



# CVS Health Corporation (CVS)

Updated November 15<sup>th</sup>, 2024 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$53	<b>5 Year CAGR Estimate:</b>	12.4%	<b>Market Cap:</b>	\$70 B
<b>Fair Value Price:</b>	\$59	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	01/17/25 <sup>1</sup>
<b>% Fair Value:</b>	90%	<b>5 Year Valuation Multiple Estimate:</b>	2.2%	<b>Dividend Payment Date:</b>	02/03/25 <sup>2</sup>
<b>Dividend Yield:</b>	5.0%	<b>5 Year Price Target</b>	\$79	<b>Years Of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 \$369 billion.

On December 5<sup>th</sup>, 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 November 6<sup>th</sup>, 2024, CVS Health Corporation reported third quarter results for the period ending September 30<sup>th</sup>, 2024. For the quarter, revenue grew 6.3% to \$95.4 billion, which was \$2.74 billion ahead of estimates. Adjusted earnings-per-share of \$1.09 compared very unfavorably to \$2.21 in the prior year and was \$0.37 less than expected.

Included in results were premium deficiency reserves of ~\$1.1 billion due the expectation for losses in the fourth quarter in the Health Care Benefits segment. This was a \$0.63 per share headwind to results. Restructuring charges of \$1.2 billion also impacted results. Revenues for Health Care Benefits were up 25.5%, while total memberships grew 5.4% to 27.1 million. Commercial memberships improved 3.3% to 18.9 million while Government memberships grew 10.8% to 8.2 million. The medical benefits ratio, which calculates the amount of premiums used to pay medical benefits, increased 950 basis points to 95.2%. Revenues for Health Services, formerly known as Pharmacy Services, fell 6.0% for the quarter, with pharmacy claims processed down 16.5% to 484.1 million. As with the prior quarter, this decrease was largely attributed to Tyson Foods (TSN) dropping CVS Health Corporation as its pharmacy benefit manager. Revenues for the Pharmacy & Consumer Wellness segment, formerly known as Retail/LTC segment, increased 12.1% while prescriptions filled grew 6.0% to 431.6 million. Total same store sales improved 15% with Pharmacy sales up 20% compared to the prior year. Finally, Steve Nelson, former CEO of the insurance arm of UnitedHealth Group (UNH), was appointed president of Aetna.

CVS Health Corporation withdrew its prior guidance of adjusted earnings-per-share of \$6.40 to \$6.65 for the year, which was down from at least \$7.00, \$8.30, and \$8.50 previously. Analysts expect the company to earn \$5.92 in 2024, which would be a 32% decline from 2023. We have updated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$4.51	\$5.16	\$5.84	\$5.90	\$7.08	\$7.08	\$7.50	\$8.40	\$9.03	\$8.74	<b>\$5.92</b>	<b>\$7.92</b>
<b>DPS</b>	\$1.10	\$1.40	\$1.70	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.20	\$2.42	<b>\$2.66</b>	<b>\$3.56</b>
<b>Shares<sup>3</sup></b>	1140	1101	1061	1014	1126	1301	1311	1322	1319	1290	<b>1259</b>	<b>1230</b>

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

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> In millions of shares

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



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impressive given that the company had frozen its dividend for four years. However, earnings-per-share have declined 3.5% over the last five years as CVS Health Corp's results have fallen significantly since their 2022 high.

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 reaffirm our projection for 6% earnings-per-share growth for CVS over the medium-term.

## 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	10.0
Avg. Yld.	1.4%	1.4%	1.8%	2.6%	2.8%	3.3%	3.3%	1.9%	2.4%	3.1%	5.0%	4.5%

Shares of CVS Health Corporation have declined \$4, or 7.0%, since our August 11<sup>th</sup>, 2024 report. Using estimates for 2024, the stock is trading at a price-to-earnings ratio 9.0, which compares to the 10-year average of 12.5 and the five-year average of 9.8. We reaffirm our 2029 target P/E to 10 from 11 as this is nearly in-line with the average P/E over the last five years and accounts for the headwinds that the company is currently facing. If our current target P/E is achieved by 2029, then valuation would add 2.2% to annual returns over this period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

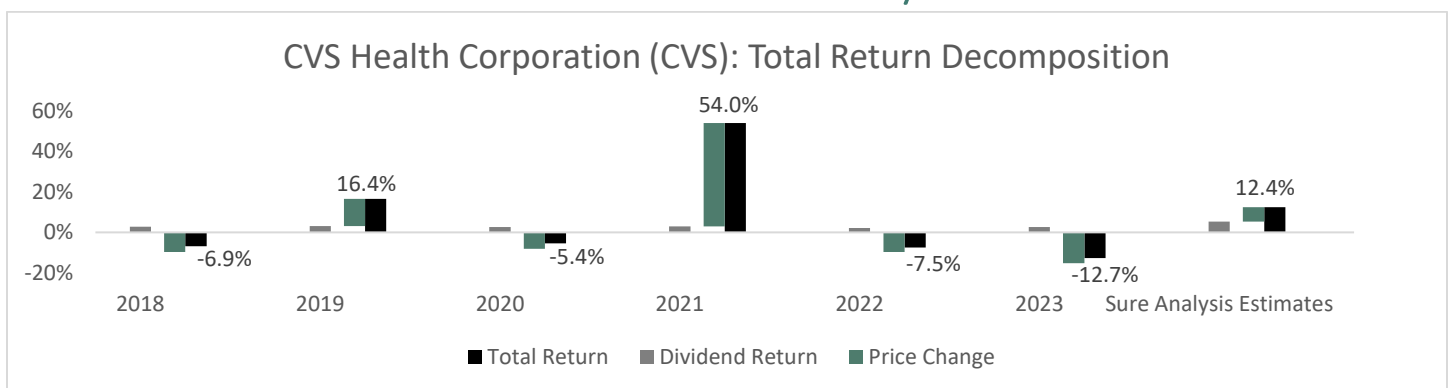
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	24%	27%	29%	34%	28%	28%	27%	27%	27%	27%	45%	45%

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 more than a quarter 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 12.4% through 2029, down from 12.6% previously. Our estimate stems from a 6% annual earnings growth rate, a 5.0% starting yield, and a low single-digit contribution from multiple expansion. CVS Health Corporation's results were mixed once again, with the company seeing areas of weakness in its business. That said, shares offer an attractive total return at present levels. We have lowered our five-year price target \$8 to \$79 due to estimates for 2024, but we continue to rate shares of CVS Health Corporation as a buy 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
<b>Revenue (\$B)</b>	139	153	178	185	195	257	269	292	322	358
<b>Gross Profit</b>	25,367	26,528	28,834	28,528	31,538	45,528	49,046	52,120	54,502	54,431
<b>Gross Margin</b>	18.2%	17.3%	16.2%	15.4%	16.2%	17.7%	18.3%	17.8%	16.9%	15.2%
<b>D&amp;A Exp.</b>	1,931	2,092	2,475	2,479	2,718	4,371	4,441	4,486	4,224	4,366
<b>Operating Profit</b>	8,799	9,475	10,386	9,719	10,170	12,218	13,911	15,099	16,290	14,599
<b>Op. Margin</b>	6.3%	6.2%	5.8%	5.3%	5.2%	4.8%	5.2%	5.2%	5.1%	4.1%
<b>Net Profit</b>	4,644	5,237	5,317	6,622	(594)	6,634	7,179	8,001	4,311	8,344
<b>Net Margin</b>	3.3%	3.4%	3.0%	3.6%	-0.3%	2.6%	2.7%	2.7%	1.3%	2.3%
<b>Free Cash Flow</b>	6,001	6,172	7,917	6,089	6,828	10,391	13,428	15,745	13,450	10,395
<b>Income Tax</b>	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
<b>Total Assets (\$B)</b>	74	92	94	95	196	222	231	233	228	250
<b>Cash &amp; Equivalents</b>	2,481	2,459	3,371	1,696	4,059	5,683	7,854	9,408	12,945	8,196
<b>Acc. Receivable</b>	9,687	11,888	12,164	7,895	6,497	6,717	7,101	7,932	8,983	11,908
<b>Inventories</b>	11,930	14,001	14,760	15,296	16,450	17,516	18,496	17,760	19,090	18,025
<b>Goodwill &amp; Int. (\$B)</b>	38	52	52	52	115	113	111	108	103	121
<b>Total Liabilities (\$B)</b>	36	55	58	57	138	158	161	158	157	173
<b>Accounts Payable</b>	6,547	7,490	7,946	8,863	8,925	10,492	11,138	12,544	14,838	14,897
<b>Long-Term Debt</b>	12,890	27,464	27,531	27,002	73,429	68,480	64,647	56,176	52,254	61,610
<b>Total Equity</b>	37,958	37,196	36,830	37,691	58,225	63,864	69,389	75,075	71,469	76,461
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	6.4%	6.3%	5.7%	7.0%	-0.4%	3.2%	3.2%	3.5%	1.9%	3.5%
<b>Return on Equity</b>	12.2%	13.9%	14.4%	17.8%	-1.2%	10.8%	10.7%	11.0%	5.9%	11.2%
<b>ROIC</b>	9.1%	9.1%	8.2%	10.3%	-0.6%	5.0%	5.4%	6.0%	3.4%	6.4%
<b>Shares Out.</b>	1140	1101	1061	1014	1126	1301	1311	1322	1319	1290
<b>Revenue/Share</b>	119.22	136.14	164.55	180.46	186.38	196.76	204.49	219.80	243.74	277.35
<b>FCF/Share</b>	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.

### Disclaimer

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