyst’s Notes...Continued

We believe that CVS can deliver incremental benefits through customer interactions ranging from text messages to face-to-face interaction with pharmacists and nurse practitioners. CVS is demonstrating that encouraging patients to take their prescriptions and monitor their conditions ultimately leads to better health and lower medical costs. We also believe that MinuteClinic is well positioned to provide cost-saving care amid a growing shortage of primary care physicians. In this context, we strongly agree with the company’s decision to take the lead as a healthcare provider and stop selling tobacco products.

An ongoing risk is that alliances and business plans are constantly shifting. Sponsors of PBM plans may switch providers or allow their members/employees to fill prescriptions only in certain stores.

RECENT DEVELOPMENTS

On August 8, CVS reported a 2Q17 GAAP profit of $1.07 per share from continuing operations. This was below our estimate of $1.17, primarily because of a goodwill impairment charge. Sales were slightly higher than we modeled, operating profit was lower than our estimate and the share count was also slightly lower than we modeled.

The PBM business performed slightly better than management’s expectations, helped by favorable purchasing of drugs. The retail business performed in line with the company’s expectations.

On an adjusted basis, which excludes $203 million of amortization related to acquisition activity, $10 million of integration costs related to acquisitions, $6 million of store closing costs, and $135 million of impairments to goodwill, CVS reported non-GAAP earnings of $1.33 per share. Adjusted EPS in 2Q was up $0.01 from the prior year’s adjusted $1.32, and above the average analyst estimate of $1.31. The company’s adjusted guidance range was $1.29-$1.33.

The company raised the midpoint of its full-year 2017 adjusted (non-GAAP) earnings guidance as a result boosting the low end. The new range is $5.83-$5.93, compared to $5.77-$5.93 previously. CVS reduced its full-year GAAP guidance for EPS from continuing operations to $4.92-$5.02, including a goodwill impairment, from a previous $5.02-$5.18. Free cash flow guidance remains at $6.0-$6.4 billion, and CVS still expects to repurchase $5 billion of shares this year. CVS made good progress towards that goal, repurchasing $852 million of shares in 2Q to take the full-year repurchases to approximately $4 billion of shares.

Second-quarter total revenue of $45.7 billion rose 4.5%, which was above our estimate of $45.3 billion and above the StreetAccount consensus of $45.35 billion. The primary drags on sales were a bigger mix of generic medicines, which are lower priced, and the previously-discussed loss of retail business because Prime Therapeutics, the fourth-largest PBM, and the Department of Defense Tricare program entered restricted-network relationships to fill retail prescriptions at Walgreen.

PBM revenues rose 9.5%, to $32.3 billion, above our estimate.
of $31.3 billion. The StreetAccount consensus was $32.2 billion. The strong growth was driven by 10.5% growth in pharmacy network claims, inflation in the price of branded drugs and continuing growth in the Specialty business. PBM’s saw some sales drag as the generic dispensing rate rose by 130 basis points to 87.2%. Generics are typically lower priced than the medicines they replace.

Retail sales decreased 2.2% to $19.55 billion, which was above our estimate of $19.2 billion and the StreetAccount consensus of $19.3 billion. We were conservative in setting our estimate. The decline was a result of lower comparable sales, reimbursement pressure and a 154-basis-point increase in the generic dispensing rate.

Total same-store sales were down 2.6%, which was better than the StreetAccount consensus for a 3.8% decline. Pharmacy comps decreased 2.8%, which was also better than the consensus call for a 4.1% decrease, according to StreetAccount. Prescription volumes were flat, with 460 basis points of pressure from scripts migrating out of CVS stores because of restricted networks, which is a development we discussed previously.

Front-of-store comps were down 2.1%. The result was not as severe as the StreetAccount consensus call for a 3.2% decrease. Front-of-store traffic was down and the company has eliminated unprofitable promotions. This actually helped Retail gross margin. There was also some comp drag because this year did not have a leap day and because Easter fell in the second quarter rather than the first quarter this year. Average basket size increased.

We once again underestimated the intercompany elimination, which means that a greater-than-expected number of the company’s PBM customers filled their prescriptions in CVS retail stores.

The overall gross margin was down about 86 basis points year-over-year to 15.2%, due mostly to a shift in the mix of business because the lower margin PBM business is growing faster than the retail business. The gross margin rate was 6 basis points below our estimate and in line with a consensus. Gross margin dollars decreased approximately 1.1% for the full company.

The gross margin in the PBM business fell by about 9 basis points. The 4.5% margin rate was 10 basis points above our estimate. We believe most of the difference was related to pricing pressure and changes in the mix of business, partially offset by favorable generic dispensing. Gross margin dollars in the PBM were up 7.4% on a year-over-year basis.

The gross margin in the retail business was down 16 basis points, to 29%, which was about 25 basis points below our estimate. There was a drag on retail pharmacy margin from reimbursement pressure, which is an ongoing issue. There was more than enough favorable offset from a higher generic dispensing rate, higher front of store margin and presumably from a higher mix of private label merchandise. Gross margin dollars in the retail segment decreased by 2.8% which was mainly because of a loss of scripts.
The total expense rate declined by 11 basis points, as a percentage of sales, to 10.5%, on an adjusted basis.

The PBM expense rate decreased by about 8 basis points, to 1.0% of sales. It was lower than we expected as higher volumes lead to efficiency improvements. The expense rate in the retail segment was up 80 basis points on an adjusted basis to 21.1%. Most of the increase was a result of technology spending and efficiency improvements that are ultimately intended to streamline the business.

The net result was that the operating margin (adjusted for the costs mentioned above) decreased by 61 basis points to 5%, which was in line with the StreetAccount consensus. The retail business had a 96-basis-point decrease to 8.4%. The PBM business had a 1-basis-point decrease to 3.5%.

**EARNINGS & GROWTH ANALYSIS**

We are lowering our FY17 GAAP estimate to $5.00 from $5.18. Second-quarter earnings came in $0.10 lower than we expected, mostly because of a $0.08 per share impairment charge on a small business that the company owns.

We are lowering our 3Q estimate to $1.22 from $1.43. About half of the reduction to our 3Q estimate is related to the timing of Medicare Part D profits. Last year more of the profits fell in 3Q; this year some of those profits will fall in 4Q. When we look at the non-GAAP estimates on Bloomberg, which exclude an expected pension charge, many of the analysts appear to be shifting profits from 3Q to 4Q. We also made a small reduction to our 3Q revenue estimate on the Retail side of the business. We are also reducing our estimate now that we have more information on what we expect to be a $220 million pension settlement. The 3Q GAAP EPS guidance is 1.20–$1.23.

We are raising our 4Q EPS estimate by $0.12 per share, to $1.77, which is mostly based on the shift in Part D profitability from 3Q to 4Q.

Our full-year estimate remains near the top of the company's GAAP guidance range of $4.92–$5.02.

The company’s adjusted, non-GAAP guidance is $5.83–$5.93, with the top of the range unchanged and the bottom up from $5.77 previously.

We are maintaining our FY18 EPS estimate of $5.90 per share, which is on a GAAP basis. This 18% growth is faster than our long-term rate of 10% because we expect CVS to regain some of the market share that it is losing as Walgreen benefits from some exclusive networks in FY17 and we are not modeling a repeat of pension, store closing and impairment costs. We are also anticipating additional share repurchases for the year. The average analyst estimate is $5.91 on a GAAP basis and $6.38 on an adjusted basis. There has been very little change in consensus over the last three weeks.

We continue to believe that the company’s unique programs for improving care and saving customers money will help CVS to win additional business over time.

CVS has provided multiyear guidance for 10% EPS growth, down from its prior forecast of 10%-14% growth for 2013-2018. Taken in isolation, the new outlook probably isn’t a major surprise for the Street. CVS said that growth had been trending at about 13% but that it would become more challenging going forward given the company’s size. We think that many analysts were pleased to hear a double-digit number from management, while others wondered how CVS would reach the 10% target. The basis roadmap is for revenue growth of approximately 11%, which includes M&A and market share gains. CVS expects to see lower margins that take net income growth to about 5%. Management expects to continue with share repurchases to boost EPS growth by an additional 500 basis points a year. This does not include a benefit from a lower tax rate.

**FINANCIAL STRENGTH & DIVIDEND**

Our financial strength rating for CVS is Medium, the midpoint on our five-point scale. On the plus side, delivering medicine has historically been a reasonably stable business that has benefited from an aging population and doctors’ increased reliance on prescription medicines to treat health problems in a cost-effective manner. Demand for medicine, cosmetics, snacks and small household items also tend to be less sensitive to swings in the economy than many consumer goods that are higher-priced or more discretionary in nature. To be sure, the importance of front-of-store categories has diminished as CVS has become more of a healthcare company. These products now represent about 10% of total revenue.

One of the challenges with the PBM business is that the addition, or loss, of a big corporate or government account, or a change in the pricing terms can add some volatility to the PBM’s results. Weak employment conditions could also constrain or reduce the number of lives covered or make it a little less likely that people will go to the doctor or fill their prescriptions. A risk to the Retail business is that Walgreens Boots has been more aggressive in offering reduced pricing to participate in closed or preferred networks. While these deals put pressure on gross margin at WBA they have the potential to take business away from or to push CVS towards deals that provide lower profitability.

CVS’s debt was 44% of capital at the end of the second quarter, slightly lower than it was a year earlier. Debt has actually decreased, but equity is also lower. If the roughly $16 billion present value of operating leases is included, adjusted debt/capital is about 55%. We estimate that adjusted debt (including capitalized leases) was about 2.5-times EBIT plus depreciation, amortization and rent (EBITDAR) at the end of 2009, 2.7-times at the end of both 2010 and 2011, 2.5-times at the end of 2012, and 2.7-times at the end of 2013. We believe the company ended 2014 at 2.6-times. In July of 2015, the company issued $15 billion of debt to fund pending acquisitions. This debt increased adjusted debt to approximately 3.2-times EBITDAR. CVS ended 2016 at approximately 3.1-times. The company is still aiming for adjusted debt of about 2.7-times EBITDAR. We believe this is consistent with the company’s credit ratings. The company owned about 4% of its drugstores at the end of 2016. This isn't high by retail standards.

Due to the vagaries of accounting for the Caremark deal, the company’s goodwill and intangible assets increased, boosting assets by about $24 billion. The company's goodwill and intangible assets of about $52 billion compare with about $34 billion of shareholders’ equity. This represents a risk to reported earnings, though not necessarily cash flow, if the company has to take a significant write-down.

CVS repurchased approximately $3 billion of its stock in 2011. It repurchased $4.3 billion in 2012. Management repurchased $4 billion of its stock in 2013. At the December 2013 analyst meeting, the company announced a new share-repurchase authorization for $6 billion. In the 2014 meeting, the company authorized a new $10
Analyst's Notes...Continued

CVS has a long-term share repurchase plan on top of the $2.7 billion remaining on the previous plan. As a result of acquisitions, the company repurchased $5 billion of shares in 2015 rather than $6 billion. CVS repurchased about $4.5 billion of shares in 2016. Management expects to repurchase approximately $5 billion of shares in 2017. After repurchasing about $4 billion of shares in the first half of 2017, we believe the company has a remaining capacity of about $14 billion under a share repurchase plan that it boosted in the 3Q16 earnings release.

Going forward, we believe that the company is likely to continue to make significant share repurchases using excess cash flow and even through small changes in the balance sheet as long as it can maintain adjusted debt at about 2.7-times EBITDAR or less. This implies that the company can raise debt in line with EBITDAR and use the proceeds to repurchase shares. Management is targeting share buybacks as a way to add 500 basis points to annual EPS growth.

Management has said that the company’s liquidity is based on maintaining investment-grade debt ratings and that there would be negative implications if it does not. The company has stressed its commitment to maintaining a high BBB credit rating. Moody’s and Standard & Poor’s have assigned ratings in the high BBs. Ratings below BBB would fall from investment grade. The company’s short-term rating is A2/P2. While we don’t expect that management will make a plan for lower ratings, it probably isn’t likely that the current team will use cash to significantly improve credit ratings either. We believe that using capital efficiently and returning capital to shareholders remain the greater priority.

At some points during the credit turmoil, it had become more difficult for some companies with ratings below the top-tier A1/P1 to access the commercial paper markets. Funding the Longs acquisition was an obvious challenge in a turbulent market, but the company did a good job of arranging the financing and handling the relationships with its bankers. We also believe that the company maintained good access to the commercial paper market.

In 2009, the company paid an annual dividend of $0.305. In January 2010, it raised the quarterly payout to $0.0875. The company paid dividends of $0.35 in 2010. In January of 2011, CVS raised the quarterly payout to $0.125 per share. Dividends in 2011 totaled $0.50 per share. At the analyst meeting in December 2011, the company announced it was raising its annual dividend by 30% to a full year payout of $0.65 for 2012. We believe the company is on track to meet its target of a 35% payout ratio before 2018. In 2013, CVS paid dividends of $0.90 and in 2014 it paid $1.10. In the December 2014 analyst meeting, CVS raised the dividend by 27% and made 2015 dividend payments of $1.40 per share. The company raised the dividend by about 20% at the 2015 analyst meeting, paying 2016 dividends of $1.70 per share. The company made a similar, but smaller move at the 2016 meeting. Our FY17 dividend estimate is $2.00. Over the last five years, CVS has raised the dividend at a compound annual growth rate of more than 25%. Our FY18 dividend estimate is $2.20 per share.

MANAGEMENT & RISKS

On March 1, 2011, Larry Merlo succeeded Tom Ryan as CEO. We believe Mr. Merlo is doing a good job explaining how CVS can reduce costs for payers, improve the quality of care for patients and make healthcare more accessible. We respect Mr. Merlo and we believe he did an outstanding job when he was running the retail portion of the business.

Mr. Ryan transformed the company going back to the acquisition of Eckerd stores from J.C. Penney, the acquisition of Long’s, and the acquisition of Caremark. We think he did a good job communicating with shareholders and believe that Mr. Merlo is continuing that tradition.

A challenge for investors is that we may not have much information on the company’s progress in retaining and winning PBM winning business until the actual outcomes are disclosed. Even if we can glean details on which contracts might be won or lost, determining the economics of those contracts represents a further challenge. This limited transparency represents a risk if the company is unsuccessful.

Controller and Chief Accounting Officer David Denton became CFO on January 1, 2010 replacing Dave Rickard, whose intention to retire was expected and well disclosed. We have confidence in both Mr. Merlo and Mr. Denton.

CVS Health faces risks from both rising healthcare costs and the efforts of governments, businesses and individuals to limit these costs. Government entities are very focused on making sure that individuals have access to healthcare. These goals have resulted in, and probably will continue to result in new dynamics in healthcare coverage where the company may see a higher volume of business at a lower gross margin. The 2016 annual report lists more than 20 topics under Government Regulation; we believe that investors should be aware of these issues and of updates provided in the company’s quarterly filings. In its annual report, CVS said that any failure, or alleged failure, to comply with laws and regulations could have a material adverse effect on the company’s financial results or financial condition. Our expectation is that we’ll probably see pressure on gross margin in both the retail and PBM businesses as a result of reimbursement pressure.

We believe that a number of industry trends have the potential to push margins slightly lower. One is the possibility of heightened price negotiations among drug companies and providers of pharmacy services. Another is that the profitability of generic medicines dwindles after their introduction.

The merger of Medco and Express Scripts, the now-resolved dispute between Walgreens and Express, Walgreens’s merger with Alliance Boots, Walgreen’s decision to ink a long term distribution agreement and take a minority interest in AmerisourceBergen, and Walgreen’s aggressive pursuit of closed network agreements all illustrate that there could be very significant changes in the playing field over the next few years. Any perception that a company is well positioned could change quickly.

The Affordable Care Act has changed the dynamics of pharmacy reimbursement rates and methodologies for Medicaid and other programs.

While the potential for additional healthcare reform presents risks, particularly if it reduces access to healthcare, we believe that PBMs provide a valuable role in managing healthcare costs.

The company can also enable customers to consult with pharmacists. In our opinion, this has the potential to improve adherence and reduce gaps in care while slightly increasing store traffic and front-end sales. The main benefit is probably that personal interaction with a pharmacist could also serve as a way to encourage customers to take their medicines as prescribed so that conditions like Diabetes or high blood pressure stay under control. We believe this saves plan sponsors money. Management once disclosed that, the 10-year cost of providing medication and testing...
supplies to a diabetic who follows doctors' instructions is about $38,000 while the cost can rise above $250,000 if the patent doesn't comply and then needs hospitalization and dialysis. 'Adherence' is an important issue for plan sponsors and that PBMs will need to show that they can produce results in this area. CVS has stressed is its pharmacists' ability to monitor the potential for harmful drug interactions or allergies.

We think that CVS can use its Extra Care card to offer targeted discounts to Caremark customers who may not have previously shopped at CVS on a regular basis. The Extra card is a very important tool for CVS. With targeted promotions it can reduce advertising costs, entice shoppers to spend more when they are in the store and provide incentives that encourage them to come back for a discount on their next purchase.

The industry could also come under pressure from an increase in co-payment plans, a lack of new drugs, concern about the safety of drugs, the removal of existing drugs from the market and/or the switch of major drugs from prescription to over-the-counter sales. It is also possible that consolidation in the number of companies that make generic medicines could reduce some of the gross margin benefits.

The CVS MinuteClinics could also draw fire. One possibility is that doctors or medical organizations will raise concerns about the quality of care provided in these clinics. It may be hard to determine which of these complaints are based on actual medical concerns and which are based on concerns about a new source of competition. That said, we have used MinuteClinic. Overall, we thought that the use of technology to complement and support the nurse's expertise was effective. We also think that CVS provided a good description of the limits of MinuteClinic, and it emphasized the importance of having a relationship with a primary-care doctor.

The company also has to find ways to make the investment in clinics productive during times of the year when people typically don't get as many colds and viruses. The company is making good progress promoting its monitoring ability to companies as a way to encourage employees to stay on their medicines and monitor employees with chronic conditions. On the plus side, we think these in-store clinics offer more access to healthcare and make up for a shortage of general practitioners. CVS can also help sponsors by providing incentives for plan participants to go to Minute Clinic rather than making frivolous visits to the emergency room when their doctor's office is closed.

Significant legal risks are noted in the company's 10-K filing with the SEC. A complete discussion of these legal and regulatory issues is beyond the scope of this report, but we urge investors to read the Legal Proceedings section in the annual filing and in the quarterly reports. One recent issue is that the company's SilverScript Medicare Part D was sanctioned, preventing it from trying to win new business as a result of some customer service issues. The problems have been resolved, but it did take longer than we expected and the sanctions excluded CVS from the 2013 open enrollment season.

Competition from Wal-Mart is always a factor in retail, and this giant has upped the ante by announcing additional price cuts on a select group of generic drugs. We would not rule out the possibility of other price cuts on prescriptions or over-the-counter medicines from Wal-Mart or another discount retailer. It is also possible that WMT or others will offer a wider range of discounted medicines. We also believe that competition from Walgreen and from competing PBMs is likely to remain stiff.

The integration of the former Eckerd stores went better than we had expected. We believe that CVS also did a good job of integrating the Albertsons and Longs stores. Integrating acquired stores is something the company does very well. The company must now deliver on its acquisition of the Target pharmacies. It appears that the Target pharmacies are gaining traction.

Winning more PBM business could also be one of the best ways for the company to raise returns on capital. We believe that customer relationships will be very important and PBM customers are likely to do increasing business with the company. The loss of one large corporate customer could be more damaging than losing a comparatively tiny retail customer. The stock was hit hard in late 2009 when the company provided a weak outlook for 2010. We saw a repeat of this in the 3Q16 earnings release. There is, however, a real and significant risk to the stock if the company doesn't do a good job of landing new business and retaining existing customers. There is also a risk if the new business is less profitable.

Another risk to the stock is the 'double whammy' faced by all growth stocks. If the company's growth slows, the stock price could be hurt both by the potential for lower future earnings and by a decline in the multiple that investors would be willing to pay for those earnings. Such declines can often be severe.

The industry is changing dramatically. The presence of a larger competitor from the merger of Express Scripts and Medco could be a risk and a smaller number of PBMs could result in pressure on reimbursement rates in the retail business. We also expect Walgreen to remain aggressive in trying to gain pharmacy business. We expect Walgreen to be most aggressive in markets such as Chicago or Milwaukee where it has more stores and offers more convenience. The competition for front-of-store business also appears to have stepped up and it will probably accelerate further.

COMPANY DESCRIPTION

CVS Health Corp. operated 9,700 retail drugstores at the end of 2016, including over 1,600 locations in Target stores, a leading specialty pharmacy, and one of the largest pharmacy benefit managers in the U.S. The combined company posted 2016 revenue of $177 billion with more than half in the PBM business. Approximately 75% of the $81 billion in Retail and long-term care revenue came from prescriptions, 10% from over-the-counter, 4% from Beauty and 11% from General Merchandise. CVS operated 1,139 MinuteClinics, primarily within CVS pharmacy stores. The corporate headquarters is in Woonsocket, Rhode Island.

VALUATION

We believe that CVS shares are trading at levels that will allow them to surpass the performance of the S&P 500 on a risk-adjusted basis over the next year. The shares are down about 18% over the last 12 months.

While we prefer to use GAAP earnings wherever possible, the Street overwhelmingly focuses on adjusted earnings for CVS. Using the average analyst estimate of $5.88 for this year, $6.38 for next year, and assuming growth of 10% over the next three years, earnings would reach approximately $8.50 per share. Our five-year growth rate is 10% and the average estimate on Bloomberg is almost 12%.
At a terminal multiple of 16, the shares would be worth $136 in five years. The five-year average for CVS is about 20-times and peers are trading at 20-times. While we don’t expect the shares to be trading at 20-times, we do believe that the aging population, healthy cash generation, solid financial strength and a relatively low cost of equity will justify a terminal multiple above 16 based on scenario analysis with a modified dividend discount model. Discounted to the present at 8.5%, which is the same multiple we used in our previous note, and just 50 basis points lower than the 9% we use for most of our coverage universe CVS would be worth approximately $91 per share, about 14% above current levels.

CVS has a 2.55% dividend yield, which we view as attractive. The company has increased the dividend at a compound annual rate of almost 30% over the last five years and we expect further increases in the coming years.

We are maintaining our 12-month target at $92. We remain encouraged that CVS is sharpening its competencies as a healthcare provider, deploying cash flow effectively and pursuing opportunities to provide more services.

On August 9, BUY-rated CVS closed at $79.43, up $0.86.
About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus’ Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus’ Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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