Ticker: **CVS**

Company Snapshot

FLORIDA GULF COAST UNIVERSITY

EAGLE FUND

CVS HEALTH CORP (New York: CVS, Currency: USD) 85.81 / -0.60% / -0.52

Bloomberg Rating: IG4 Sector: Health Care Industry: Health Care Providers & Servic Sub-Industry: Health Care Services FY End: December 2020 EPS Due: 8/

Description

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.

Business Segments (FY: Dec-20)	Revenue
Pharmacy Services	141,938.00
Retail/LTC	91,198.00
Health Care Benefits	74,984.00
Corporate/Other	111.00
Reconciliation	(39,525.00)

Key Statistics

Key Statistics	
52-Week Range	55.36 - 90.61
Avg Daily Vol (3 Mo)	7,204,987
Market Value	112,974.7
Current Enterprise Val	186,817.69
Shares Outstanding (B	1,316.57 M
Dividend Yield	2.3%
Float %	99.7%
Institutional %	80.7%
Analyst Coverage	29 Analysts
Target Price	94.73
LT Growth Rate	685.0%
Consensus Rating	4.38
Return on Equity	10.9%

Actual and Estimate Data

	LTM	12/2021	12/2022
Revenue	271,048.00	281,798.74	293,391.09
% change y/y		4.9%	4.1%
EBITDA	18,511.00	18,350.00	19,541.24
% Margin		-10.3%	6.5%
EPS	6.287014	7.654	8.14
% change y/y		2.1%	6.3%
EV/Sales	0.6x	0.6x	0.5x
EV/EBITDA	9.3x	9.1x	8.5x
P/Sales	0.4x	0.4x	0.4x
P/Earnings	13.6x	11.2x	10.5x
P/Book	1.6x	1.5x	1.3x

Relative Comps

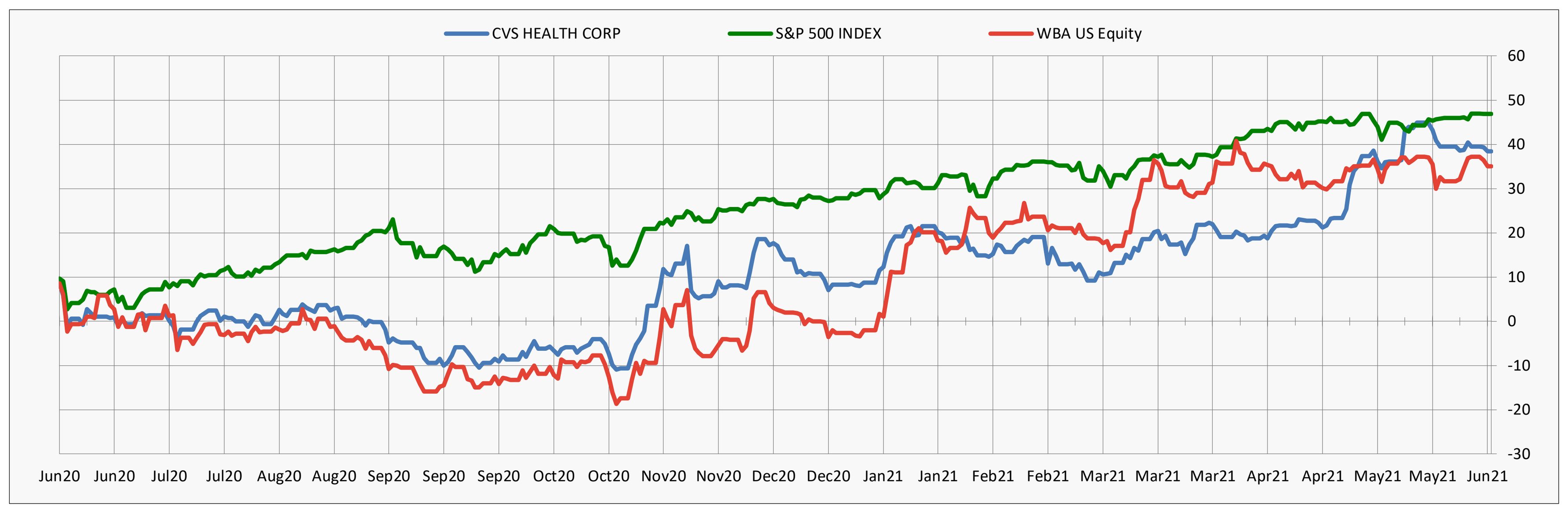
Relative Comps	Mkt Cap	PE (NTM)
CVS Health Corp	112.97 B	11.2x
Cigna Corp	84.39 B	11.5x
GoodRx Holdings Inc	15.35 B	102.8x
Anthem Inc	95.95 B	15.0x
Humana Inc	54.49 B	20.6x
Centene Corp	41.69 B	13.6x
Molina Healthcare Inc	14.73 B	18.4x
Clover Health Investments C	9.04 B	
HealthEquity Inc	6.79 B	53.1x
UnitedHealth Group Inc	379.12 B	21.7x
McKesson Corp	29.69 B	10.0x

Measure: Sales/Revenue/Turnover

	2019	2020	2021	2022
Q1 Mar	61646.00	66755.00	69097.00	72075.62
Q2 Jun	63431.00	65341.00	70154.33	73225.25
Q3 Sep	64810.00	67056.00	70403.48	73539.33
Q4 Dec	66889.00	69554.00	72019.15	75372.00
Year	256776.00	268706.00	281798.74	293391.09
Cal Yr	256776.00	268706.00	281798.74	293391.09
Revision				
	1 Week	4 Weeks	3 Months	6 Months
Qtr End 06/21	0.0%	0.1%	1.3%	1.6%
Qtr End 09/21	0.0%	0.1%	0.6%	1.1%
FY End 12/21	0.0%	0.0%	0.6%	1.3%
FY End 12/22	0.0%	0.1%	0.5%	1.1%

Price and Volume (1 Year)

Period: 1 Year Security/Index: WBA US Equity



Prices/Volume

Prices/Volume	
YTD Change	25.64%
6 Month Change	47.59%
3 Month Change	20.1%
1 Year Change	16.2%
Daily Volume	4,270,306
Average Volume 30 Day	8,083,869
Average Volume 3 Month	7,204,987
Average Volume 6 Month	7,046,256
Dividend Yld	2.3%
52 Week Beta	1.24

Measure: Diluted EPS Bef XO Items

	2019	2020	2021	2022
Q1 Mar	1.09	1.53	1.68	1.76
Q2 Jun	1.49	2.26	1.72	1.78
Q3 Sep	1.17	0.93	1.51	1.67
Q4 Dec	1.33	0.75	1.38	1.63
Year	5.08	5.47	6.27	6.89
Cal Yr	5.08	5.47	6.27	6.89
Revision				
	1 Week	4 Weeks	3 Months	6 Months
Qtr End 06/21	0.3%	-0.5%	14.6%	-
Qtr End 09/21	-0.2%	-2.7%	-5.2%	-
FY End 12/21	0.1%	-1.4%	6.3%	-
FY End 12/22	0.2%	-1.1%	1.2%	-

Growth Rate (CAGR) Summary

	1Yr	3Yr	5Yr	10Yr
Sales	4.6%	13.3%	11.9%	10.9%
EBIT	16.1%	13.4%	8.0%	8.5%
EBITDA	10.2%	20.4%	12.6%	10.7%
Net Income	8.2%	2.7%	6.5%	7.7%
EPS (Diluted)	7.5%	-5.4%	3.4%	8.2%
Dividends	0.0%	0.0%	7.4%	19.0%
BVPS	8.0%	12.5%	9.4%	6.7%
Free Cash Flow	28.4%	19.8%	13.2%	17.6%

Valuation Summary

Latest FY — 5 Year Periodicity: Yearly

	12/31/2020	High	Low	Avg
P/E (LTM)	11.1x	14.5x	11.1x	12.9x
P/E (NTM)	10.9x	13.4x	8.7x	10.7x
PEG (NTM)	1.6x	1.9x	0.7x	1.3x
P/Bk	1.3x	2.3x	1.3x	1.7x
P/CF	5.6x	9.2x	5.6x	7.6x
P/Sales	0.3x	0.5x	0.3x	0.4x
EV/EBITDA	7.8x	22.6x	7.8x	11.3x
EV/Sales	0.6x	0.8x	0.5x	0.6x
Div Yield	2.9%	3.1%	2.2%	2.7%

Performance

Performance	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr Avg
Price Change	18.6%	48.0%	34.6%	1.5%	-19.3%	-8.1%	-9.6%	13.4%	-8.1%	-6.3%
S&P 500 INDEX	13.4%	29.6%	11.4%	-0.7%	9.5%	19.4%	-6.2%	28.9%	16.3%	13.6%
Industry (INDU Index)	7.3%	26.5%	7.5%	-2.2%	13.4%	25.1%	-5.6%	22.3%	7.2%	12.5%
Div Yield	1.3%	1.3%	1.1%	1.4%	2.2%	2.8%	3.1%	2.7%	2.9%	2.7%
Financials	12/12 Y	12/13 Y	12/14 Y	12/15 Y	12/16 Y	12/17 Y	12/18 Y	12/19 Y	12/20 Y	5 Yr CAGR
Sales	123,120.0	126,761.0	139,367.0	153,290.0	177,546.0	184,786.0	194,579.0	256,776.0	268,706.0	11.9%
EBITDA	8,963.0	9,907.0	10,730.0	11,567.0	12,861.0	12,017.0	6,739.0	19,028.0	20,967.0	12.6%
EBIT	7,210.0	8,037.0	8,799.0	9,475.0	10,386.0	9,538.0	4,021.0	11,987.0	13,911.0	8.0%
Net Income	3,864.0	4,592.0	4,644.0	5,237.0	5,317.0	6,622.0	594.0	6,634.0	7,179.0	6.5%
EPS (Diluted)	3.02	3.74	3.96	4.63	4.90	6.44	-0.57	5.08	5.46	3.4%
Dividends per Share	0.65	0.90	1.10	1.40	1.70	2.00	2.00	2.00	2.00	7.4%
Shares for Fully Diluted EP	1,280.0	1,226.0	1,169.0	1,126.0	1,079.0	1,024.0	1,044.0	1,305.0	1,314.0	3.1%
Book Value per Share	30.59	32.15	33.30	33.78	34.71	37.17	44.96	49.05	52.97	9.4%
Cash & Near Cash	1,375.0	4,089.0	2,481.0	2,459.0	3,371.0	1,696.0	4,059.0	5,683.0	7,854.0	26.1%
Total Assets	66,221.0	71,526.0	74,187.0	92,437.0	94,462.0	95,131.0	196,456.0	222,449.0	230,715.0	20.1%
Working Cap	6,011.0	9,900.0	6,956.0	5,989.0	4,792.0	581.0	1,234.0	3,001.0	5,648.0	-198.8%
LT Debt	9,133.0	12,841.0	11,630.0	26,267.0	25,615.0	22,181.0	71,444.0	83,625.0	77,964.0	24.3%
Cash Flow-Oper Activities	6,671.0	5,783.0	8,137.0	8,539.0	10,141.0	8,007.0	8,865.0	12,848.0	15,865.0	13.2%
Capital Expenditures	2,030.0	1,984.0	2,136.0	2,367.0	2,224.0	1,918.0	2,037.0	2,457.0	2,437.0	0.6%
Free Cash Flow	4,641.0	3,799.0	6,001.0	6,172.0	7,917.0	6,089.0	6,828.0	10,391.0	13,428.0	16.8%
Ratios	12/12 Y	12/13 Y	12/14 Y	12/15 Y	12/16 Y	12/17 Y	12/18 Y	12/19 Y	12/20 Y	5 Yr Avg
Gross Margin	18.3%	18.8%	18.2%	17.3%	16.2%	15.4%	16.2%	17.7%	18.3%	16.8%
EBITDA Margin	7.3%	7.8%	7.7%	7.5%	7.2%	6.5%	3.5%	7.4%	7.8%	6.5%
EBIT Margin	5.9%	6.3%	6.3%	6.2%	5.8%	5.2%	2.1%	4.7%	5.2%	4.6%
Profit Margin	3.1%	3.6%	3.3%	3.4%	3.0%	3.6%	-0.3%	2.6%	2.7%	2.3%
Return on Assets	5.9	6.7	6.4	6.3	5.7	7.0	-0.4	3.2	3.2	3.7
Return on Com Eqty	10.2	12.1	12.2	13.9	14.4	17.8	-1.2	10.9	10.8	10.5
Asset Turnover	1.9	1.8	1.9	1.8	1.9	1.9	1.3	1.2	1.2	1.5
Assets/Equity	1.8	1.9	2.0	2.5	2.6	2.5	3.4	3.5	3.3	3.0
Net Inc per 1000 Employee	30.7	35.3	33.7	33.8	33.7	41.4	-2.0	22.9	23.9	24.0
Days Sales Out (DSO)	18.6	21.9	24.1	25.7	24.8	25.0	28.9	26.5	28.2	26.7
Acc Pay Turn Days (DPO)	17.0	18.8	19.2	19.9	18.9	19.6	25.6	27.1	30.2	24.3
Current Ratio	1.4	1.6	1.4	1.3	1.2	1.0	1.0	0.9	0.9	1.0
Quick Ratio	0.6	0.8	0.6	0.6	0.6	0.5	0.6	0.5	0.5	0.5
Total Debts/Total Capital	20.7	26.1	25.3	42.4	42.8	41.7	55.6	58.1	55.0	50.6
Total Debt/Total Equity	26.1	35.3	34.0	73.7	74.7	71.6	125.4	138.7	122.0	106.5

Recommendation

Despite reasonable valuation and fundamental trends, we recommend selling the remainder of our position in CVS due to the emergence of several new risk factors including; the likely entrance of Amazon into the physical retail pharmacy space, a new opioid lawsuit from the State of Kentucky, and the recent abrupt departure and replacement of the CFO.

Earnings Drivers/ Catalysts

CVS earnings improved during the 1st half of 2020, as the company benefitted from consumers stocking up on necessities during the initial stages of the Covid pandemic. Earnings in the 2nd half of 2020, declined however, as panic buying eased. Recently the company reported better than expected earnings for the 1st quarter of 2021 (+19% earnings surprise) and analysts revised their 2021 earnings estimates higher (positive revisions) following a slight increase to company earnings guidance.

Balance Sheet/ Cash Flow

CVS debt to capital ratio is 44%, generally in line with industry peers. Free Cash generation has been very strong in recent years, well ahead of reported net income, which is indicative of high quality earnings. Free Cash Flow has largely been allocated towards debt repayment, which in addition to refinancing efforts, has resulted in an improved balance sheet and lower interest expense.

Valuation

Currently $85 per share, CVS is trading 11x 2021 earnings estimates. This multiple is inline with its closest peers in the pharmacy (Walgreens 10.7x) and pharmacy benefit management or PBM industry (Cigna 11.4x). The company's valuation is also generally in line with its own 5 year trading history across multiple value measures including P/E, EV/ Sales and EV/Ebitda. Thus we view the stock as fairly valued at current levels.

Risks

The main risk in our view is the likely entrance of Amazon into the physical pharmacy retail space. When Amazon entered the Grocery industry 4 years through the acquisition of Whole Foods, competitors like Kroger saw an immediate 30%+ drop in their stock price. More recently, CVS has been named in a Kentucky lawsuit seeking renumeration of costs associated with the opioid crisis due to their role as a distributor. We don't pretend to be able to handicap the outcome of this litigation but do now that similar lawsuits against pharmaceutical manufactures significantly impaired the stock prices of those companies.