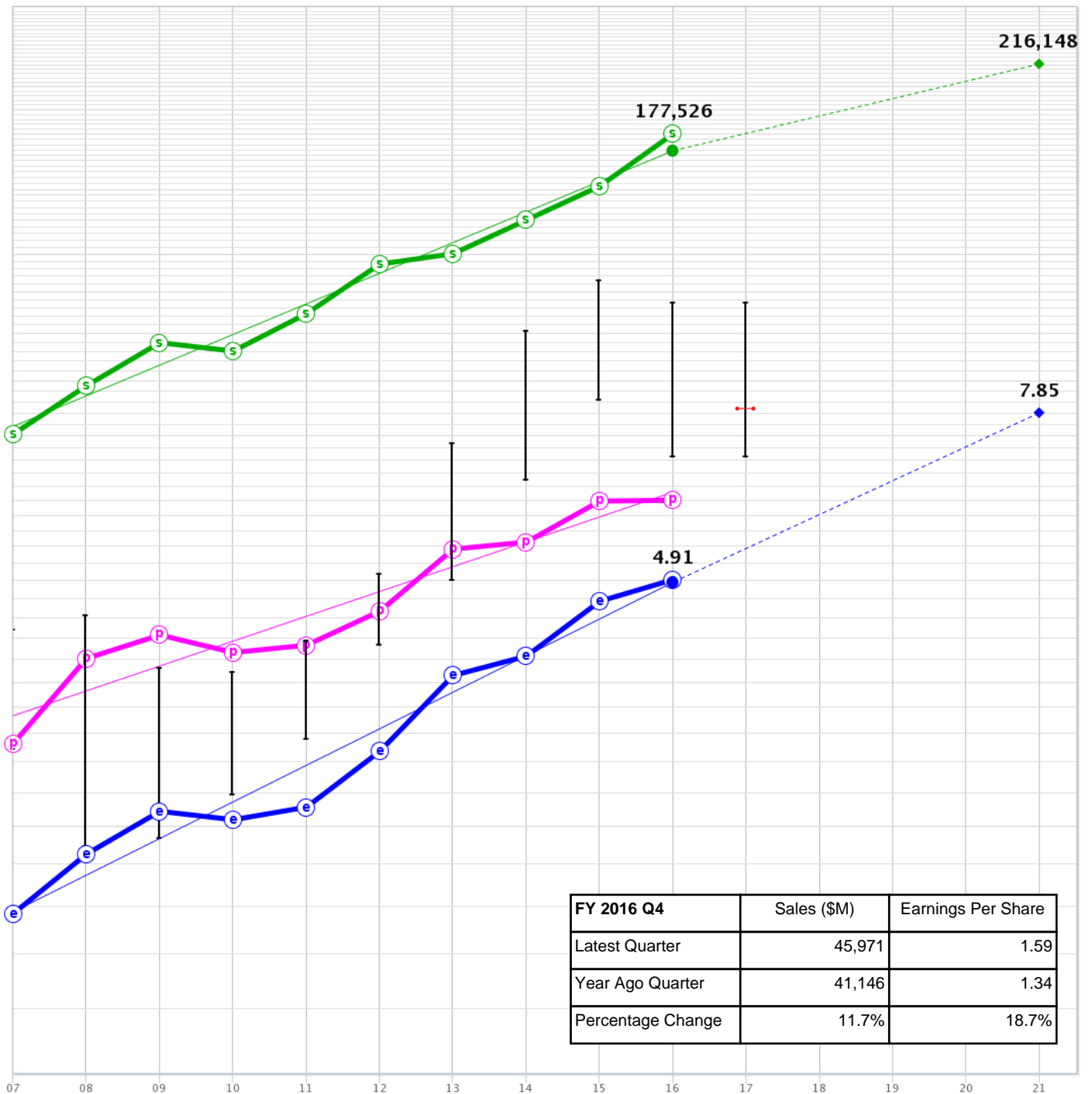


Company	CVS Health		Date	02/15/17	
Prepared by	O'MARA		Data taken from	BI Stock Data	
Where traded	NYS	Industry	Health Care Plans		
Capitalization --- Outstanding Amounts	Reference				
Preferred (\$M)	0.0	% Insiders	% Institution		
Common (M Shares)	1,070.0		0.4	88.2	
Debt (\$M)	27,531.0	% to Tot Cap	42.8	% Pot Dil	0.6

# Stock Selection Guide

Symbol: CVS

## 1 VISUAL ANALYSIS of Sales, Earnings, and Price



FY 2016 Q4	Sales (\$M)	Earnings Per Share
Latest Quarter	45,971	1.59
Year Ago Quarter	41,146	1.34
Percentage Change	11.7%	18.7%

- |                                   |      |  |       |
|-----------------------------------|------|--|-------|
| (1) Historical Sales Growth       | 9.0% | (3) Historical Earnings Per Share Growth       | 10.8% |
| (2) Estimated Future Sales Growth | 5.0% | (4) Estimated Future Earnings Per Share Growth | 10.0% |

## 2 EVALUATING Management

CVS Health

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Last 5 Year Avg.
Pre-tax Profit on Sales	5.7%	6.3%	6.0%	5.8%	5.4%	5.1%	5.9%	5.5%	5.6%	4.9%	5.4%
% Earned on Equity	8.9%	9.5%	10.0%	9.0%	9.0%	9.9%	11.5%	11.9%	13.7%	14.6%	12.3%
% Debt To Capital	25.1%	25.4%	23.8%	21.1%	20.8%	20.7%	26.1%	25.4%	42.5%	42.8%	31.5%

## 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

**CLOSING PRICE** 79.41 (02/15/17)

**HIGH THIS YEAR** 106.67

**LOW THIS YEAR** 69.30

	A	B	C	D	E	F	G	H	
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield	
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100	
2012	49.8	40.8	3.03	16.4	13.5	0.65	21.5	1.6	
2013	72.0	49.0	3.75	19.2	13.1	0.90	24.0	1.8	
2014	98.6	65.0	3.96	24.9	16.4	1.10	27.8	1.7	
2015	113.7	81.4	4.62	24.6	17.6	1.40	30.3	1.7	
2016	106.7	69.3	4.91	21.7	14.1	1.70	34.6	2.5	
AVERAGE		61.1		21.4	14.9		27.6		
CURRENT/TTM			4.92			2.00	40.7		
AVERAGE PRICE EARNINGS RATIO: 18.2					CURRENT PRICE EARNINGS RATIO: 16.1				

## 4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

### A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 17.0 X Estimate High Earnings/Share 7.85 = Forecasted High Price \$ 133.4

### B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 14.9 X Estimate Low Earnings/Share 4.91 = Forecasted Low Price \$ 73.2

(b) Avg. Low Price of Last 5 Years 61.1

(c) Recent Market Low Price 69.3

(d) Price Dividend Will Support  $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{1.70}{2.45\%} = 69.3$

Selected Forecasted Low Price \$ 63.2

### C ZONING using 25%-50%-25%

Forecasted High Price 133.4 Minus Forecasted Low Price 63.2 = 70.2 Range. 25% of Range 17.6

Buy Zone 63.2 to 80.8

Hold Zone 80.8 to 115.9

Sell Zone 115.9 to 133.4

Present Market Price of 79.41 is in the **BUY** Zone

### D UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{133.4 - 79.41}{79.41 - 63.2} = \frac{54.03}{16.21} = 3.3$  To 1

### E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price} - \text{Closing Price}}{\text{Closing Price}} = \frac{133.4 - 79.41}{79.41} = 1.6804$  X 100 = 168.04 - 100 = 68.0 % Appreciation

## 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

**A**  $\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{1.70}{79.41} = 0.0252 = 2.5\%$  Current Yield

### B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{27.6\%}{17.00} = 1.6\%$

### AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{27.6\%}{15.95} = 1.7\%$

### C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 10.9 %  
Average Yield 1.6 %  
Annualized Rate of Return 12.6 %

### COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation 9.5 %  
Average Yield 1.7 %  
Annualized Rate of Return 11.3 %