SIENA college

BJORKLUND FUND

December 8, 2018

CVS

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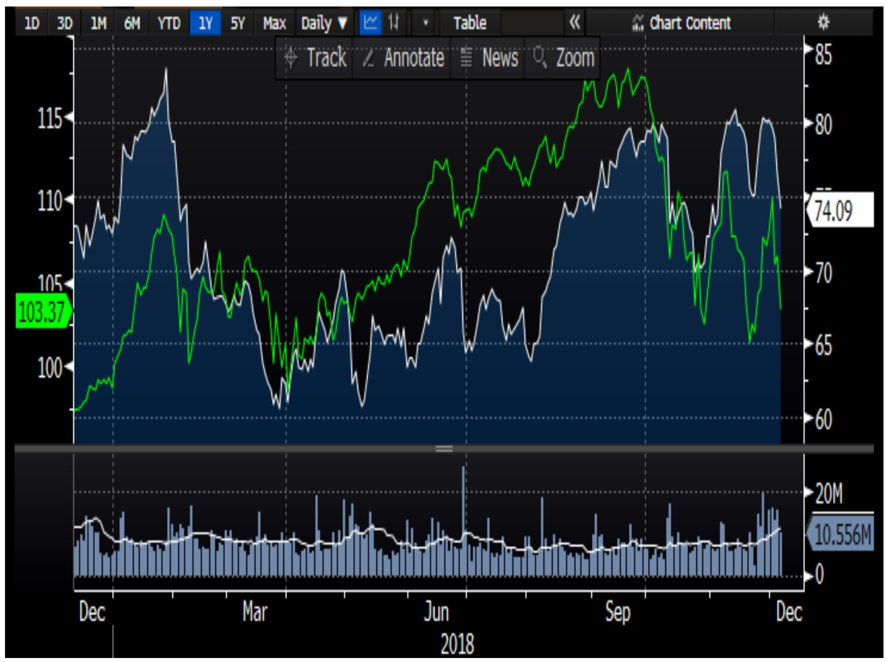
Sector: Healthcare
Industry: Health Care Plans
Current Price: $74.09
Target Price: $101.44

CVS Health Corporation is an integrated pharmacy health care provider. The Company's offerings include pharmacy benefit management services, mail order, retail and specialty pharmacy, disease management programs, and retail clinics. The Company operates drugstores throughout the U.S., the District of Columbia, and Puerto Rico.

BUY @ $70.00

Current Price:	$74.09
Target Price:	$101.44
Market Cap:	95B
ROIC:	8.89
Debt/Market Cap:	65%
WACC:	8.2%



Thesis:

CVS is currently underperforming in the industry along with their competitors because of the falling market. With a good viewpoint of the future CVS looks to be a powerhouse in the coming years. They increased cash and are expected to jump in size of free cash flow this is due to their merger with Aetna. This merger was $69 billion and is a major key for CVS in the future of

Catalysts:

- Short Term(within the year): Merger with Aetna
- Mid Term(1-2 years): same store sales growth in the future
- Long Term(3+):

the drugstore business because Aetna is the number 3 U.S. health insurer with around 22 million members. This merger along with the coming growth are two very important components to boost CVS price in the market and give substantial growth to the company overall.

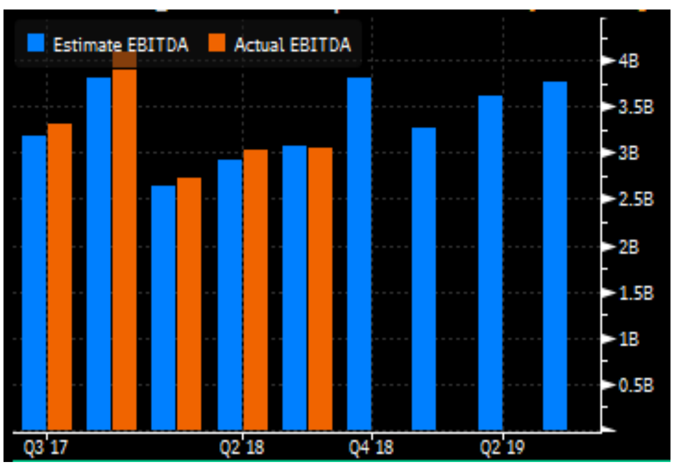
Earnings Performance:

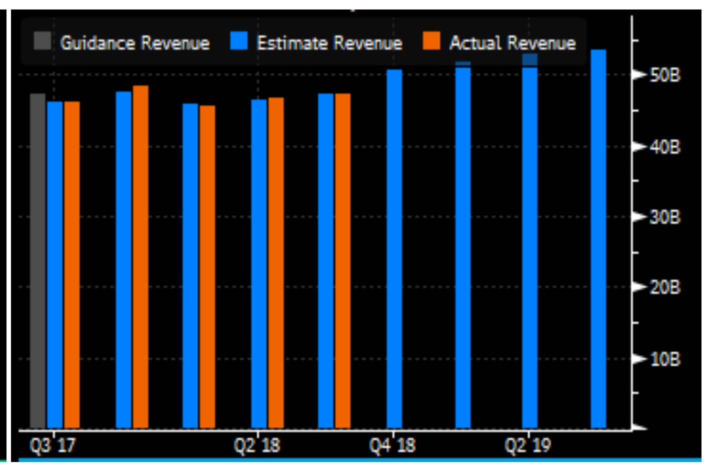
CVS revenue growth percentage year over year went from an average of 12% from 2014-2016 and from 2016 to present it has been around 3%. They have kept EBITDA margin a steady 7% year to year and are still producing a gross profit margin of approximately 16-17%. Over the last 12 months they increased cash from repayment from negative $598 million to $37 billion which helped in their growth of cash from financing activities from negative $6.7 billion to $35.5 billion. Looking at the income statement CVS currently has revenue of $188 billion with a cost of goods and services of 158.7 billion (84% of revenue), which gives them a gross profit of around $29.3 billion (16% of revenue)

In Millions of USD except Per Share	2015 Y	2016 Y	2017 Y	Last 12M	2018 Y Est	2019 Y Est
12 Months Ending	12/31/2015	12/31/2016	12/31/2017	09/30/2018	12/31/2018	12/31/2019
Revenue	153,290.0	177,526.0	184,765.0	188,055.0	190,250.4	210,510.0
+ Sales & Services Revenue	153,290.0	177,526.0	184,765.0	188,055.0		
- Cost of Revenue	126,762.0	148,669.0	156,220.0	158,763.0		
+ Cost of Goods & Services	126,762.0	148,669.0	156,220.0	158,763.0		
Gross Profit	26,528.0	28,857.0	28,545.0	29,292.0	29,977.8	36,155.1
+ Other Operating Income	0.0	0.0	0.0	0.0		
- Operating Expenses	16,691.0	18,251.0	18,530.0	19,168.0		
+ Selling & Marketing	—	—	—			
+ Research & Development	0.0	0.0	0.0			
+ Other Operating Expense	16,691.0	18,251.0	18,530.0	19,168.0		
Operating Income (Loss)	9,837.0	10,606.0	10,015.0	10,124.0	10,239.3	12,320.3

In Millions of USD	2014 Y	2015 Y	2016 Y	2017 Y	Current/LTM	2018 Y Est	2019 Y Est
12 Months Ending	12/31/2014	12/31/2015	12/31/2016	12/31/2017	09/30/2018	12/31/2018	12/31/2019
Market Capitalization	109,793.4	107,644.8	83,723.5	73,515.0	95,805.4		
- Cash & Equivalents	2,515.0	2,547.0	3,458.0	1,807.0	41,692.0		
+ Preferred & Other	5.0	46.0	4.0	4.0	4.0		
+ Total Debt	12,890.0	27,464.0	27,531.0	27,002.0	62,886.0		
Enterprise Value	120,173.4	132,607.8	107,800.5	98,714.0	117,003.4		
Revenue, Adj	139,367.0	153,290.0	177,526.0	184,765.0	188,055.0	190,250.4	210,510.0
Growth %, YoY	9.9	10.0	15.8	4.1	3.1	3.0	10.6
Gross Profit, Adj	25,367.0	26,528.0	28,857.0	28,545.0	29,292.0	29,977.8	36,155.1
Margin %	18.2	17.3	16.3	15.4	15.6	15.8	17.2
EBITDA, Adj	10,724.0	11,929.0	13,081.0	12,494.0	12,657.0	12,709.2	14,843.9
Margin %	7.7	7.8	7.4	6.8	6.7	6.7	7.1
Net Income, Adj	4,937.7	5,436.3	6,189.1	5,517.1	5,842.3	7,215.2	8,145.6
Margin %	3.5	3.5	3.5	3.0	3.1	3.8	3.9
EPS, Adj	4.23	4.83	5.72	5.36	5.72	7.02	7.35
Growth %, YoY	13.9	14.3	18.4	-6.2	9.0	30.9	4.7
Cash from Operations	8,137.0	8,539.0	10,141.0	8,007.0	6,250.0		
Capital Expenditures	-2,136.0	-2,367.0	-2,224.0	-1,918.0	-1,958.0	-2,065.8	-2,299.4
Free Cash Flow	6,001.0	6,172.0	7,917.0	6,089.0	4,292.0	7,035.4	10,014.1

The images above show CVS income statement and Key Stats from Bloomberg. These show CVS cash has significantly increased from the merger with Aetna. This also shows the importance that the merger held for future revenue and cash flow for CVS. Looking at their earnings trends they have beat estimates the last 5 quarters for EPS and have beat 6 of the last 8 periods for revenue and EBITDA





Debt

CVS took on about $35 billion more dollars in debt after the Aetna deal which is the deal that would combine CVS' drugstore and pharmacy benefits manager platform with Aetna's insurance business hoping to lower costs. According to preliminary results more than 98% of CVS shareholders and 97% of Aetna's shareholders were in favor of the deal. CVS health CEO Larry Merlo stated, "The combined company will be well positioned to reshape the consumer health care experience, putting people at the center of health care delivery to ensure they have access to high-quality more affordable care where they are, when they need it," The debt that CVS got from this deal in a sense is good debt because it is focused on lowering costs. Health spending equals about 18 percent of the nation's gross domestic product and that is expected to reach 20% by 2025. CVS and Aetna have combined to try and use CVS' retail stores to help rein in health care costs. Hoping that they will get more people in their walk in clinics at drugstores and keep them out of more expensive sites like emergency rooms. Within the next year or so, CVS and Aetna expect MinuteClinics to perform about 90 percent of services provided in primary care facilities, up from about 40 to 45 percent now

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Strategy:

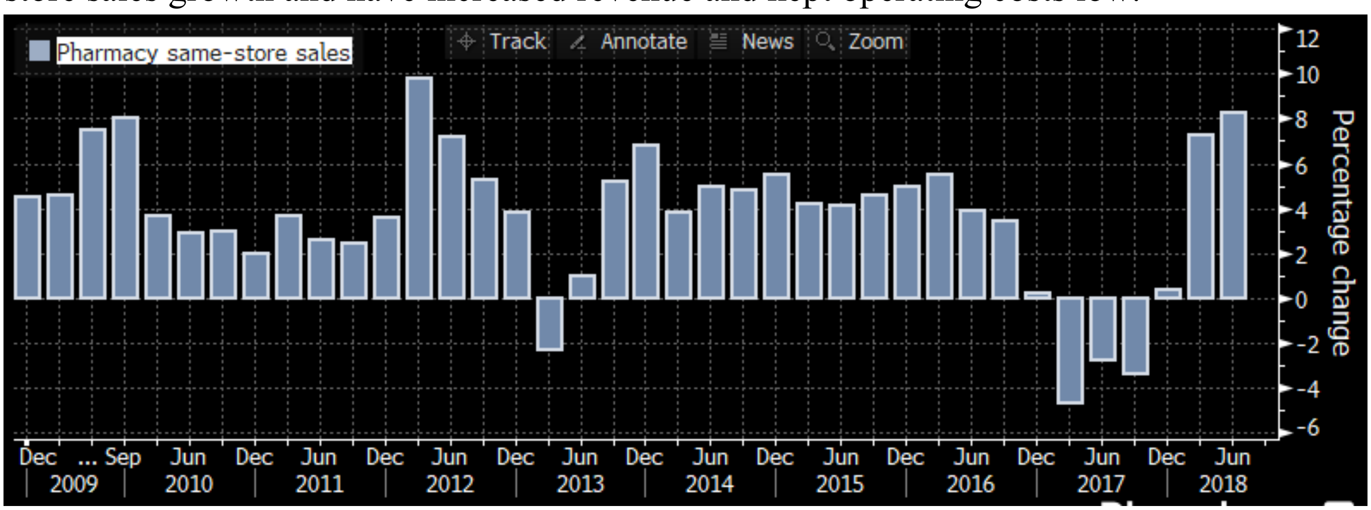
CVS started a Retail Pharmacy Store Development plan which is focused on entering new markets, adding stores in existing markets and relocating stores to more convenient sites this has been a very key growth driver for CVS and continues to be a growth driver. They acquired Target's pharmacies in late 2015 which in turn carried them past Walgreens in terms of annual revenue making them the big dogs around their competitors. In addition to adding new stores CVS has made an effort to increase sales in their current stores. Their sales are comprised to more than two-thirds prescription drug sales and the retailer is attempting to grow revenues from OTC medications and general merchandise through its private label product offering. Finally their acquisition of Aetna for 70 billion was a power move more for a defensive purpose because of the big players like Amazon eying a move into the prescription drug market.

Ownership

51) Institutional	11/26/17	Curr	Change
11) % of Shares Held	89.68	73.72	-15.96
12) % of Float Held	89.96	73.96	-16.00
13) # of Institutions	2,397	2,443	+1.92%
14) # of Buyers	849	919	+8.24%
15) # of Sellers	938	862	-8.10%
16) # of New Buyers	151	233	+54.30%
17) # of Selloffs	176	244	+38.64%
18) % Chg in Inst Positions	+0.37	+2.27	+1.90

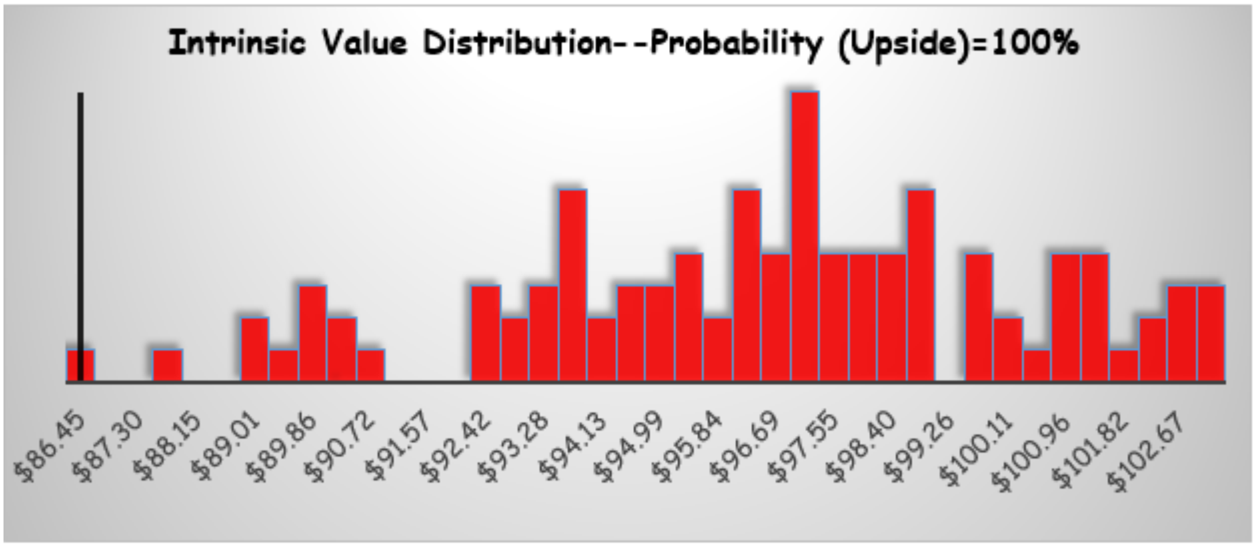
52) Insider	11/26/17	Curr	Change
21) % of Shares Held	0.31	0.33	+0.02
22) % Chg Insider Positions	-4.15	+32.22	+36.37
23) # of Insiders	21	32	+52.38%
24) # of Buyers Opn Mkt	0	0	
25) # of Sellers Opn Mkt	6	5	-16.67%
26) # of Shrs Bought Opn Mkt	0	0	
27) # of Shrs Sold Opn Mkt	987,800	87,223	-91.17%
28) Avg Opn Mkt Buy Price	0	0	0.00
29) Avg Opn Mkt Sell Price	80.94	79.44	-1.50

Comparing CVS ownership summary from a year ago to now it is clear to see that the number of buyers has increase by 54% and the change in insider positions has increased by 36%. The number of sellers recently has increase but this may be because of the overall decrease in the market. You can see from the chart on page 1 that CVS almost perfectly follows the Consumer index and that has also been on its way down along with the market itself. This should bring up some attention to the price of CVS because it seems that they are dropping in price but growing as a company. They have grown the past year in same store sales growth and have increased revenue and kept operating costs low.



CVS is showing strong signs of growth from their new deal with Aetna and they are continuing to grow seen by their growth in same store sales from 2016 to now. The company alone was doing well and now with the merger the stock is looking very cheap because they will keep their costs low and bring in a lot more revenue and cash over the coming years.

Bull case:



CVS going forward has a lot of room to grow because of their merger they can keep growing and innovating along with keeping their costs low. Currently CVS has its operating expenses at only 10% of overall revenue so by lowering expenses and increasing their revenue they can prove themselves as a sustainable company. This could push the price well above its yearly high of $83 and push their company back up where they were a few years ago, floating around $100-$110.

Bear Case:

CVS worst case scenario would be if the merger doesn't affect their production and amazon comes into the market and takes over. That along with the continuing of a market decrease would be the only reason that seems to be possible. If this occurred then CVS could continue to drop to its yearly low of $60 dollars and maybe even lower.

Conclusion:

Bases on the growing revenue that is expected in 2019 and the merger that CVS and Aetna had this year it shows that they are a well position company to continue further growth. They have a lot of cash on hand, around 41 billion and they now have a plan to open new sites and increase sales at existing sites. Even though the merger grew costs by a sizeable amount they are now focused on lowering their costs as a whole. Currently CVS is a very cheap company and the lower it goes the cheaper it will be for a good buy on a good company that will have very large growth in the future.

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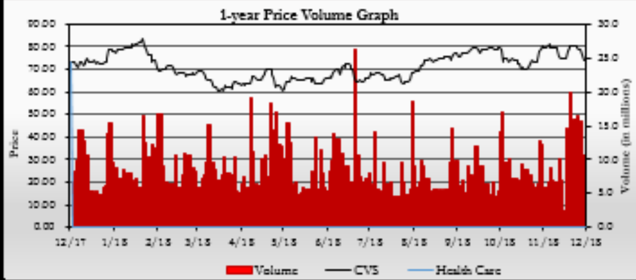
CENTER FOR GLOBAL FINANCIAL STUDIES

CVS Health Corporation (CVS)

BULLISH

Analysis by Kyle Agresta	Current Price:	$74.09	Intrinsic Value	$95.24
12/9/2018	Divident Yield:	2.7%	Target Price	$100.59

Target 1 year Return: 38.46%
Probability of Price Increase: 100



Description

CVS Health Corporation, together with its subsidiaries, provides integrated pharmacy health care services.

General Information

Sector	Health Care
Industry	Health Care Providers and Services
Last Guidance	May 8, 2018
Next earnings date	February 20, 2019

Market Assumptions

Estimated Equity Risk Premium	6.00%
Effective Tax rate	21%

Market Data

Market Capitalization	$95,813.12
Daily volume (mil)	10.56
Shares outstanding (mil)	1293.20
Diluted shares outstanding (mil)	1018.00
% shares held by institutions	70%
% shares held by investments Managers	61%
% shares held by hedge funds	2%
% shares held by insiders	0.18%
Short interest	4.63%
Days to cover short interest	7.14
52 week high	$83.88
52-week low	$60.14
Volatility	22.90%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
9/30/2017	-0.02%	-1.23%
12/31/2017	1.76%	1.66%
3/31/2018	-0.15%	3.24%
6/30/2018	0.70%	3.93%
9/30/2018	0.14%	-0.94%
Mean	**0.48%**	**1.33%**
Standard error	1.0%	5.0%

Market and Credit Scores

- Recommendation (STARS) Value--5
- Recommendation (STARS) Description--Strong
- Quality Ranking Value--A+
- Quality Ranking Description--Highest
- Short Score--0
- Market Signal Probability of Default % (Non-Ratings)--0.22%
- CreditModel Score (Non-Ratings)--bb+

Industry and Segment Information

LTM Revenues by Geographic Segment	LTM Revenues by Business Segments
United States--100%	Pharmacy Services--71%
--	Retail/Long-Term Care (LTC)--43%
--	Inter Segment Eliminations---14%
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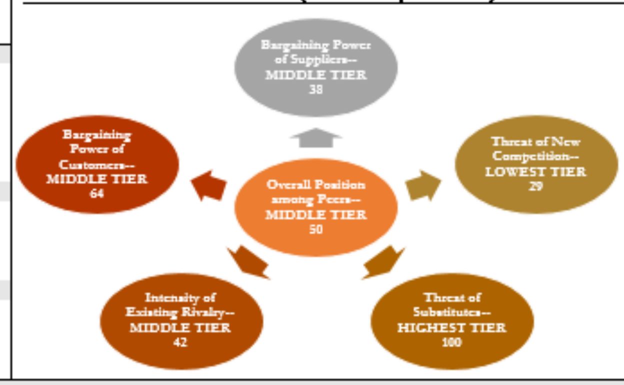
Peers

Walgreens Boots Alliance, Inc.	Quest Diagnostics Incorporated
Express Scripts Holding Company	Medical Care Technologies Inc.
Premier, Inc.	--
Diplomat Pharmacy, Inc.	--
Laboratory Corporation of America Holdings	--

Management	Position	Total Compensations Growth	Stock Price Growth During Tenure
Merlo, Larry	CEO & Director	-9.63% per annum over 5y	10.02% per annum over 5y
Roberts, Jonathan	Executive VP & COO	-2.63% per annum over 5y	10.02% per annum over 5y
Moriarty, Thomas	Executive VP, Chief Policy & External Affairs C	-5.9% per annum over 3y	-3.05% per annum over 3y
Boratto, Eva	Executive VP & CFO		
Clark, James	Senior VP, Controller & Chief Accounting Off		
Flum, Joshua	Executive VP of Enterprise Pharmacy Strategy		

Profitability	CVS (LTM)	CVS Historical	Peers' Median (LTM)
Return on Capital (GAAP)	8.1%	8.09%	6.91%
Operating Margin	4%	4.83%	9.85%
Revenue/Capital (GAAP)	2.06	1.68	0.70
ROE (GAAP)	12.4%	15.8%	16.1%
Net margin	2.5%	4.3%	4.4%
Revenue/Book Value (GAAP)	5.011338287	3.69	3.66
Invested Funds	**CVS (LTM)**	**CVS Historical**	**Peers' Median (LTM)**
Cash/Capital	36.6%	3.7%	1.7%
NWC/Capital	5.2%	7.5%	4.8%
Operating Assets/Capital	28.0%	41.9%	44.5%
Goodwill/Capital	30.3%	47.1%	45.1%
Capital Structure	**CVS (LTM)**	**CVS Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.64	0.42	0.39
Cost of Debt	4.8%	4.4%	5.0%
CGFS Rating (F-score, Z-score, and default Probabili	B		
WACC	8.1%	9.2%	9.0%

Porter's 5 forces (Scores are percentiles)



Valuation

Forecast Assumptions	Explicit Period (6 years)	Continuing Period
Revenue Growth CAGR	6%	2.5%
Average Operating Margin	6%	5%
Average Net Margin	3%	2%
Growth in Capital CAGR	5%	2%
Growth in Claims CAGR	0%	2%
Average Return on Capital	9%	6%
Average Return on Equity	14%	7%
Average Cost of Capital	8%	9%
Average Cost of Equity	11%	11%