

First Cut Stock Study Report

Company Name:	Express Scripts	Ticker:	ESRX
Date of Study:	08/23/2011	Price:	\$ 45.74
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Chapter Name (if applicable):	Home Office Staff		

Discuss why you consider this to be a high quality, growth company that should be investigated further. Please include comments on historical sales and EPS growth, pre-tax profit margin, return on equity, and debt.

Pharmacy benefit managers (PBMs) like Express Scripts are on track to enjoy a bevy of positive trends in the next several years. Industry consolidation, the aging population, patent expirations for brand-name drugs, health-care cost containment efforts, growth in the number of people with insurance as a result of health care reform, and increasing customer acceptance of mail order pharmacies all bode well for Express Scripts. Express Scripts recently acquired NetRX and is currently in the works of acquiring MEDCO. If the acquisition of MEDCO is approved, combined, Express Scripts and MEDCO would have more than 100 million members and control around 35% of U.S. pharmaceutical spending. They would dwarf second place CVS Caremark. (MORNINGSTAR REPORT July 2011)

Historical sales growth--10 year average = 14.4 %, Sales almost doubled from 2009 to 2010 from 24.7 billion in 2009 to 44.9 billion in 2010. The large increase in sales was due mostly to the NetRX acquisition.

Historical EPS(ten year) growth average = 29.6%

Pre-tax profit margin 5 year average = 4.88%

ROE five year average = 50.4%

Debt five year average = 1.9 Billion

Briefly describe how the company makes money:

Express Scripts is one of the largest U.S. pharmacy benefits managers (PBMs). Its PBM services include retail network pharmacy management, home delivery services, specialty pharmacy services, patient care contact centers, benefit plan design and consultation, drug formulary management, compliance and therapy management programs, and various other programs. Clients include health insurers, third-party administrators, employers, union-sponsored benefit plans, government health programs,

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office based oncologists, renal dialysis clinics, ambulatory surgery centers, primary care physicians and others.

Projected growth rate for sales: 11%

Why did you select this rate? Discuss from where future growth will come.

I stayed conservative on this growth rate percentage based on the pending MEDCO merger and analyst averages.

Future growth will come potentially from the successful merger of MEDCO, and the highly forecasted growth in overall drug spending and administration of various drug programs and services. Other important points of growth are listed in the first entry on this document.

Projected growth rate for earnings per share: 11%

Why did you select this rate?

I based my rate on historical and recent analyst data. I also stayed somewhat conservative on the EPS forecast based on the pending acquisition of MEDCO.

Projected High P/E: 26

Why did you select this value?

I based this selection on historical P/E and the very expected potential for future growth.

Projected Low P/E: 15

Why did you select this value?

This selection was based solely on the historical low P/E average in the SSG.

Projected Low Price: \$36.75

Why did you select this value?

This price is the product of (Low P/E x Low EPS Forecast) indicated as the average in the "Forecast Low Price" section of the SSG.

At the current price, the stock is a (check one):

Buy or Hold or Sell

At the current price, the upside-downside ratio is: 5.13 to 1

Projected compounded rate of return: 15.75%

Your final recommendation (check one):

Buy or Hold or Sell

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Explain:

With the recent acquisition of NetRX and the pending acquisition of MEDCO, it seems that Express Scripts is taking the necessary steps to become the number one player in the PBMs business sector. The acquisitions compiled with the ever growing demand for prescription medication and the management of the growing number of drug programs looks to be a solid formula for growth at Express Scripts.

“Demographic trends and overall drug spending provide PBMs like Express Scripts with a solid backdrop for growth.”(Morningstar)

Express Script's Sales, EPS, Stock price and ROE have all shown a positive upward trend for the last ten years.

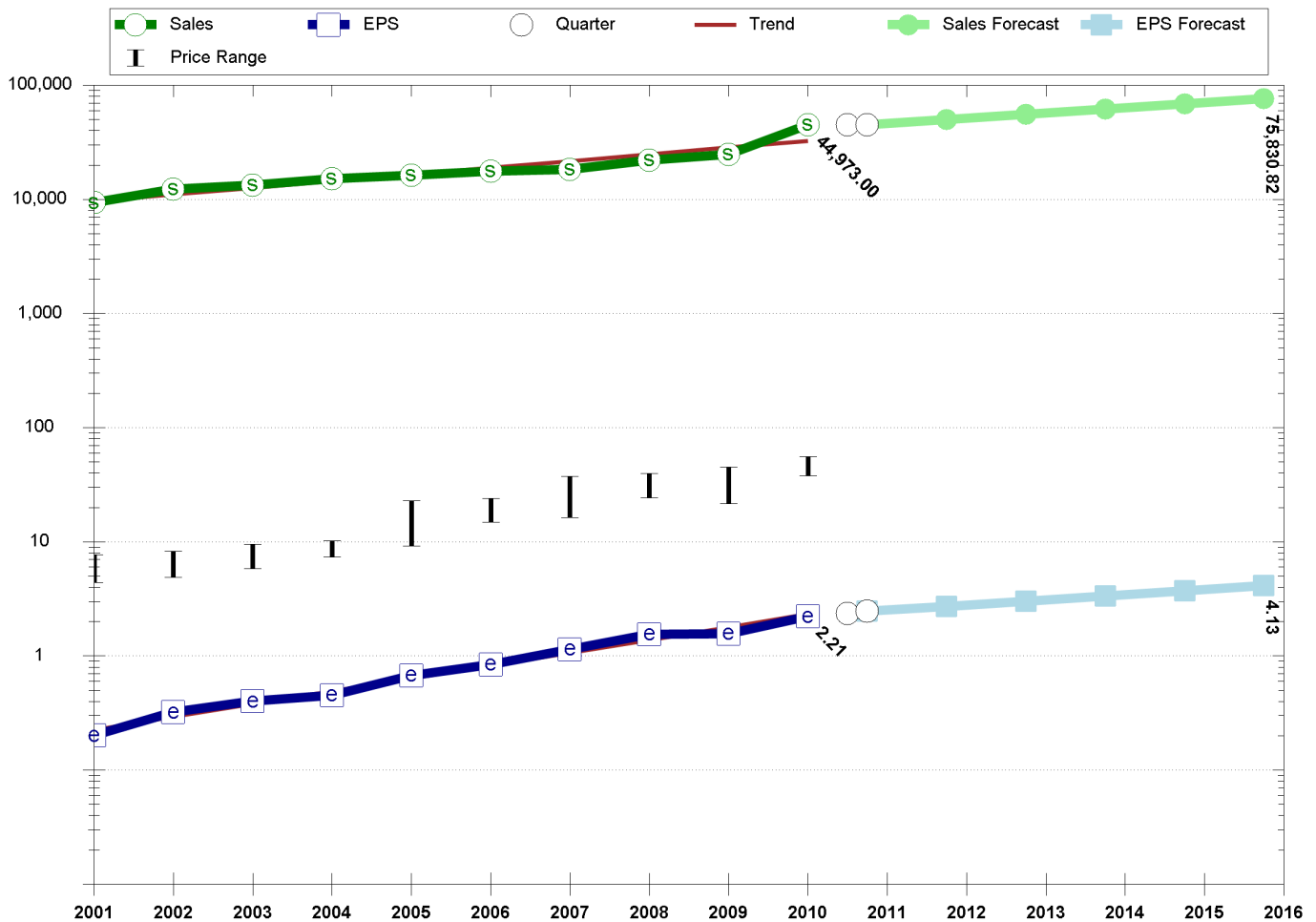
Company	Express Scripts			Date	8/11/2011
Prepared by	Burns			Data taken from	BI Stock Data
Where traded	NAS	Industry	Health Care Plans		
Capitalization ---	Outstanding Amounts	Reference			
Preferred (\$M)	0.0	% Insiders	% Institution		
Common (M Shares)	502.6	0.5	94.0		
Debt (\$M)	4,088.5	% to Tot Cap	69.1	% Pot Dil	0.9

Stock Selection Guide

Symbol: ESRX

1 VISUAL ANALYSIS of Sales, Earnings, and Price

FY2010 Quarter Ending (06/11)	Sales (\$M)	Earnings Per Share
Latest Quarter	11,361.4	0.66
Year Ago Quarter	11,288.8	0.56
Percentage Change	0.64%	17.86%



(1) Historical Sales Growth	14.4%	(3) Historical Earnings Per Share Growth	29.6%
(2) Estimated Future Sales Growth	11.00%	(4) Estimated Future Earnings Per Share Growth	11.00%

2 EVALUATING Management

Express Scripts

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Last 5 Year Avg.
Pre-tax Profit on Sales (Net Before Taxes/Sales)	2.23%	2.69%	3.05%	2.98%	3.78%	4.19%	5.17%	5.52%	5.29%	4.24%	4.88%
% Earned on Equity (E/S / Book Value)	14.84%	19.89%	20.85%	22.80%	26.64%	40.21%	82.41%	71.15%	24.08%	32.36%	50.04%

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.

PRESENT PRICE 46.5

HIGH THIS YEAR 60.89

LOW THIS YEAR 42.50

	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
1 2006	23.75	14.79	0.84	28.44	17.71	0.000	0.00	0.00
2 2007	37.20	16.16	1.14	32.78	14.24	0.000	0.00	0.00
3 2008	39.55	24.19	1.55	25.52	15.60	0.000	0.00	0.00
4 2009	44.94	21.38	1.56	28.90	13.75	0.000	0.00	0.00
5 2010	55.68	37.75	2.21	25.19	17.08	0.000	0.00	0.00
6 TOTAL		114.3		140.8	78.4		0.0	
7 AVERAGE		22.9		28.2	15.7		0.0	
8 AVERAGE PRICE EARNINGS RATIO 21.9					9 CURRENT PRICE EARNINGS RATIO 19.0			

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 26.00 X Estimate High Earnings/Share 3.72 = Forecasted High Price \$ 96.72

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 15.00 X Estimate Low Earnings/Share 2.45 = Forecasted Low Price \$ 36.75

(b) Avg. Low Price of Last 5 Years 22.85

(c) Recent Market Low Price 21.38

(d) Price Dividend Will Support $\frac{\text{Present Dividend}}{\text{High Yield}} = \frac{0.000}{0.00\%} = 0.00$

Selected Forecasted Low Price 36.75

C ZONING using 25%-50%-25%

Forecasted High Price 96.72 Minus Forecasted Low Price 36.75 = 59.97 Range. 25% of Range 14.99

Buy Zone 36.75 to 51.74

Hold Zone 51.74 to 81.73

Sell Zone 81.73 to 96.72

Present Market Price of 46.54 is in the **Buy** Zone

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

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price} - \text{Low Price}} = \frac{96.72 - 46.54}{46.54 - 36.75} = \frac{50.18}{9.79} = 5.13$ To 1

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

$\frac{\text{High Price} - \text{Present Market Price}}{\text{Present Market Price}} = \frac{96.72 - 46.54}{46.54} = 2.08$ X 100 = 207.82 - 100 = 107.82 % 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 $\frac{\text{Present Full Year's Dividend \$}}{\text{Present Price of Stock}} = \frac{0.000}{46.54} = 0.00 = 0.00\%$ Present Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{0.00\%}{26.00} = 0.00\%$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{0.00\%}{20.50} = 0.00\%$

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 15.75 %
Average Yield 0.00 %
Annualized Rate of Return 15.75 %

COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation 10.38 %
Average Yield 0.00 %
Annualized Rate of Return 10.38 %