

# CVS Health Corporation

**Recommendation** **STRONG BUY** ★ ★ ★ ★ ★

**Price**  
\$79.83 [as of Nov 09, 2018 4:00 PM ET]

**12-Mo. Target Price**  
\$95.00

**Report Currency**  
USD

**Investment Style**  
Large-Cap Value

**Equity Analyst Kevin Huang, CFA**

**UPDATE: PLEASE SEE THE ANALYST'S LATEST RESEARCH NOTE IN THE RESEARCH NOTES SECTION**

**GICS Sector** Health Care

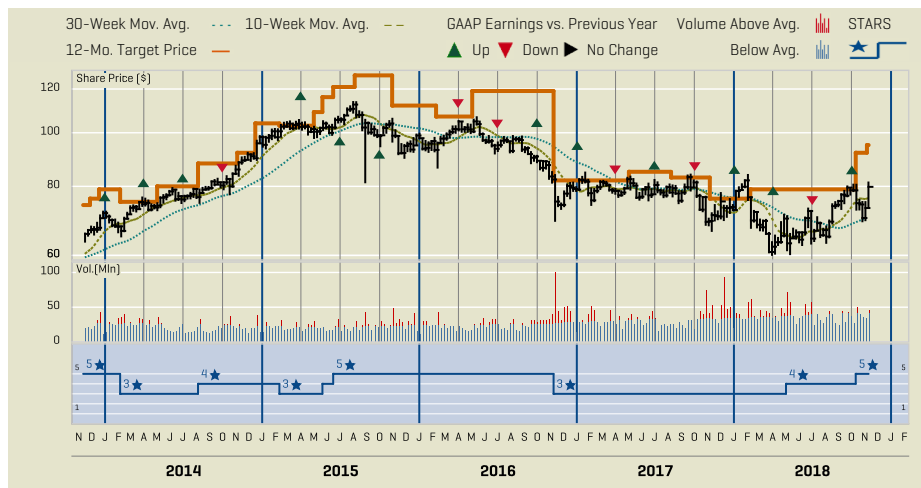
**Summary** This company is the largest pharmacy health care provider in the U.S.

**Sub-Industry** Health Care Services

**Key Stock Statistics** (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	<b>\$83.88 - 60.14</b>	Oper. EPS 2018E	<b>7.07</b>	Market Capitalization(B)	<b>\$81.33</b>	Beta	<b>0.99</b>
Trailing 12-Month EPS	<b>3.04</b>	Oper. EPS 2019E	<b>7.52</b>	Yield [%]	<b>2.51</b>	3-Yr Proj. EPS CAGR[%]	<b>10</b>
Trailing 12-Month P/E	<b>26.31</b>	P/E on Oper. EPS 2018E	<b>11.32</b>	Dividend Rate/Share	<b>\$2.00</b>	SPGMI's Quality Ranking	<b>A+</b>
\$10K Invested 5 Yrs Ago	<b>\$13,832</b>	Common Shares Outstg.(M)	<b>1,018.8</b>	Institutional Ownership [%]	<b>86</b>		

**Price Performance**



Source: CFRA, S&P Global Market Intelligence

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 Oct 15, 2018 10:21 AM, when the stock traded at **\$74.58**.

**Highlights**

- ▶ The 12-month target price has recently been changed to \$95 from \$92. The Highlights section of this Stock Report will be updated accordingly.
- ▶ The Investment Rationale/Risk section of this Stock Report will be updated shortly. For the latest News story on CVS from MarketScope, see aside.

**Investment Rationale/Risk**

▶ 11/06/18 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 \$95 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

**Analyst's Risk Assessment**

<b>LOW</b>	<b>MEDIUM</b>	<b>HIGH</b>
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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 \$)	1Q	2Q	3Q	4Q	Year
2018	45,693	46,708	47,269	--	--
2017	44,514	45,685	46,181	48,385	184,765
2016	43,215	43,725	44,615	45,971	177,526
2015	36,332	37,169	38,644	41,146	153,290
2014	32,689	34,602	35,021	--	139,367
2013	30,751	31,248	31,932	32,830	126,761

**Earnings Per Share (\$)**

	1Q	2Q	3Q	4Q	Year
2019	<b>E 1.55</b>	<b>E 1.76</b>	<b>E 1.92</b>	<b>E 2.29</b>	<b>E 7.52</b>
2018	0.98	-2.52	1.36	<b>E 2.17</b>	<b>E 7.07</b>
2017	0.92	1.07	1.26	3.21	6.45
2016	1.04	0.86	1.43	1.60	4.91
2015	1.07	1.12	1.10	1.34	4.62
2014	0.95	1.06	0.81	--	3.96

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

**Dividend Data**

Amount (\$)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
0.50	Oct 04	Oct 23	Oct 24	Nov 01 '18
0.50	Jul 11	Jul 24	Jul 25	Aug 01 '18
0.50	Mar 14	Apr 20	Apr 23	May 03 '18
0.50	Dec 29	Jan 23	Jan 24	Feb 02 '18

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.**

Forecasts are not reliable indicator of future performance.

# CVS Health Corporation

**Business Summary** October 15, 2018

**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. CVS' two revenue generating reporting segments are its pharmacy services and retail/LTC (long-term care) businesses.

**MARKET PROFILE.** As of December 31, 2017, CVS operated more than 9,800 retail locations, more than 1,100 walk-in health care clinics, and a leading pharmacy benefits manager with more than 94 million plan members. CVS operated in 49 states, the District of Columbia, Puerto Rico, and Brazil. As of December 2017, the company had stores in the top 100 U.S. drug store markets. CVS filled more than 1.8 billion prescriptions in 2017, 1.2 billion of which were filled through the retail/LTC segment, accounting for 23.6% 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 \$131 billion of sales in 2017, or 62.1% of total company sales [excluding intersegment eliminations]. Part of the pharmacy services segment is CVS' specialty pharmacy business, which operates 23 retail specialty pharmacy stores, 18 specialty mail order pharmacies and four mail service pharmacies.

CVS' retail/LTC segment revenues [37.9% of FY17 revenues] were comprised of pharmacy [75.0% of retail segment revenues in 2017] and front store and other revenues [25.0% of retail revenues in 2017]. 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 2017. CVS is also the largest operator of retail health care clinics in the U.S. As of December 2017, CVS operated 1,134 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 15 new clinics in 2017.

**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. We believe the combination, expected to close in the second half of 2018, makes strategic sense as it provides CVS with a greater ability to incentivize AET's 22 million health plan participants to utilize Caremark's mail order system or CVS retail stores. Completion of the deal, pending approvals, also eliminates CVS' risk of losing AET's business [about 12% of CVS' revenues].

In December 2015, CVS acquired Target's pharmacy business, consisting of 1,660 locations and 80 in-store health clinics, for approximately \$1.9 billion. The 79 clinics purchased were re-branded as MinuteClinic. 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.

In August 2015, CVS 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. The deal was accretive, reflecting significant synergies in revenues and purchasing in addition to improved operating efficiencies.

**FINANCIAL TRENDS.** Sales grew at a 5-year compound annual growth rate (CAGR) of 8.5% to \$184.8 billion for the year ending December 2017. Adjusted EPS grew at slightly higher 5-year CAGR of 12.5%. Free cash flow, measured as cash flow from operations less capital expenditures, was \$6.1 billion in 2017, lower than the \$7.9 billion in 2016 and \$6.2 in 2015. At June 30, 2018, CVS had a low net debt to total capital ratio of 21.0%.

**Corporate Information**
**Investor Contact**

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**Telephone**

401-765-1500

**Website**

www.cvshealth.com

**Officers**
**CEO & Director**

L. J. Merlo

**Independent**
**Non-Executive Chairman**

D. W. Dorman

**Executive VP & COO**

J. C. Roberts

**Executive VP & CFO**

D. M. Denton

**Executive VP, Chief of Policy & External Affairs Officer and General Counsel**

T. M. Moriarty

**Executive VP, Controller & Chief Accounting Officer**

E. C. Boratto

**Board Members**

A. A. DeCoudreaux

A. M. Finucane

C. D. Brown

D. W. Dorman

J. Millon

L. J. Merlo

M. L. Schapiro

N. M. DeParle

R. J. Swift

R. M. Bracken

T. L. White

W. C. Weldon

**Domicile**

Delaware

**Auditor**

Ernst &amp; Young LLP

**Founded**

1892

**Employees**

203,000

**Stockholders**

21,453

# CVS Health Corporation

Quantitative Evaluations						
<b>Fair Value Rank</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
		LOWEST				HIGHEST
		Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued [1] to most undervalued [5].				
<b>Fair Value Calculation</b>	<b>\$74.09</b>	Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that CVS is slightly overvalued by \$5.74 or 7.2%.				
<b>Volatility</b>		<b>LOW</b>	<b>AVERAGE</b>	<b>HIGH</b>		
<b>Technical Evaluation</b>	<b>NEUTRAL</b>	Since October, 2018, the technical indicators for CVS have been NEUTRAL.				
<b>Insider Activity</b>		<b>UNFAVORABLE</b>	<b>NEUTRAL</b>	<b>FAVORABLE</b>		

Expanded Ratio Analysis				
	2017	2016	2015	2014
Price/Sales	0.40	0.48	0.72	0.81
Price/EBITDA	5.93	6.51	9.34	10.47
Price/Pretax Income	7.64	8.32	11.50	13.30
P/E Ratio	11.24	16.07	21.16	24.32
Avg. Diluted Shares Outsg.(M)	1024	1079	1126	1169

Figures based on fiscal year-end price

Key Growth Rates and Averages				
Past Growth Rate [%]		1 Year	3 Years	5 Years
Sales		4.08	9.86	8.46
Net Income		24.54	12.56	11.38
Ratio Analysis [Annual Avg.]				
Net Margin [%]		NM	NM	NM
% LT Debt to Capitalization		34.27	NA	NA
Return on Equity [%]		17.79	NA	NA

## Company Financials Fiscal year ending Dec. 31

Per Share Data [\$]	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Tangible Book Value	-14.19	-14.07	-13.43	0.04	1.58	1.22	1.33	1.65	-0.03	-1.08
Free Cash Flow	5.97	7.38	5.52	5.17	3.12	3.65	2.98	2.03	1.04	1.22
Earnings	6.45	4.91	4.62	3.96	3.75	3.02	2.59	2.49	2.55	2.27
Earnings (Normalized)	5.40	5.49	4.93	4.38	3.80	3.25	2.67	2.54	2.54	2.36
Dividends	2.00	1.70	1.40	1.10	0.90	0.65	0.50	0.35	0.30	0.26
Payout Ratio [%]	31	35	30	28	24	21	19	14	12	12
Prices: High	84.72	106.67	113.65	98.62	71.99	NA	41.35	37.82	38.27	44.29
Prices: Low	66.45	69.30	81.37	64.95	49.00	NA	31.30	26.84	23.74	23.19
P/E Ratio: High	18.0	23.1	27.8	21.1	19.3	NA	15.7	14.6	16.4	22.3
P/E Ratio: Low	13.6	18.8	22.1	17.6	15.0	NA	11.9	10.3	10.5	11.8

Income Statement Analysis (Million \$)										
Revenue	184,765	177,526	153,290	139,367	126,761	123,120	107,080	95,778	98,215	87,472
Operating Income	10,047	10,603	9,695	8,824	7,965	7,210	6,331	6,137	6,425	6,046
Depreciation + Amortization	2,479	2,475	2,092	1,931	1,870	1,753	1,568	1,469	1,389	1,274
Interest Expense	1,006	1,078	807	615	517	561	588	539	530	530
Pretax Income	8,268	8,637	8,616	7,678	7,528	6,305	5,747	5,601	5,900	5,537
Effective Tax Rate	19.8	38.4	39.3	39.5	38.9	38.6	39.3	38.9	37.3	39.6
Net Income	6,622	5,317	5,237	4,644	4,592	3,864	3,462	3,427	3,696	3,212
Net Income (Normalized)	5,533	5,926	5,553	5,124	4,660	4,160	3,596	3,504	3,688	3,461

Balance Sheet and Other Financial Data (Million \$)										
Cash	1,812	3,458	2,547	2,515	4,177	1,380	1,418	1,431	1,091	1,352
Current Assets	31,229	31,042	29,158	25,983	25,325	20,161	18,594	17,706	17,537	16,526
Total Assets	95,131	94,462	92,437	74,187	71,526	66,221	64,543	62,169	61,641	60,960
Current Liabilities	30,648	26,250	23,169	19,027	15,425	14,150	11,956	11,070	12,300	13,490
Long Term Debt	22,181	25,615	26,267	11,630	12,841	9,133	9,208	8,652	8,756	8,057
Total Capital	64,720	64,365	64,706	50,853	51,340	47,481	48,095	47,791	46,980	46,328
Capital Expenditures	1,918	2,224	2,367	2,136	1,984	2,030	1,872	2,005	2,548	2,180
Cash from Operations	8,007	10,141	8,539	8,137	5,783	6,671	5,856	4,779	4,035	3,947
Current Ratio	1.02	1.18	1.26	1.37	1.64	1.42	1.56	1.60	1.43	1.23
% Long Term Debt of Capitalization	34.3	39.8	40.6	22.9	25.0	19.2	19.1	18.1	18.6	17.4
% Net Income of Revenue	3.58	3.00	3.42	3.33	3.62	3.14	3.23	3.58	3.76	3.67
% Return on Assets	6.62	7.09	7.27	7.57	7.23	6.89	6.25	6.20	6.55	6.53
% Return on Equity	17.8	14.4	13.9	12.2	12.2	10.2	9.2	9.3	10.5	10.1

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.

# CVS Health Corporation

## Sub-Industry Outlook

Our fundamental outlook for the health care services sub-industry for the next 12 months is neutral. This sub-industry has performed well in the last few quarters on the strength of the U.S. economy, which has resulted in a lower number of uninsured individuals, better health care coverage and higher employment. The strong economy has also led to a shortage of labor for some health care services. In the long run, we think that most health care services will continue to benefit modestly from aging populations and an increased focus on preventive care. Offsetting these positive trends is the continued pressure to reduce costs in the health care system.

Our outlook on pharmacy benefit managers (PBMs) is neutral. We see the continued consolidation of third-party payers as a source of mounting pressure on PBMs. PBMs have been hurt recently by lower levels of drug price inflation, partially alleviated by high utilization. As a result, PBMs are merging with insurers to offset these pressures - most notably, CVS is acquiring AET and CI is acquiring ESRX. We see PBMs continuing to benefit from the numerous branded drugs that have lost patent protection in recent years as increased generic drug usage typically results in higher profitability for these companies.

Although the Republican administration in the U.S. has had difficulty repealing the ACA and stopping Medicaid expansion, we do not think that an ACA repeal is out of the question. Recently, an ongoing lawsuit in Texas questioned the constitutionality of the ACA. The Senate also failed multiple times in 2017 to gather enough votes to pass various repeal and replace bills; however, Republicans were successful in eliminating the individual mandate with the passage of "The Tax Cuts and Jobs Act" in December 2017. We see this development as a negative for health care

service providers as fewer customers will likely enroll in insurance plans starting 2019. If fewer patients are insured, uncompensated care rates could rise for hospitals and health care facilities, leading to lower profitability and lower demand for supplemental health care services. In Q4 of 2018, we think that it will be important to watch the mid-term elections in November 2018 as health care appears to be an important topic among U.S. voters and politicians.

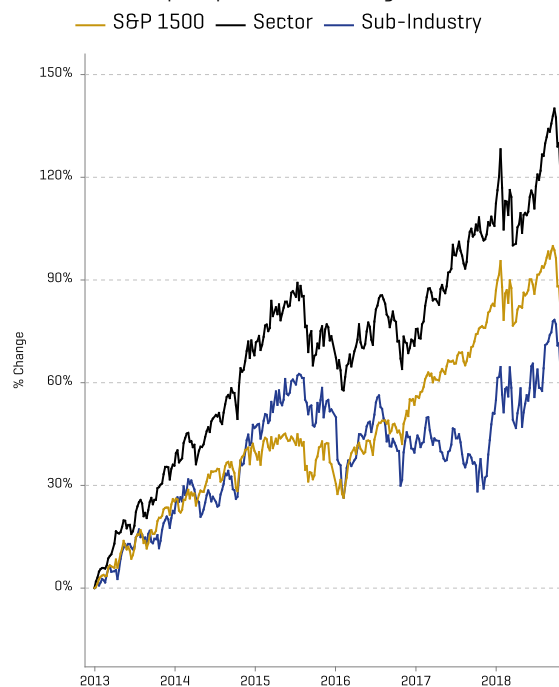
Year to date as of September 28, 2018, the S&P Health Care Services Index increased 18.2% versus an 8.9% increase for the S&P 1500 Composite Index. In 2017, the S&P Health Care Services Index increased 8.1% vs. the 18.8% increase in the S&P 1500 Composite Index.

**/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 Nov 10, 2018



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

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price (\$)	Stk. Mkt. Cap. (M \$)	30-Day Price Chg. (%)	1-Year Price Chg. (%)	P/E Ratio	Fair Value Calc. (\$)	Yield (%)	Return on Equity (%)	LTD to Cap (%)
<b>CVS Health Corporation</b>	<b>CVS</b>	<b>NYSE</b>	<b>USD</b>	<b>79.83</b>	<b>81,331</b>	<b>1.2</b>	<b>15.7</b>	<b>26</b>	<b>74.09</b>	<b>2.5</b>	<b>17.8</b>	<b>34.3</b>
Amedisys, Inc.	AMED	NasdaqGS	USD	120.50	3,843	2.7	113.7	47	94.19	Nil	6.3	12.9
Chemed Corporation	CHE	NYSE	USD	317.56	5,085	2.3	37.4	26	295.78	0.4	18.4	14.2
DaVita Inc.	DVA	NYSE	USD	69.70	11,569	-4.5	26.5	20	88.29	Nil	18.4	58.3
Express Scripts Holding Company	ESRX	NasdaqGS	USD	98.48	55,503	3.8	62.1	11	49.66	Nil	26.4	43.9
Fresenius Medical Care AG & Co. KGaA	FMS	NYSE	USD	40.07	24,644	-19.8	-17.9	11	NA	1.5	14.2	31.6
LHC Group, Inc.	LHCG	NasdaqGS	USD	96.93	3,041	-1.1	43.6	39	91.05	Nil	12.9	21.7
Laboratory Corporation of America Holdings	LH	NYSE	USD	170.15	17,168	-0.2	11.9	12	250.51	Nil	20.6	46.2
MEDNAX, Inc.	MD	NYSE	USD	40.57	3,586	-11.1	-9.1	11	62.52	Nil	11.0	37.6
Quest Diagnostics Incorporated	DGX	NYSE	USD	97.33	13,244	-5.9	4.6	16	106.98	2.1	16.9	42.3
Sonic Healthcare Limited	SKHH.Y	OTCPK	USD	16.30	6,940	-6.5	-3.0	19	NA	3.7	11.6	30.2

\*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

#### 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 \$95 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

#### October 11, 2018

03:30 pm ET... CFRA UPGRADES OPINION ON SHARES OF CVS HEALTH TO STRONG BUY FROM BUY [CVS 73.57\*\*\*\*]: We lift our 12-month target by \$13 to \$92 on 12.8X our next-twelve-month EPS estimate of \$7.20. We have raised our valuation because we see a more certain and profitable future for CVS after yesterday's DOJ approval of the CVS-AET merger. Our multiple is still on the lower end of CVS's five-year forward PE range of 8.7X - 21.2X because of an uncertain drug pricing environment, among other pressures. Shares of CVS dipped 7% midday Thursday, primarily on news of the planned departure of the arranged CFO for the combined entity, Shawn Guertin (AET's current CFO). Guertin was seen as a key person to ensure a smooth transition and integration of the two entities. He intends to resign in June 2019 for personal and family reasons. Despite the loss of Guertin, we still see significant strategic value in the combined entity. /Kevin Huang, CFA

#### August 08, 2018

02:22 pm ET... CFRA RETAINS BUY OPINION ON SHARES OF CVS HEALTH CORPORATION [CVS 65.45\*\*\*\*]: We maintain our 12-month target of \$79 on 11.0X our next-12-month EPS estimate of \$7.21. This multiple is near the low end of CVS' 5-year range as we see valuation still hurt by intense industry drug reimbursement pressures and weak in-store traffic trends. Q2 EPS of \$1.69 vs. \$1.33 was \$0.06 higher than our estimate. We maintain our '18 EPS of \$7.06 and we raise our '19 EPS by \$0.27 to \$7.52. Q2 sales increased 2.2% to \$46.7 billion as same-store prescription volume grew 9.5%. CVS took a \$3.9 billion goodwill impairment charge in the quarter related to its long-term care business (Omnicare) because of pressures on CVS' facility clients. On the earnings call, management highlighted that drug rebates would likely only account for 3% (i.e. \$300 million) of 2018 EPS. In our opinion, this reduces the risks of drug pricing changes that could result from the ongoing discussions between the Trump administration, pharmaceutical manufacturers, and pharmacy benefit managers (PBM). /Kevin Huang, CFA

#### June 28, 2018

11:47 am ET... CFRA KEEPS BUY OPINION ON SHARES OF CVS HEALTH CORPORATION [CVS 70.05\*\*\*\*]: Amazon.com [AMZN 1,682 \*\*\*\*] is taking a larger role in the online pharmacy space by agreeing to acquire online retailer PillPack today. AMZN's acquisition could provide it a toehold into the pharmacy benefits manager (PBM) and retail drug space. However, we think that CVS's significant size and scale provide a substantial barrier for AMZN to overcome and the potential for AMZN to disrupt the established industry could take some time. As such, we believe that the market's initial reaction to the PillPack acquisition agreement may be overblown. /Kevin Huang, CFA

#### May 11, 2018

11:52 am ET... CFRA KEEPS NEUTRAL OUTLOOK FOR THE PHARMACEUTICAL SUB-INDUSTRY [CVS 35.04\*\*\*\*]: President Trump is expected to unveil his plan to tackle high drug prices today. We believe he will likely focus on two areas: the rebates pharmacy benefit managers (PBMs) get from drug firms and the discount Medicare gets. In both scenarios we believe Trump will push for a portion of the rebates PBMs receive and the Medicare discount be passed on to patients. We do not anticipate Trump will propose allowing Medicare to negotiate drug prices with drug firms, which is banned by law. Drug firms have blamed PBMs

for the significant rise in drug prices because of the increased rebates they demand. PBMs, on the other hand, blame the drug manufacturers, stating they need higher rebates and discounts because of the higher drug list prices. FDA commissioner Gottlieb indicated they may examine the rebates PBMs receive as potential kickbacks. With the potential for Medicare negotiations off the table, we expect shares of drug firms to react favorably, with potential downward pressure on PBMs. /Jeffrey Loo, CFA

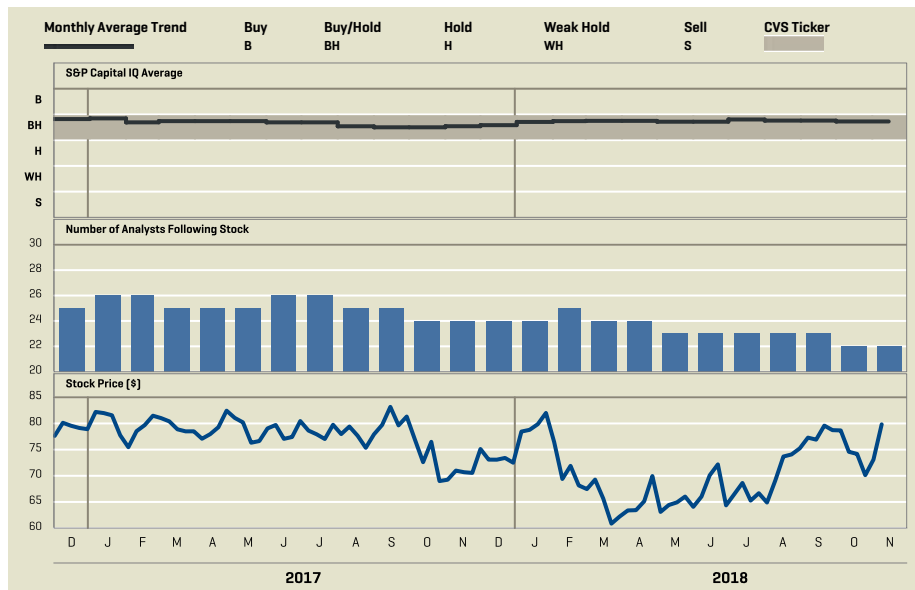
#### May 02, 2018

11:20 am ET... CFRA KEEPS HOLD OPINION ON SHARES OF AETNA INC. [CVS 178.71\*\*\*\*]: We keep our 12-month target price at \$207 based on the agreed-upon acquisition terms from CVS Health [CVS] of \$145 in cash and 0.8378 CVS shares for each AET share. We note the final offer price is dependent on CVS's share price at closing. AET expects the deal to close in the second half of 2018. Separately, Q1 EPS of \$3.19 vs. \$2.71 is \$0.11 ahead of our estimate, partly aided by a 16.8% tax rate, down from 39.6% a year ago due to tax reform. Sales rose 2.0% due to membership growth in AET's Medicare products with Medicare membership increasing by 279K to 1.7M. AET had 22.1M members at March 31, 2018, down from 22.45M a year ago, mainly due to a 552K decline in Medicaid members to 1.8M. AET's medical benefit ratio improved to 80.4% from 82.5%, partly due to the reinstatement of the health insurers fee. /Jeffrey Loo, CFA

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

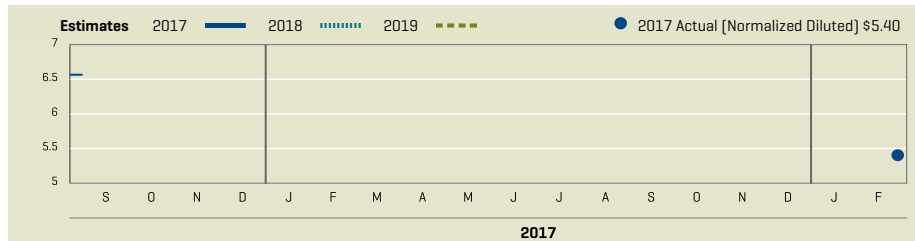
# CVS Health Corporation

## Analysts' Recommendations



	No. of Recommendations	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	11	50	11	12
Buy/Hold	5	23	5	5
Hold	6	27	6	6
Weak Hold	0	0	0	0
Sell	0	0	0	0
No Opinion	0	0	0	0
<b>Total</b>	<b>22</b>	<b>100</b>	<b>22</b>	<b>23</b>

## Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2019	7.39	7.57	7.11	17	10.8
2018	7.04	7.10	6.91	22	11.3
<b>2019 vs. 2018</b>	<b>▲5%</b>	<b>▲7%</b>	<b>▲3%</b>	<b>▼-23%</b>	<b>▼-4%</b>
Q4'19	2.26	2.42	1.97	11	35.3
Q4'18	2.15	2.19	1.98	20	37.1
<b>Q4'19 vs. Q4'18</b>	<b>▲5%</b>	<b>▲10%</b>	<b>▼-1%</b>	<b>▼-45%</b>	<b>▼-5%</b>

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.**

## Wall Street Consensus Opinion

### BUY/HOLD

### Wall Street Consensus vs. Performance

For fiscal year 2018, analysts estimate that CVS will earn USD \$7.04. For the 3rd quarter of fiscal year 2018, CVS announced earnings per share of USD \$1.36, representing 19.3% of the total revenue estimate. For fiscal year 2019, analysts estimate that CVS's earnings per share will grow by 5% to USD \$7.39.

## CVS Health Corporation

### 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	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 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.

#### 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 & 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  
 R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity  
 ROI - Return on Investment  
 ROIC - Return on Invested Capital  
 ROA - Return on Assets  
 SG&A - Selling, General & Administrative Expenses  
 SOTP - Sum-of-The-Parts  
 WACC - Weighted Average Cost of Capital

**Dividends on American Depositary Receipts (ADRs) and American Depositary 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 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-STAR (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.

# 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 September 28, 2018

Ranking	North America	Europe	Asia	Global
Buy	38.1%	32.7%	42.6%	37.7%
Hold	56.0%	52.8%	44.8%	54.2%
Sell	5.9%	14.5%	12.6%	8.1%
Total	100.0%	100.0%	100.0%	100.0%

### Analyst Certification:

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