



CVS Health Corporation (CVS)

Updated November 6th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$71	5 Year CAGR Estimate:	14.7%	Market Cap:	\$91 B
Fair Value Price:	\$95	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	01/19/24 ¹
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	5.9%	Dividend Payment Date:	02/01/24 ²
Dividend Yield:	3.4%	5 Year Price Target	\$127	Years Of Dividend Growth:	2
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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 \$323 billion.

On December 15th, 2022, CVS Health Corporation raised its quarterly dividend 10% to \$0.605 per share, the company's second consecutive increase since 2017.

On February 8th, 2023, CVS Health Corporation announced that it had agreed to acquire Oak Street Health (OSH), a healthcare services company, for \$10.6 billion in cash. The deal closed on May 2nd, 2023.

On November 1st, CVS Health Corporation reported third quarter results for the period ending September 30th, 2023. For the quarter, revenue increased 10.6% to \$89.8 billion, topping estimates by \$1.63 billion. Adjusted earnings-per-share of \$2.21 compared to \$2.09 in the prior year, and was \$0.08 ahead of expectations.

Revenues for Health Services, formerly known as Pharmacy Services, improved 8.4% for the quarter, with total pharmacy claims processed declining by 0.9%. Revenues for the Pharmacy & Consumer Wellness segment, formerly known as Retail/LTC segment, increased 6.0% as prescriptions filled grew 0.4% to 407.1 million. Total same store sales grew 9% with Pharmacy up by 12% compared to the prior year. Revenues for Health Care Benefits increased 16.9%. Total memberships were up 5.8% to 25.7 million. Government memberships grew 1.9% from the prior year while commercial was higher by 7.4%.

CVS Health Corporation provided an updated outlook for 2023 as well, with the company now expecting revenue to range from \$351.5 billion to \$357.3 billion, up from \$348 billion to \$353 billion and \$332.7 billion to \$338.5 billion previously. Adjusted earnings-per-share are still projected to be in a range of \$8.50 to \$8.70 for the year, down from a prior range of \$8.70 to \$8.90.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022	2027
EPS	\$4.00	\$4.51	\$5.16	\$5.84	\$5.90	\$7.08	\$7.08	\$7.50	\$8.40	\$8.69	\$8.60	\$11.51
DPS	\$0.90	\$1.10	\$1.40	\$1.70	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.20	\$2.42	\$3.24
Shares³	1180	1140	1101	1061	1014	1126	1301	1311	1322	1319	1290	1275

CVS Health Corporation's historical growth has been remarkable. The company has compounded its earnings and dividends at annualized rates of 9.0% and 10.4%, respectively, over the last decade. The dividend growth rate is especially impressive given that the company had frozen its dividend for 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

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ In millions of shares

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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 reaffirm our projection for 6% earnings-per-share growth for CVS over the medium-term due to revenue increases and the acquisition of Oak Street Health.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	14.7	17.4	19.7	15.9	13.2	10.0	8.7	8.5	12.3	10.7	8.3	11.0
Avg. Yld.	1.5%	1.4%	1.4%	1.8%	2.6%	2.8%	3.3%	3.3%	1.9%	2.4%	3.4%	2.6%

Shares of CVS Health Corporation have decreased \$2, or 2.7%, since our August 7th, 2023 report. Using the midpoint of the company's guidance for 2023, the stock is trading at a price-to-earnings ratio 8.3, which compares to the 10-year average of 13.1. We maintain our 2028 target P/E of 11. If our current target valuation is achieved, investors would see a 5.9% annual benefit through 2028 from multiple expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

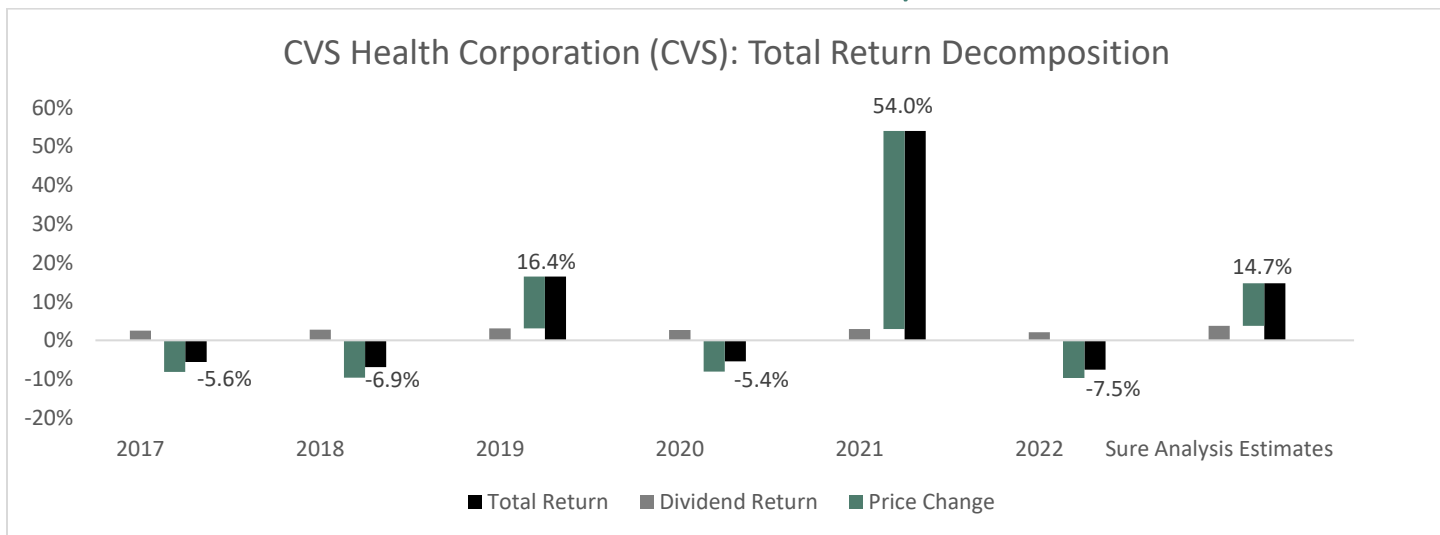
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	23%	24%	27%	29%	34%	28%	28%	27%	27%	27%	28%	28%

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 ~27% of the retail pharmacy market share as of the most recent quarter.

Final Thoughts & Recommendation

After third quarter earnings results, CVS Health Corporation is projected to offer an annual return of 14.7% through 2028, up from 14.1% previously. Our estimate stems from a 6% annual earnings growth rate, a 3.4% starting yield, and a mid-single-digit contribution from multiple expansion. CVS Health Corporation continues to churn out solid quarters and the addition of Oak Street Health has already aided results. We maintain our five-year price target of \$127 due to estimates for 2023 as well as reaffirm our buy rating on the stock due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	126761	139367	153290	177546	184786	194579	256776	268706	292111	322467
Gross Profit	23783	25367	26528	28834	28528	31538	45528	49046	52048	54294
Gross Margin	18.8%	18.2%	17.3%	16.2%	15.4%	16.2%	17.7%	18.3%	17.8%	16.8%
D&A Exp.	1870	1931	2092	2475	2479	2718	4371	4441	4512	4247
Operating Profit	8037	8799	9475	10386	9719	10170	12218	13911	14982	16082
Op. Margin	6.3%	6.3%	6.2%	5.8%	5.3%	5.2%	4.8%	5.2%	5.1%	5.0%
Net Profit	4592	4644	5237	5317	6622	(594)	6634	7179	7910	4149
Net Margin	3.6%	3.3%	3.4%	3.0%	3.6%	-0.3%	2.6%	2.7%	2.7%	1.3%
Free Cash Flow	3799	6001	6172	7917	6089	6828	10391	13428	15745	13450
Income Tax	2928	3033	3386	3317	1637	2002	2366	2569	2522	1463

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	71526	74187	92437	94462	95131	196456	222449	230715	232999	228275
Cash & Equivalents	4089	2481	2459	3371	1696	4059	5683	7854	9408	12945
Acc. Receivable	8729	9687	11888	12164	7895	6497	6717	7101	7932	8983
Inventories	11045	11930	14001	14760	15296	16450	17516	18496	17760	19090
Goodwill & Int.	36071	37916	51984	51760	52081	115202	112870	110694	108147	102904
Total Liabilities	33588	36224	55234	57628	57436	137913	158279	161014	157618	156960
Accounts Payable	5548	6547	7490	7946	8863	8925	10492	11138	12544	14838
Long-Term Debt	13402	12890	27464	27531	27002	73429	68480	64647	56176	52254
Total Equity	37938	37958	37196	36830	37691	58225	63864	69389	75075	71015
LTD/E Ratio	0.35	0.34	0.74	0.75	0.72	1.26	1.07	0.93	0.75	0.74

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.7%	6.4%	6.3%	5.7%	7.0%	-0.4%	3.2%	3.2%	3.4%	1.8%
Return on Equity	12.1%	12.2%	13.9%	14.4%	17.8%	-1.2%	10.9%	10.8%	11.0%	5.7%
ROIC	9.3%	9.1%	9.1%	8.2%	10.3%	-0.6%	5.0%	5.4%	5.9%	3.3%
Shares Out.	1180	1140	1101	1061	1014	1126	1301	1311	1322	1319
Revenue/Share	103.39	119.22	136.14	164.55	180.46	186.38	196.76	204.49	219.80	243.74
FCF/Share	3.10	5.13	5.48	7.34	5.95	6.54	7.96	10.22	11.85	10.17

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

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