



CVS Health Corporation (CVS)

Updated February 7th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$75	5 Year CAGR Estimate:	13.0%	Market Cap:	\$97 B
Fair Value Price:	\$91	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	04/19/24 ¹
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.0%	Dividend Payment Date:	05/01/24 ²
Dividend Yield:	3.5%	5 Year Price Target	\$122	Years Of Dividend Growth:	3
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 \$367 billion.

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 December 5th, 2023, CVS Health Corporation raised its quarterly dividend 9.9% to \$0.665 per share, the company's third consecutive increase since pausing its dividend in 2017.

On February 7th, 2024, CVS Health Corporation announced fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, revenue grew 11.9% to \$93.8 billion, topping estimates by \$3.08 billion. Adjusted earnings-per-share of \$2.12 compared to \$1.99 in the prior year, and was \$0.13 better than expected. For 2023, revenue increased 10.9% to \$357.8 billion while adjusted earnings-per-share of \$8.74 compared to \$9.03 in the prior year.

Revenues for Health Services, formerly known as Pharmacy Services, increased 12.3% for the quarter, with total pharmacy claims processed inching up 0.1%. Revenues for the Pharmacy & Consumer Wellness segment, formerly known as Retail/LTC segment, grew 8.6% as prescriptions filled were up 1.9% to 431.5 million. Total same store sales grew 11% with Pharmacy up by 15.5% compared to the prior year. Revenues for Health Care Benefits increased 16.1%, while total memberships grew 5.2% to 25.7 million. Government memberships were flat from the prior year while commercial was up by 7.7%.

CVS Health Corporation provided an outlook for 2024 as well, with the company expecting adjusted earnings-per-share of at least \$8.30 for the year, down from prior guidance of at least \$8.50. This was due to higher expected medical costs for the year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022	2023	2029
EPS	\$4.51	\$5.16	\$5.84	\$5.90	\$7.08	\$7.08	\$7.50	\$8.40	\$9.03	\$8.74	\$8.30	\$11.11
DPS	\$1.10	\$1.40	\$1.70	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.20	\$2.42	\$2.66	\$3.56
Shares³	1140	1101	1061	1014	1126	1301	1311	1322	1319	1290	1290	1260

CVS Health Corporation's historical growth has been remarkable. The company has compounded its earnings and dividends at annualized rates of 7.6% and 9.2%, 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 of

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ In millions of shares

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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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.4	19.7	15.9	13.2	10.0	8.7	8.5	12.3	10.7	9.0	9.0	11.0
Avg. Yld.	1.4%	1.4%	1.8%	2.6%	2.8%	3.3%	3.3%	1.9%	2.4%	3.1%	3.5%	2.9%

Shares of CVS Health Corporation have increased \$4, or 5.6%, since our November 6th, 2023 report. Using the company's guidance for 2024, the stock is trading at a price-to-earnings ratio 9.0, which compares to the 10-year average of 12.5. We reaffirm our 2029 target P/E of 11. If our current target P/E is achieved by 2029, then valuation would be a 4% annual tailwind to results for this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

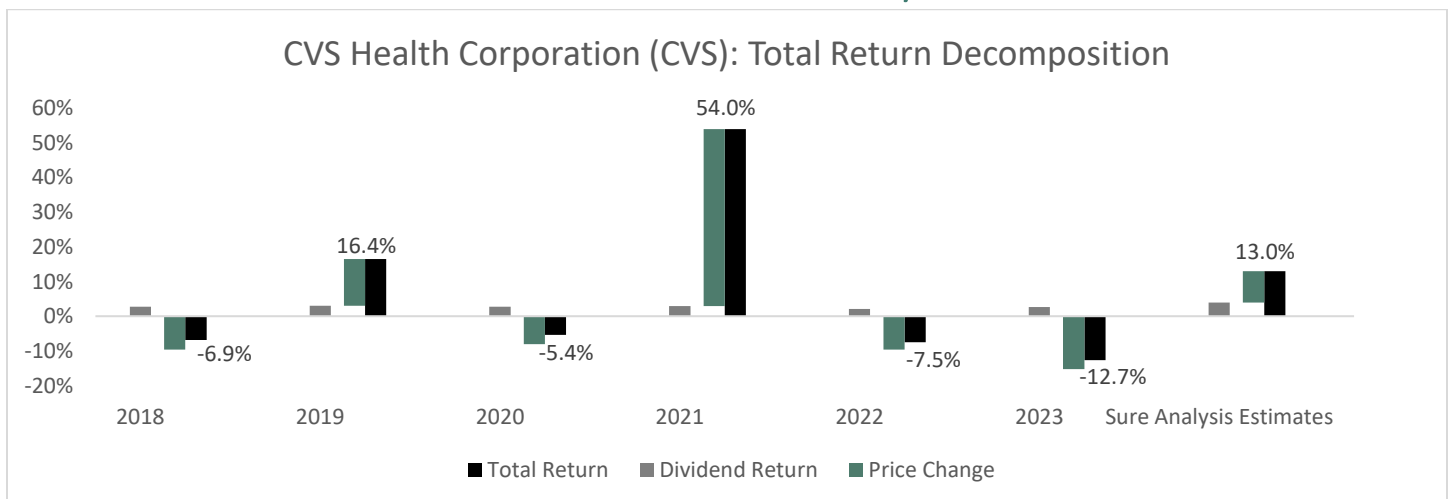
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	24%	27%	29%	34%	28%	28%	27%	27%	27%	27%	32%	32%

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

Following fourth quarter earnings results, CVS Health Corporation is projected to offer an annual return of 13.0% through 2029, down from 14.7% previously. Our estimate stems from a 6% annual earnings growth rate, a 3.5% starting yield, and a low single-digit contribution from multiple expansion. CVS Health Corporation results were solid, but medical costs are expected to be higher this year, something investors will want to monitor. That said, projected returns remain attractive. We have lowered our five-year price target \$5 to \$122 due to estimates for 2024, but shares continue to earn a buy rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	139	153	178	185	195	257	269	292	322	358
Gross Profit	25,367	26,528	28,834	28,528	31,538	45,528	49,046	52,120	54,502	54,431
Gross Margin	18.2%	17.3%	16.2%	15.4%	16.2%	17.7%	18.3%	17.8%	16.9%	15.2%
D&A Exp.	1,931	2,092	2,475	2,479	2,718	4,371	4,441	4,486	4,224	4,366
Operating Profit	8,799	9,475	10,386	9,719	10,170	12,218	13,911	15,099	16,290	14,599
Op. Margin	6.3%	6.2%	5.8%	5.3%	5.2%	4.8%	5.2%	5.2%	5.1%	4.1%
Net Profit	4,644	5,237	5,317	6,622	(594)	6,634	7,179	8,001	4,311	8,344
Net Margin	3.3%	3.4%	3.0%	3.6%	-0.3%	2.6%	2.7%	2.7%	1.3%	2.3%
Free Cash Flow	6,001	6,172	7,917	6,089	6,828	10,391	13,428	15,745	13,450	10,395
Income Tax	3,033	3,386	3,317	1,637	2,002	2,366	2,569	2,548	1,509	2,805

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	74	92	94	95	196	222	231	233	228	250
Cash & Equivalents	2,481	2,459	3,371	1,696	4,059	5,683	7,854	9,408	12,945	8,196
Acc. Receivable	9,687	11,888	12,164	7,895	6,497	6,717	7,101	7,932	8,983	11,908
Inventories	11,930	14,001	14,760	15,296	16,450	17,516	18,496	17,760	19,090	18,025
Goodwill & Int. (\$B)	38	52	52	52	115	113	111	108	103	121
Total Liabilities (\$B)	36	55	58	57	138	158	161	158	157	173
Accounts Payable	6,547	7,490	7,946	8,863	8,925	10,492	11,138	12,544	14,838	14,897
Long-Term Debt	12,890	27,464	27,531	27,002	73,429	68,480	64,647	56,176	52,254	61,610
Total Equity	37,958	37,196	36,830	37,691	58,225	63,864	69,389	75,075	71,469	76,461
LTD/E Ratio	0.34	0.74	0.75	0.72	1.26	1.07	0.93	0.75	0.73	0.81

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.4%	6.3%	5.7%	7.0%	-0.4%	3.2%	3.2%	3.5%	1.9%	3.5%
Return on Equity	12.2%	13.9%	14.4%	17.8%	-1.2%	10.8%	10.7%	11.0%	5.9%	11.2%
ROIC	9.1%	9.1%	8.2%	10.3%	-0.6%	5.0%	5.4%	6.0%	3.4%	6.4%
Shares Out.	1140	1101	1061	1014	1126	1301	1311	1322	1319	1290
Revenue/Share	119.22	136.14	164.55	180.46	186.38	196.76	204.49	219.80	243.74	277.35
FCF/Share	5.13	5.48	7.34	5.95	6.54	7.96	10.22	11.85	10.17	8.06

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

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