



CVS Health Corporation (CVS)

Updated November 3rd, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$94	5 Year CAGR Estimate:	5.6%	Market Cap:	\$119 billion
Fair Value Price:	\$87	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	1/21/2022 ¹
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date:	2/1/2022
Dividend Yield:	2.1%	5 Year Price Target	\$112	Years Of Dividend Growth:	0
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	17.6% (2017)

Overview & Current Events

CVS Health Corporation is an integrated healthcare services provider that operates a pharmaceutical services business, along with the country's largest chain of pharmacies. The company operates more than 9,900 retail locations, 1,100 medical clinics, and services more than 102 million plan members. CVS Health Corporation generates annual revenues of about \$285 billion. On 11/11/18, CVS Health Corporation completed its acquisition of Aetna. The company achieved more than \$900 million in cost synergies related to the acquisition in 2020, above its target of \$750 million.

CVS Health Corporation reported third quarter earnings results on 11/3/2021. For the quarter, adjusted earnings-per-share of \$1.97 compared favorably to adjusted earnings-per-share of \$1.66 in the prior year and was \$0.18 higher than expected. Revenue grew 10% to \$73.8 billion, also coming in ahead of estimates.

Revenues for Pharmacy Services improved 9.3% with total pharmacy claims higher by 6.9%. Specialty Pharmacy remains strong as revenue was up 8.7% due to new business and brand inflation. Revenues for the Retail/LTC segment grew 10% due to strength in prescription volumes, COVID-19 vaccines and testing and front of store sales. Retail pharmacy same store sales increased 9.6% as pharmacy increased 8.8%, prescription volumes were up 9% and front store sales grew 12.3%. Retail pharmacy script share improved ~30 basis points to 26.4%. Revenues for Health Care Benefits grew 9.5%. Total memberships improved 1.7%. Government memberships remain elevated, growing 9.5% year-over-year which offset a 1.2% decrease in commercial memberships. Cash flow from operations was up 195% to \$5.5 billion. The company also repaid \$1.1 billion of net debt and remains on track to achieving its target of low 3x leverage in 2022. CVS Health Corp stated that the company administered 11.6 million vaccines during the quarter and that 12.5% of those vaccinated also filled their first prescription at a store location.

CVS Health Corp updated guidance for 2021 as well. The company expects adjusted earnings-per-share of \$7.90 to \$8.00 for the year, up from \$7.70 to \$7.80, \$7.56 to \$7.68 and \$7.39 to \$7.55 previously. We have updated our estimates for the year accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.80	\$3.43	\$4.00	\$4.51	\$5.16	\$5.84	\$5.90	\$7.08	\$7.08	\$7.50	\$7.95	\$10.15
DPS	\$0.50	\$0.65	\$0.90	\$1.10	\$1.40	\$1.70	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.55
Shares²	1298	1231	1180	1140	1101	1061	1014	1126	1301	1311	1327	1275

CVS Health Corporation's historical growth has been remarkable. The company has compounded its earnings and dividends at annualized rates of 11.6% and 16.7%, respectively, over the last decade. The dividend growth rate is especially impressive given that the company has frozen its dividend for the past four years. The acquisition of Aetna, which had nearly 40 million members at the time of purchase, offered CVS Health Corporation a significant increase in the number of potential customers. It is also a positive that the company was able to pay down a sizeable amount of debt in recent quarters. We are forecasting 5% earnings-per-share growth for CVS over the medium term due to

¹ Estimated ex-dividend date

² In millions of shares

Disclosure: This analyst has a long position in the security discussed in this research report.



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revenue increases and cost synergies from the Aetna transaction. Dividend growth during this time period is likely to underwhelm as CVS has frozen its dividend, instead focusing on reducing debt.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.9	13.2	14.7	17.4	19.7	15.9	13.2	10.0	8.7	8.5	11.8	11.0
Avg. Yld.	1.4%	1.4%	1.5%	1.4%	1.4%	1.8%	2.6%	2.8%	3.3%	3.3%	2.1%	2.3%

Shares of CVS Health Corporation have increased \$13, or 16%, since our 8/7/2021 report. Using the midpoint of the company's updated guidance for 2021, the stock is trading at a price-to-earnings ratio of 11.8, which compares to the 10-year average of 13.4. We maintain our 2026 target P/E of 11. Our target P/E might be increased if CVS Health Corporation continues to show strong growth rates. Still, if our current target valuation is achieved, investors would see annual returns reduced by 1.4% from multiple compression through 2026.

Safety, Quality, Competitive Advantage, & Recession Resiliency

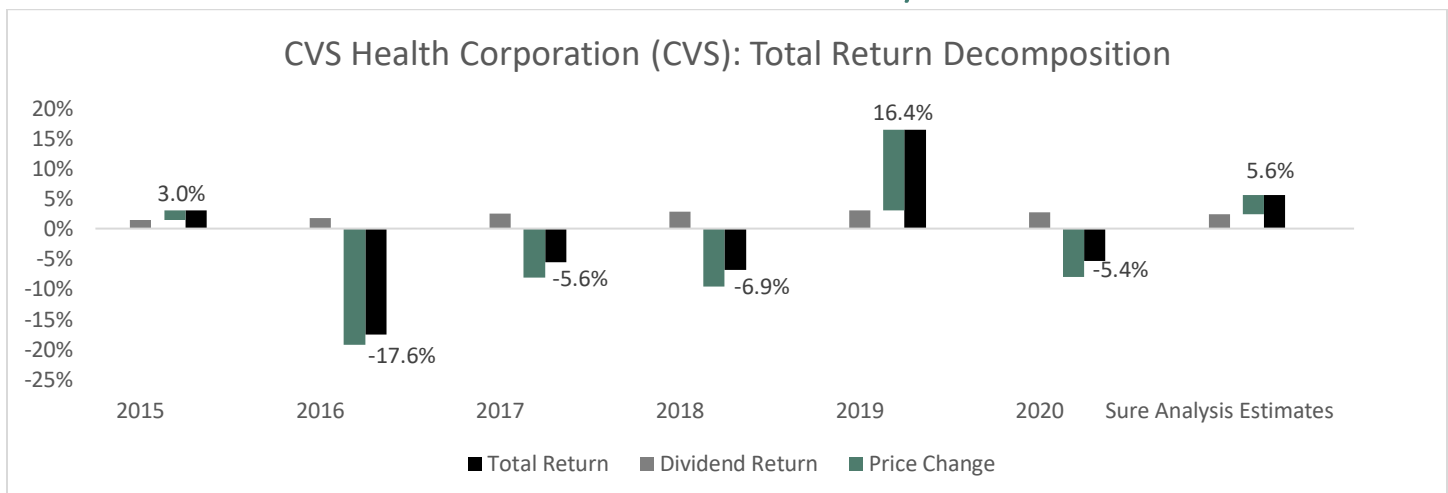
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	18%	19%	23%	24%	27%	29%	34%	28%	28%	27%	25%	25%

CVS Health Corporation's most compelling competitive advantage is its entrenched position in the pharmaceutical retail industry. The industry is highly regulated, which makes it difficult for new competitors to enter into the industry and gain market share. In addition, the company is one of the largest pharmacies in the United States (along with Walgreens Boots Alliance), which allows it to capture economies of scale and pressure its suppliers into delivering better prices. CVS Health Corp controlled 26.4% of the retail pharmacy market share as of the end of the third quarter of 2021.

Final Thoughts & Recommendation

Following third quarter earnings results, CVS Health Corporation is projected to offer an annual return of 5.6% through 2026, down from 8.3% previously. Our estimate stems from a 5% annual earnings growth rate and 2.1% starting yield offset by a small headwind from multiple compression. CVS Health Corporation continues to see solid growth and an expanding pharmacy market share. However, the stock is up nearly 57% over the last year, stretching the stock's valuation. We have raised our 2026 price target \$3 to \$112 due to revised EPS guidance, but reiterate our hold rating on the stock due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	107,080	123,120	126,761	139,367	153,290	177,546	184,786	194,579	256,776	268,706
Gross Profit	20,562	22,488	23,783	25,367	26,528	28,834	28,528	31,538	45,528	49,046
Gross Margin	19.2%	18.3%	18.8%	18.2%	17.3%	16.2%	15.4%	16.2%	17.7%	18.3%
D&A Exp.	1,568	1,753	1,870	1,931	2,092	2,475	2,479	2,718	4,371	4,441
Operating Profit	6,331	7,210	8,037	8,799	9,475	10,386	9,719	10,170	11,987	13,911
Op. Margin	5.9%	5.9%	6.3%	6.3%	6.2%	5.8%	5.3%	5.2%	4.7%	5.2%
Net Profit	3,462	3,864	4,592	4,644	5,237	5,317	6,622	(594)	6,634	7,179
Net Margin	3.2%	3.1%	3.6%	3.3%	3.4%	3.0%	3.6%	-0.3%	2.6%	2.7%
Free Cash Flow	3,984	4,641	3,799	6,001	6,172	7,917	6,089	6,828	10,391	13,428
Income Tax	2,258	2,436	2,928	3,033	3,386	3,317	1,637	2,002	2,366	2,569

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	64,543	66,221	71,526	74,187	92,437	94,462	95,131	196,456	222,449	230,715
Cash & Equivalents	1,413	1,375	4,089	2,481	2,459	3,371	1,696	4,059	5,683	7,854
Acc. Receivable	6,047	6,479	8,729	9,687	11,888	12,164	7,895	6,497	6,717	7,101
Inventories	10,046	11,032	11,045	11,930	14,001	14,760	15,296	16,450	17,516	18,496
Goodwill & Int.	36,327	36,148	36,071	37,916	51,984	51,760	52,081	115,202	112,870	110,694
Total Liabilities	26,492	28,568	33,588	36,224	55,234	57,628	57,436	137,913	158,279	161,014
Accounts Payable	4,370	5,070	5,548	6,547	7,490	7,946	8,863	8,925	10,492	11,138
Long-Term Debt	10,014	9,828	13,402	12,890	27,464	27,531	27,002	73,429	68,480	64,647
Total Equity	38,051	37,653	37,938	37,958	37,196	36,830	37,691	58,225	63,864	69,389
D/E Ratio	0.26	0.26	0.35	0.34	0.74	0.75	0.72	1.26	1.07	0.93

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.5%	5.9%	6.7%	6.4%	6.3%	5.7%	7.0%	-0.4%	3.2%	3.2%
Return on Equity	9.1%	10.2%	12.1%	12.2%	13.9%	14.4%	17.8%	-1.2%	10.9%	10.8%
ROIC	7.2%	8.1%	9.3%	9.1%	9.1%	8.2%	10.3%	-0.6%	5.0%	5.4%
Shares Out.	1298	1231	1180	1140	1101	1061	1014	1126	1301	1311
Revenue/Share	79.50	96.19	103.39	119.22	136.14	164.55	180.46	186.38	196.76	204.49
FCF/Share	2.96	3.63	3.10	5.13	5.48	7.34	5.95	6.54	7.96	10.22

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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