

CVS Health Corporation (CVS)

March 10, 2023

HealthCare – HealthCare Services

Stock Rating

BUY

Investment Thesis

CVS is a diverse health solution company that offers insurance plans, drugs distribution as well as pharmacy benefits managing services. The valuation model suggests a target price range of \$105-\$125, which represents a 36-62% investment upside opportunity for CVS.

Drivers of Thesis

- CVS revenue decomposition is balanced and diversified in 3 business segments and it was projected that they will add roughly 2.5 million new members in total in the next 5 years, resulting in a CAGR of 3.5% in the next decade.
- CVS is expanding its business to value-based care services and has two upcoming acquisitions with SGFY and OSH. If the acquisitions closed, CVS would experience synergies and a more diverse consumer profile.
- CVS strategic review is closing down another 600 less profitable locations, improving the company's operating margin.

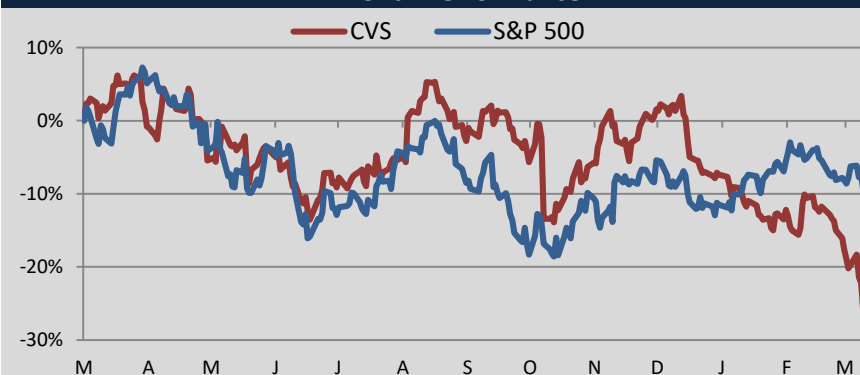
Risks to Thesis

- CVS has two pending acquisitions: Signify Health's deal is currently getting a second request from the Department of Justice while the one with Oak Street Health is expected to be challenged by the department as well.
- CVS recently received a reduction in CMS star rating which is projected to decrease \$10 billion bonus payment from the government.
- CVS's contract with Centene is ending in 2024 and CNC decided not to resign their \$35 billion worth of Pharmacy Benefit Management deal with CVS. This is expected to result in another \$10 billion loss of revenue in 2024.

Earnings Estimates

Year	2020	2021	2022	2023E	2024E	2025E
EPS	\$5.49	\$6.00	\$3.16	\$7.83	\$7.81	\$8.73
HF est.				\$4.78	\$6.03	\$6.56
Growth	7.65%	9.29%	-47.33%	148%	0.00%	11.78%

12 Month Performance



Target Price

\$105 – 125

Henry Fund DCF	\$146
Henry Fund DDM	\$85
Relative Multiple	\$126

Price Data

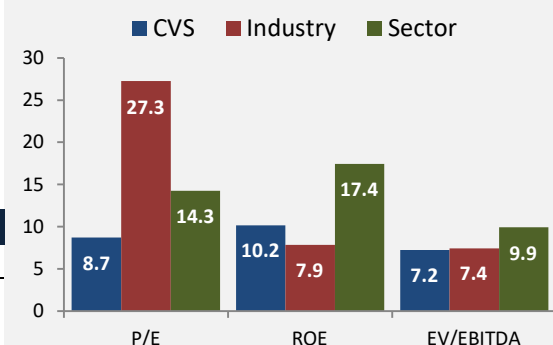
Current Price	\$77.10
52wk Range	\$76.66 – 109.69
Consensus 1yr Target	\$95 – 143

Key Statistics

Market Cap (B)	\$98.9
Shares Outstanding (M)	\$1284
Institutional Ownership	82%
Beta	0.82
Dividend Yield	34.9%
Est. 5yr Growth	22.4%
Price/Earnings (TTM)	8.7
Price/Earnings (FY1)	10.7
Price/Sales (TTM)	0.4
Price/Book (MRQ)	1.7

Profitability

Operating Margin	5.1%
Profit Margin	2.4%
Return on Assets (TTM)	1.8%
Return on Equity (TTM)	5.8%

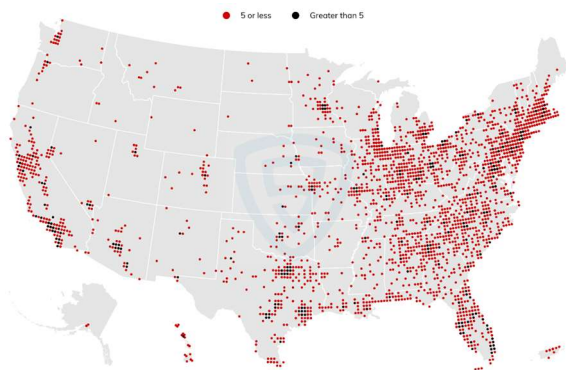


Company Description

CVS Health Corporation is a diversified health solutions company that operates in four business segments: healthcare benefits, pharmacy services, retail/long-term care, and corporate/other. At the end of 2022, CVS has more than 9,500 retail locations and more than 1,100 walk-in medical clinics, is a leading pharmacy benefits manager (PBM) with over 110 million plan members with expanding specialty pharmacy solutions. [25] Since 2018, it also provides about 35 million people with traditional, voluntary, and consumer-directed health insurance products and related services.

COMPANY DESCRIPTION

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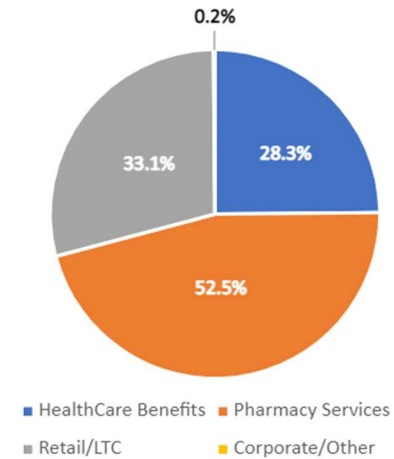


Source: Scrape Hero

Business Segments

CVS has three main business segments, the Healthcare Benefit segment acts as an insurance plans provider, the Pharmacy Service segment acts as a pharmacy benefit manager and the Retail/LTC segment acts as a prescribed drugs supplier. The corporate segment deals with the companies' financials and does not really have any cash flows. In 2022, the pharmacy service segment generated more than half of CVS' revenue.

CVS 2022 Revenue Decomposition



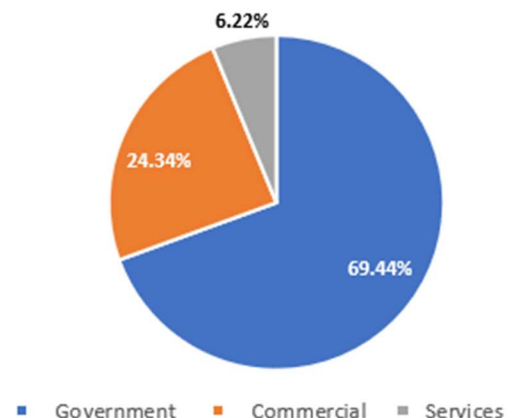
Source: CVS 10-K

HealthCare Benefits

The healthcare benefit segment contributed 28% of CVS 2022 total revenue with 35 million members enrolling in its plans.^[25] This is the segment that experienced the highest growth rate in 2022. It operates as a healthcare benefits provider and offers a broad range of insurance plans and health information technology products and services to its consumers. The segment can be broken into 3 types of memberships:

1. Commercial
2. Medicare Advantage & Supplement
3. Medicaid

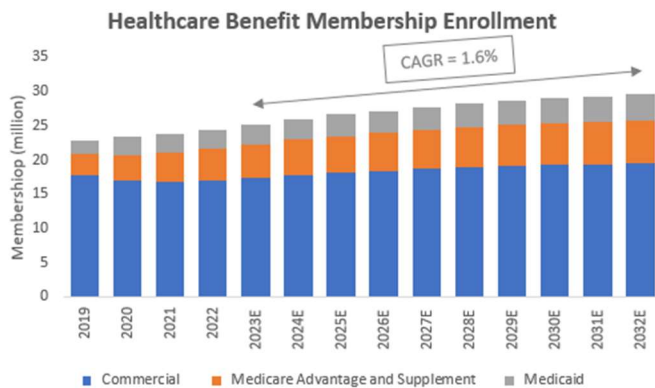
2022 Healthcare Benefit Revenue Distribution



Source: CVS 10-K

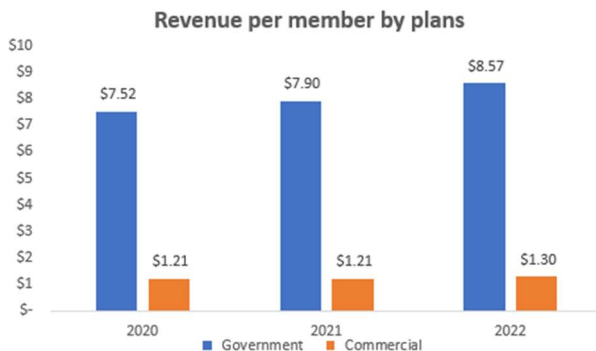
Ever since acquiring Aetna in 2018 and entering the managed healthcare industry, CVS has been getting more

individuals under their membership enrollment, with most of the members belonging to their commercial business. [25] As CVS announced the acquisitions of Signify Health and Oak Street Health that are expected to close by the end of 2023, CVS is expected to experience greater growth in the government business in the next two years. [25] The estimated CAGR for the healthcare benefit membership enrollment is 1.6% annually, projecting CVS to grow approximately 80% from their current enrollment by 2032.



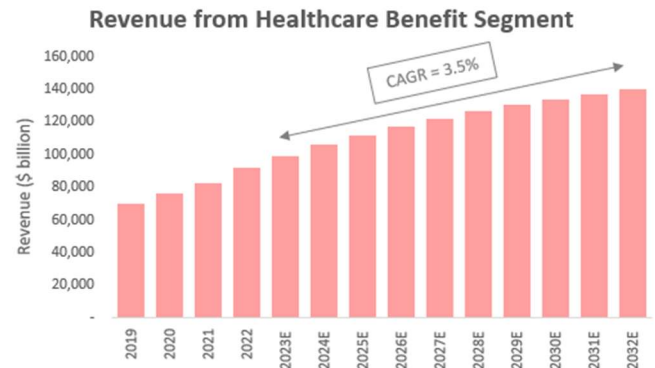
Source: CVS 10-K and Henry Fund Model

Within the healthcare benefit segment, the price per membership between commercial and government segments varies greatly. Commercial plans brought approximately \$1,300 in revenue per member in 2022, while the government plans are bringing an average of \$8,570 in revenue per member in 2022. [25] This is due to the competitive nature of private commercial plans within the industry and would require companies to drive the price of the commercial plans down while providers are collecting standard and stable payouts from the U.S. government per member per year for Medicare and Medicaid enrollment.



Sources: CVS 10-K

On April 2022, the U.S. Centers for Medicare & Medicaid Services (CMS) issued the final 2023 Medicare Advantage payment rates will have an increase in revenue of 5% in 2023 and a 2.27% decrease in 2024. [25] These estimations were used in projecting the revenue growth rate in the next two years, bringing a CAGR of 5.2% in the next 10 years as revenue per member is expected to grow as well as the total membership.



Source: CVS 10-K and Henry Fund model

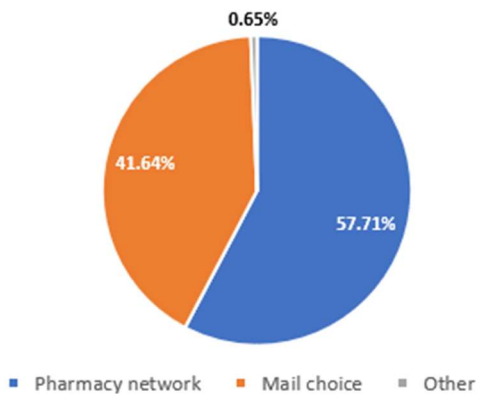
The segment is expected to continue to experience high growth and contribute approximately 35% of the total revenue to the company by 2023.

Pharmacy Services

In 2022, CVS receives 52.5% of its revenue from providing Pharmacy Services as a pharmacy benefit management (PBM). [25] It would provide services like plan design offerings, formulary management, retail pharmacy network management services, and mail-order pharmacy. [25] Other administrative and management services are also offered in this segment. The pharmacy services segment is strongly linked to the retail segment as it operates its services and optimizes its resources to provide the best possible results. The two main business streams within the pharmacy services are:

1. Pharmacy network
2. Mail choice

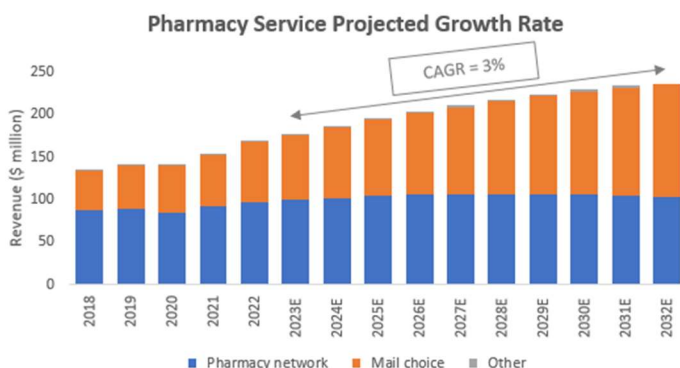
2022 Pharmacy Services Revenue Distribution



Source: CVS 10-K

CVS has three ways of distributing prescription drugs: specialty mail-order pharmacies, mail-order dispensing, or pharmacies within its retail network.^[25] While the pharmacy network contributes most of the revenue generated within the segment, mail choice has been steadily getting a larger portion of revenue each year, indicating that more customers are adapting to this more convenient type of service offered by CVS. In 2022, it filled or managed 2.3 billion prescriptions, and remained as the largest PBM with the most prescriptions filled.^[25]

While the segment has been experiencing higher growth in 2021 and 2022, Henry Fund projects that the growth is largely driven by COVID-19 and elevating the pharmacy claims volume these two years. For the future revenue projection, the growth rate was estimated with the segment's performance pre-pandemic and arriving at a CAGR of 3% in the next 10 years.



Source: Henry Fund model

Pharmacy Benefit Management (PBM)

PBM is a third-party administrator of a prescription drug program that is responsible for processing and paying

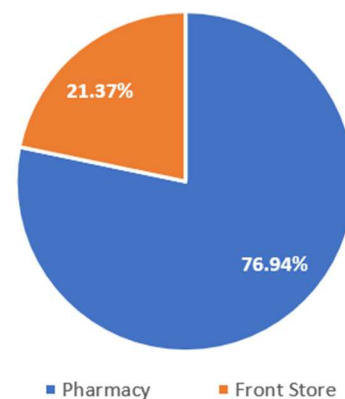
prescription drug claims. They will be able to negotiate discounts and rebates with drug manufacturers, contract with pharmacies, and develop and maintain drug formularies.^[15] The segment provides streamlined services that help in enhancing prescription processes while reducing costs.^[25] CVS is actively investing in the latest analytical technology to create more effective artificial intelligence that could assist in delivering insights and automating repetitive tasks to minimize the time needed to perform certain tasks.

Retail/Long-Term Care

The retail and long-term care segment accounted for 33% of the total revenue and it receives revenue by selling prescription drugs and other merchandise.^[25] CVS offers walk-in medical diagnostic testing, pharmacy consulting, and prescription drug distribution through MinuteClinic.^[25] The segment is divided into two lines of business, other than the pharmacy services provided, the front store includes the sales of mixed merchandise that matches customers' needs and preferences. By the end of 2022, CVS was responsible to dispensed 26.8% of the total retail pharmacy prescriptions in the U.S., making them the market leader in the space.

1. Pharmacy
2. Front Store

2022 Retail/LTC Revenue Distribution



Source: CVS 10-K

The company currently has more than 9,500 retail locations around the U.S. and announced in 2021 that it has completed a strategic review for the business and decided to close about 900 retail stores by 2024.^[25] Currently, CVS has closed 300 stores and announcing more

locations for closure in the next few years. The reduction in store location is expected to increase the operating margin for the company as the strategic review included evaluating locations according to the needs of the population in the area; therefore, stores with lower utilization are either closed down or will move to another location.

The reduction in store location is accounted for in the future revenue forecast as the segment revenue was projected using an average revenue per store and the total number of stores it has by the end of the year. Same as pharmacy services, the retail/LTC segment experienced a higher growth in revenue due to COVID-19 in 2021 and 2022; the Henry Fund has adjusted the revenue growth to be slower in 2023, but the segment will still be expected to grow as the US population is aging and would require more prescriptive drugs in the future.

MinuteClinic

There are more than 1,100 locations with MinuteClinic and they are staffed by nurse practitioners and physician assistants who could provide healthcare services.^[25] It also offers virtual services to connect customers to licensed providers remotely.^[25] While virtual services are becoming more common, shoppers commented that they felt safer visiting drugstores and pharmacies in person, making the MinuteClinic that offered the service to have a competitive advantage.^[1]

Corporate/Other

The corporate segment manages the management and administrative expenses to support the company's overall operations. It contributes 0.2% of the total revenue as they do not have any customers but helps in managing CVS's internal finance.

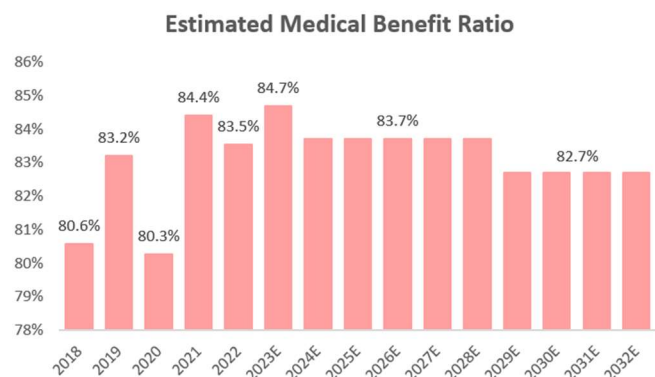
Cost Structure Analysis

Medical Benefit Ratio

For managed healthcare companies, the medical benefit ratio (MBR) is an important metric that shareholders look at. It is calculated by dividing the total medical expense paid by an insurer by the total insurance premium they collected^[19]. While a lower ratio indicates that the insurer has higher profit, the Affordable Care Act requires companies to spend at least 80% of the premium money to improve the quality of the individual and small group

markets and 85% on large group markets^[17]. If the company failed to meet the limit, the provider would need to provide a rebate to its customers. At the same time, a company would have to manage its cost if the MCR went above 85%, and shareholders would be unhappy about a company's cost management.

In the latest 10-K, CVS announced they have improved their MBR to 84% in 2022 and announced in their earning call that they are anticipating their 2023's MBR to be 84.7% +/- 50bps.^[25] The guidance was used in the cost projection in 2023 and the average MBR in the next 10 years would be 83.4%, which is within the range of the historical MBR.



Source: CVS 10-K, Henry Fund model

Additional Company Analysis

CMS Star Rating

CMS uses a 5-star rating to monitor Medicare healthcare and drug plan to ensure healthcare providers meet CMS' quality standards. The star rating is essential for Medicare beneficiaries to compare the overall quality of care and level of customer services each company provided within the Medicare healthcare and drug plans.^[9] Companies that received a 4 or higher rating will be qualified for Medicare Advantage plan's reimbursement bonus payments. CVS has been maintaining a 4-star rating for more than a decade and 4.5 stars in the payment year 2023; the rating allowed them to receive \$1.2 billion in bonus payments from CMS.^[25]

However, Aetna was given a 3.5-star rating for payment year 2024, making CVS not eligible for the quality bonus payment for 2024, which estimates to decrease at least \$1 billion in revenue from the healthcare benefit segment.^[25] This lack of bonus payment will be effective in 2024 so the

valuation model forecasted a \$1 billion reduction in 2023's revenue for the healthcare benefit segment and did not project any eligibility for the bonus payment in the future years since CMS mentioned that they would increase the 4-star benchmark and make it harder for companies to earn the star back. Overall, CMS gave 68% of Medicare providers a 4-or-more-stars rating in payment year 2023 but reduced to 51% in payment year 2024. ^[5] Within the peer group, two other companies, UNH and CNC, have a decrease in rating as well while CI and HUM have an increase in 0.5 star and ELV maintained its 4.0 stars rating in the payment year 2024.

	Payment Year		YOY Change
	2023	2024	
UNH	5.0	4.5	-0.5
ELV	4.0	4.0	0.0
CVS	4.5	3.5	-1.0
CI	4.5	5.0	0.5
HUM	4.0	4.5	0.5
CNC	4.5	3.0	-1.5

Source: CMS.gov

The management commented that they will be taking steps to mitigate the financial impacts that this would cause to the company, including share repurchase for up to \$10 billion in the next few years to maintain their dividend payout; however, it is believed that CMS will be revising the star rating system and make it tougher for providers to maintain their 4-stars rating. ^[25] CVS 10-K mentioned that the company could not assure that it would be eligible for the reimbursement bonus payments for the following year, and the negative news could adversely affect the profit margins and future membership enrollment. ^[25]

Debt Maturity Analysis

CVS currently has \$52 billion of fixed coupon notes and bonds outstanding and the required repayment of the debt principal due by 2023 is \$1.71 billion. ^[25] CVS has strong cash flow and a huge sum of cash on hand to manage its financials, so the Henry Fund is not particularly concerned about its ability to meet its debt obligations. Furthermore, it has a BBB rating from Standard & Poor's and a Baa2 from Moody. ^[2] However, CVS has a history of retiring debt earlier as they have losses on extinguishment of debt in 2019-2021. In December 2021, the company redeemed for cash for their 3.7% senior notes due in 2023,

making it to have a total loss on early extinguishment of debt of \$89 million that year. ^[25] While this helped to improve the capital structure, it is worth noting that CVS recorded a loss of \$452 million in 2021 for these actions, making the Henry Fund believes that it will continue to perform these actions moving forward. Below is CVS's five-year debt maturity schedule.

Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment (\$mil)
2023	3.40	\$1,714
2024	3.63	2,699
2025	4.00	3,778
2026	2.94	2,500
2027	3.73	3,372
Thereafter	4.35	38,690
Total	4.06	\$52,753

Source: CVS 10-K

ESG Analysis

CVS is launching its ESG strategy – *Healthy 2030* which would focus on achieving economic, environmental, and social imperatives and outlines how it could help to shape a more equitable and sustainable future for the people. ^[25] The four pillars of the programs include: *health people* that provide convenient and personalized access to healthcare support and services, *healthy business* that promises to act responsibly with respect to human rights, privacy, and public policy, *healthy community* that invests in charitable resources to reduce health disparities and *healthy planet* that makes progress to reduce environmental impacts across operational and supply chain. ^[25]

Currently, as CVS is also operating as a pharmacy retail company, it has the second highest ESG risk rating as compared to its peers in managed healthcare.

	ESG Risk Rating	Ranking (out of 607)
CVS	22	178
UNH	15.3	29
ELV	11.4	4
CI	14.2	16
HUM	22.7	204
CNC	20.6	135

Source: Sustain Analytics

RECENT DEVELOPMENTS

Recent Earnings Announcement

On February 8th, 2023, CVS announced its earnings for Q4 and FY2023. The total revenue increased by 10.4% compared to 2022 and reported an adjusted EPS of \$8.69. ^[25] Moving on to 2023, the management reported that they are forecasting an adjusted EPS of \$8.59 - \$9.49 and this is a lot more bullish as compared to Henry Fund's projection of \$4.78. ^[25] The Henry Fund uses the diluted GAAP EPS for the projection, so it shows a different story as compared to the adjusted EPS. 2023's forecasted adjusted EPS of \$4.78 is 51% higher than 2022's reported adjusted EPS of \$3.16. The management also announced a 10% increase in dividends after paying a standard dividend per share of \$2.00 since 2017. ^[25]

The reasoning behind the low estimated EPS is due to the increase in benefit cost that would make the operating profit for the next fiscal year to be lower. Moreover, while COVID-19 is a global health emergency that no one would be able to accurately project its outbreak, Henry Fund believes that the panic caused by COVID-19 has been greatly subsidized in the last 3 years; therefore, CVS would expect slower growth than the last two fiscal years as the public do not require as much test-kits or medications needed for the virus. Furthermore, the management commented that the increase in revenue was partially driven by the improved purchasing economics, which the Henry Fund expects the economy to slow down in the next 12 months, making the expectation for the revenue to grow at a low single-digit rate. ^[25]

Starting from 2024, the Healthcare Benefit segment would expect a lower revenue as CVS would not be eligible for at least a \$1 billion bonus payment due to the reduction in star rating. At the same time, the Pharmacy Service segment also has a contract worth \$35 million expiring by the end of 2023. ^[28] It was reported that Centene, a competitor who has a pharmacy benefit contract with CVS decided not to renew the contract but switch its contract to Express Scripts which is under Cigna starting in 2024. ^[28] This is expected to reduce about \$1 billion in revenue or CVS from the Pharmacy Service segment. CVS commented that it would take any initiatives to mitigate the financial impacts from these two headwinds with its \$10 billion share repurchase program that is already approved by the board. ^[25]

Upcoming Acquisitions

CVS is the market leader in the retail pharmacy industry with the highest market capitalization and has been expanding its presence in the managed healthcare space after acquiring Aetna in 2018. Currently, the healthcare benefits segment is generating 28% of CVS' 2022 product revenue. The segment is estimated to continue experiencing high growth in the next few years, especially after CVS closes its acquisitions with Oak Street Health and Signify Health in 2023. ^[25] As both target companies entered into a definitive agreement with CVS, the risk associated with the potential failure of the acquisition is the issuance of a second request by the Department of Justice.

Proposed Oak Street Health Acquisition

On February 8, 2023, CVS announced that they have entered into a definitive agreement to acquire Oak Street Health (OSH) in 2023 with an all-cash transaction at \$39 per share, making the enterprise value to be approximately \$10.6 billion. ^[25] Oak Street Health is a network of value-based primary care centers for adults on Medicare that offers services like comprehensive preventive care and education. ^[32] OSH operates more than 160 centers in 21 states and is expected to provide more than 200,000 customers to CVS. ^[32] While OSH is still facing net losses since its IPO, it is projected in the next 3 years that OSH will expand to having more than 300 centers around the U.S. and contribute more than \$2 billion of adjusted EBITDA to CVS. ^[25] Since it is vertical integration, CVS is also expected to enjoy more than \$500 million in synergies over time and enhance its operating income growth. ^[25]

Pending Signify Health Acquisition

On September 2, 2022, after bidding against competitors like Amazon Health and United Healthcare, CVS entered into a definitive agreement to acquire Signify Health with an all-cash transaction at \$30.50 per share, making the total value of the transaction to be approximately \$8 billion. ^[25] Signify Health is a healthcare service platform that leverages advanced analytics and technology to create value-based payment programs. ^[31] This acquisition would allow CVS to move into home health services and improves its standing in the industry. ^[25]

The deal is still pending as the U.S. Department of Justice requested additional information to review if it has violated the Hart-Scott-Rodino Antitrust Improvements Act of 1976. While the DOJ made the second request, CVS commented that the transaction is still expected to close in the second quarter of 2023.^[25]

In the revenue forecast, both deals were priced in to represent the potential growth from the acquisitions. Henry Fund projected that CVS will be benefiting from the vertical integration, making the costs and claims payable that the company has to pay back to the consumers to eventually reduce in the future.

INDUSTRY TRENDS

Value-Based Care

Value-Based Care (VBC) is a form of reimbursement that ties payments for care delivery to the quality of care provided and rewards providers for both efficiency and effectiveness.^[11] In this model, primary care is commonly delivered in patient-centered medical home (PCMH), an organization that builds a relationship-focused health service for individual patients. The patients would be able to receive services that were planned based on their preferences, values, unique needs, and pace.^[11] PCMH encourages patients to work closely with their providers to ensure the care is more comprehensive, coordinated, and consistent; which should result in more streamlined and appropriate care for the patients. Currently, the industry is starting to see a shift from the traditional Fees-For-Service model (FFS) to VBC model to encourage incentive care quality over the number of patients served. In the long term, VBC is expected to decrease healthcare spending, benefiting both providers and patients.

Both OSH and SGFY focus their business on value-based care, and if both transactions managed to close by the end of 2023, CVS could experience a reduction in healthcare costs and improve their medical benefit ratio. Other than CVS, the completion of LHC acquisition by UNH allowed the company to offer value-based care services. HUM, CI, CNC, also offer some sort of value-based care and we could see companies implementing the transitions.

Merger and Acquisitions

A government-concerned healthcare trend is that large-cap companies are actively searching for merger and

acquisition deals for vertical integration, which could help the companies to reduce operating costs with synergies and this led to the current market where the large health care companies compromise for more than half of the market share, making new entrants extremely challenging, if not impossible for small companies.

While CVS is having two upcoming acquisitions that would strengthen its position as a healthcare benefits provider, especially in the government plans and long-term value-based care services, its competitors are also using the same tactic to grow their business. Recently, DOJ has been paying close attention to merger and acquisition activities within the healthcare industry as they do not want any company to go against the anti-trust law and create unfair competition or oligopoly in the U.S. healthcare industry.

Optum (UNH) acquiring LHC Group

Optum is a subsidiary of UnitedHealth Group, and it closed a strategic acquisition with LHC Group for \$5.3 billion in cash on February 22, 2023.^[2] LHC focuses on value-based healthcare for patients with in-home services and long-term acute care.^[2]

With the acquisition, Optum, or the parent company UNH captured a company that provided more than 12 million in-home services each year.^[33] As one of the largest home health companies, the completion of the acquisition means UNH would be able to offer primary care services in the future. According to a survey completed by McKinsey & Co., they see “about \$265 billion worth of health care services for older adults could shift from facilities to the home over the next three years,” and that represents a huge opportunity for UNH to strengthen their position as Medicare plan providers as the offering of long-term care would be crucial for the elderly.^[35]

Amazon acquiring 1Life Healthcare, Inc (One Medical)

Amazon completed an acquisition with \$3.7 billion of cash with 1Life Healthcare on February 22, 2023.^[2] One Medical is a members-only technology platform that offers concierge medical services. It focuses on providing primary care to enterprise and at-risk members. Upon completing the acquisition, Amazon Care has services in 188 clinics and offers 24/7 virtual health visits.^[2]

While Amazon still has a long way to grow as a reliable healthcare provider, it is actively stepping into the industry and this acquisition rapidly expands the services that

Amazon Care could offer to its members. The telehealth approach could potentially disrupt the traditional retail pharmacy market share as being able to get diagnosed and prescribed virtually would make getting services a lot more convenient. ^[23]

Walmart partnership with UNH

On September 7, 2022, the giant retailer Walmart and the largest healthcare company, UNH announced that they would enter into a 10-year collaboration to offer high-quality and affordable health services. ^[33] The collaboration will start in 2023 with 15 Walmart Health locations expanding into new states over time and starting to serve Medicare beneficiaries in value-based arrangements with the assistance of Optum. ^[33] Optum would be providing analytic and decision support tools to deliver the services. Starting in January 2023, the companies would introduce a co-branded Medicare Advantage plan, as well as Walmart Health Virtual Care for commercial members in UNH's PPO plan. ^[27]

Walmart Health started its first center in 2019 and has been trying to expand services to more geographical locations and service types. ^[27] By entering into a partnership with UNH, it would make Walmart Health's name to be more trustable for consumers, and having members from UNH experience its services, would help them to break into the industry more rapidly.

Moving on, Henry Fund could expect to see more mergers and acquisitions, and collaboration agreements between healthcare companies as they are expanding their business segments and eliminating costs. As CVS just lost a \$35 billion worth of PBM deal with CNC, it should continue to search for new partners, as well as bid for attractive contracts.

MARKETS AND COMPETITION

CVS has a significant presence in both the Pharmacy Retail and Managed Healthcare spaces. This report will focus on both industries and analyze CVS' competitive standing in respective areas.

Managed HealthCare

The Managed Healthcare sub-industry captures more than 23.4% of the profit share of the entire Healthcare industry with a relatively low EBITDA margin ^[19]. This is due to the United States of America's unique healthcare structure

that strongly encourages the population to purchase insurance plans to protect them from high medical costs.

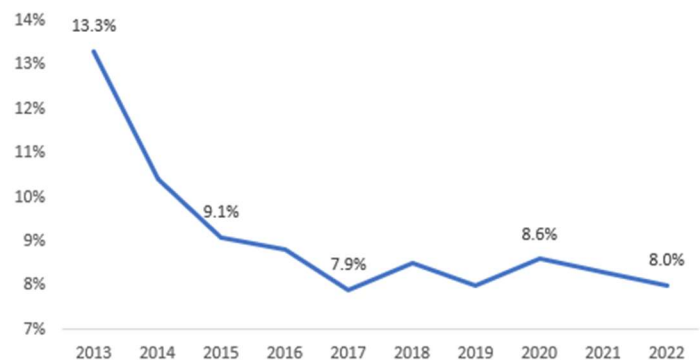
PROFIT SHARE MAP OF THE HEALTH CARE SECTOR*
(5-year average)



Sources: Net Advantage

As of 2022, it is estimated that 300.8 million people in the U.S. has some form of health insurance plan and the uninsured population dropped to 26.4 million people, which is about 8% of the population, making the uninsured rate recover back to the pre-pandemic level. ^[1]

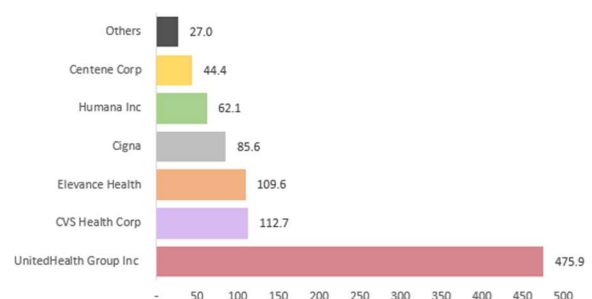
Uninsured Population from 2013 - 2022



Sources: statista

While the industry has a low threat of new entrants, the industry is competitive among its big players; 6 companies contributed 97% of the market capitalization in the managed healthcare sub-industry ^[1].

Managed Health Care:
Market Capitalization Breakdown (\$ Billion)



Sources: FactSet

As mentioned above, more than 20% of the profit share in the Healthcare industry comes from Managed Healthcare; thus, if we estimated the unemployment rate to maintain at a low rate in the future and with more people get enrolled in the plans, the managed healthcare sub-industry would continue to experience its slow but steady growth.

Below is a table that summarizes the top six players within the managed healthcare sub-industry. At first sight, UNH is the largest company in the space and has the best financial performance among its peers. CVS generated the second most revenue in 2022 and that is mainly driven by its pharmacy benefit management services as only 28% of CVS' revenue was generated with insurance plans, which caused CVS' net income to be lower than UNH since they have higher cost for its other services.

Company Name	Ticker	Market cap	2022	
			Revenue	Net Income
UnitedHealth Group Inc	UNH	444.0	324.16	20.64
CVS Health Corp	CVS	112.0	322.47	4.17
Elevance Health	ELV	114.3	156.60	6.02
Centene Corp	CNC	40.2	144.55	1.20
Humana Inc	HUM	61.6	83.06	2.93
Cigna	CI	88.2	180.52	6.75

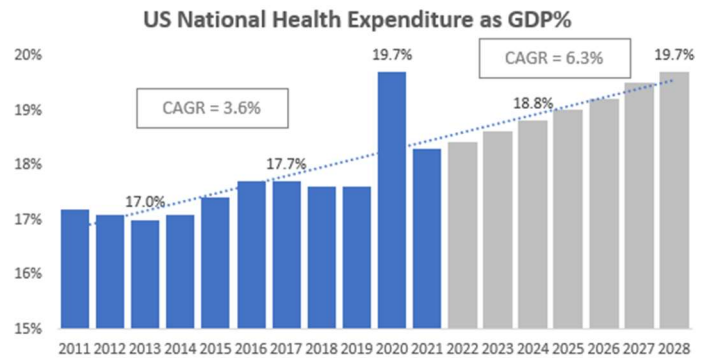
Sources: Companies 10-K

Although CVS is not the best-positioned managed healthcare company, it has a lot of opportunities for growth as the industry as a whole is still expanding with the aging population and strong labor market.

National Healthcare Expenditure (NHE)

Historically, GDP growth and managed care market have a positive relationship, as more percentage of GDP has been spent on US national health expenditure every year. By 2028, economists expect 19.7% of the US GDP, or approximately \$6.2 trillion will be spent on national health expenditure; an amount that is higher than any country in the world ^[1].

While the U.S. GDP is expected to decrease, it is unlikely that the NHE would decrease along with the GDP since the services would still be demanded, and when there is a political environment that the government has to take care of. Therefore, the Henry Fund expects the NHE to take up a higher percentage of the U.S. GDP when we see an economic slowdown in the future.



Sources: CMS.gov

In 2022, \$4.3 trillion was spent on national health expenditure, and up to 66% (\$2.84 trillion) was spent on Medicare, Medicaid, or Private Health Insurance ^[9]. The national healthcare expenditure has grown at a CAGR of 3.6% in the past decade and is expected to grow at a CAGR of 6.3% in the next five years. If the NHE grew as forecasted, it will be growing at a much higher rate than the projected U.S. GDP and increase the government deficit even further.

The government is still trying to find ways to fund future Medicare spending, as projections indicated that it may run out of money as soon as 2026; while it does not mean Medicare is going bankrupt but the Congress might have to fund the program using fiscal policy, which is not the best approach as it hurts the federal debt, not to mention the U.S. just hit its debt ceiling in January 2023. ^[10] On March 7, 2023, President Joe Biden proposed to impose a higher Medicare tax rate on the people who earn more than \$400,000 a year to fund the program. ^[12] While there is no further discussion about the proposal, it is estimated that less than 2% of the population would be affected by this decision, which could potentially raise additional tax revenue of \$117 billion in a decade and extend Medicare's solvency for at least another 25 years. ^[12]

Peer Comparisons

Managed HealthCare

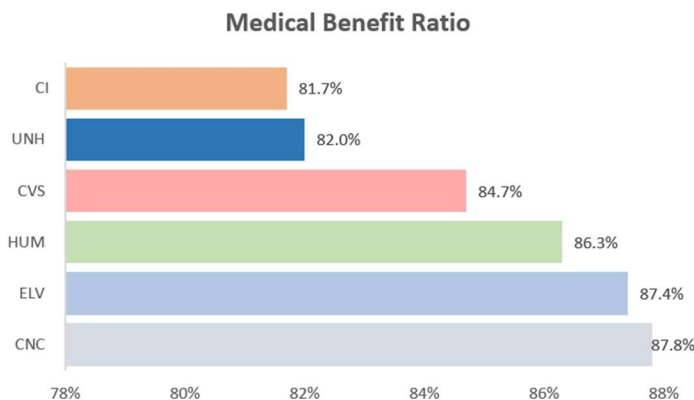
Below is a table with the operating metrics for managed healthcare companies, and it includes the MBR, a unique metric that is specifically found in this industry. From the table below, we can observe that UNH is currently the

leading company with a market cap that is way above its peers as well as the highest membership enrollment and operational margin.

	Market Cap	P/E (NTM)	Medical Benefit Ratio	Operational margin	Enrollment (membership)
UNH	452.9	18.8	82.0%	8.8%	50,630
ELV	113.2	14.0	87.4%	5.5%	45,374
CVS	106.0	9.2	84.7%	5.1%	23,848
CI	86.6	11.3	81.7%	4.5%	18,004
HUM	62.9	17.4	86.3%	4.5%	22,361
CNC	38.5	10.6	87.8%	2.7%	26,611

Source: FactSet

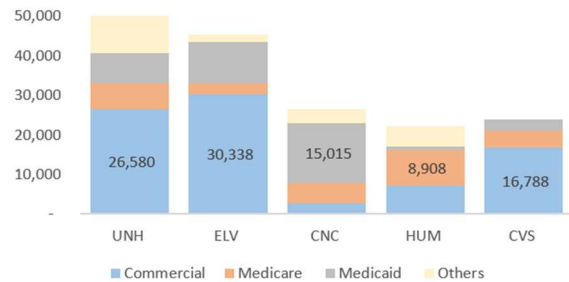
One important metric in the managed healthcare industry is the medical cost ratio, which is calculated by dividing the total medical expense paid by an insurer by the total insurance premium they collected ^[19]. While a lower ratio indicates that the insurer has higher profit, the Affordable Care Act requires companies to spend at least 80% of the premium money to improve the quality of the individual and small group markets and 85% on large group markets ^[17]. If the company failed to meet the limit, the provider would need to provide a rebate to its customers. At the same time, the company would have to manage its cost if the MCR went above 85%, and shareholders would be unhappy about the company's cost management.



Source: FactSet

Between the managed healthcare industry, companies like UNH and ELV focus more on the commercial business while CNC and HUM have more government-sponsored members. The metric is significant since there is a huge difference between the average revenue generated per member in the commercial and government business.

Healthcare Membership Enrollment, by Categories



Sources: Companies 10-K

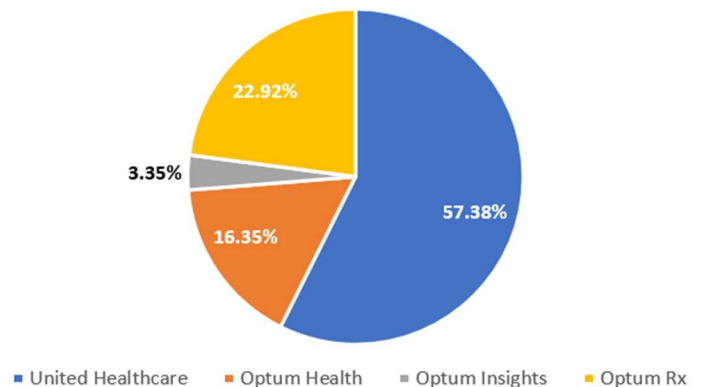
UnitedHealth Group, Inc (UNH)

UNH provides healthcare coverage and data consultancy services and has the highest market share among health insurance companies. In 2022, there are a total of 50.63 million people enrolled in their healthcare plans, giving them 12% of the managed healthcare market share ^[1]. In 2022, they see revenue of \$324.2 billion ^[33].

Currently, UNH operates in 4 different segments: UnitedHealthcare, Optum Health, Optum Insight and Optum Rx ^[33]. Most UNH operations are still performed under UnitedHealthcare, but they are also subject to extensive government regulation since they are the largest managed healthcare company in the US. They offer different kinds of services based on their consumer profile:

- (1) UNH Employer & Individual
- (2) UNH Medicare & Retirement
- (3) UNH Community & State
- (4) UNH Global

2022 UNH Revenue Decomposition



Source: UNH 10-K

As CVS is a leading pharmacy benefit manager and a rising benefit provider, UNH is one of its biggest competitors, not only because it is the largest insurance provider in the U.S., but also provides services as a PBM and patient-centered care, the services that CVS is providing for its patients. Currently, UNH has a better MBR, indicating that it has better control over its benefit cost compared to CVS. While UNH received a decrease of 0.5 star in its CMS rating, it kept the company above the 4-star benchmark and is eligible for bonus payment in 2024.

The management outlook for UNH is positive and it is projecting a 9% Medicare Advantage enrollees growth and revenue of \$360 billion in 2023.^[33] The estimated EPS is within \$24.20 - 24.90 per share for the next fiscal year, up from the latest \$21.47 per share.^[33]

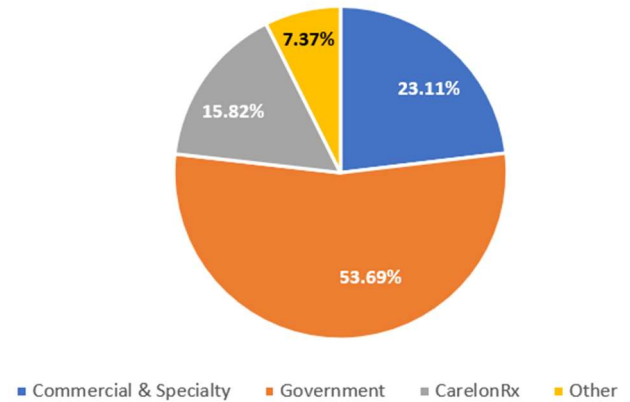
Elevance Health/Anthem (ELV)

ELV changed its name from Anthem to Elevance Health in June 2022 and it is under independent licensee of the Blue Cross and Blue Shield Association and is the second largest healthcare provider after UNH with a total membership of 45.37 billion people^[30]. While UNH is currently the market leader in the managed healthcare industry with the most members, ELV would be able to acquire independently operated BCBS into its publicly traded company, ELV^[30]. In 2022, ELV has a revenue of \$155.7 billion^[30].

ELV has relatively fewer members in the government plans as compared to UNH, making most of their memberships come from their commercial business. The company operates in 4 business segments:

- (1) Commercial: risk-based
- (2) Commercial: fee-based
- (3) Government
- (4) IngenioRx

2022 ELV Revenue Decomposition



Source: ELV 10-K

IngenioRx is also responsible for ELV's Pharmacy Benefit Management administrative function, and they entered into a 5-year agreement with CaremarkPCS Health.

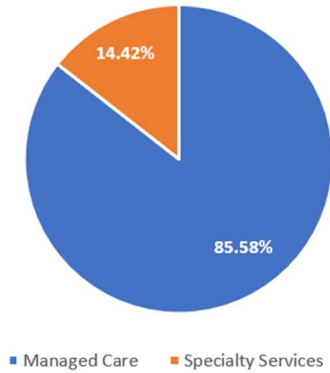
The management outlook for ELV is rather neutral on the membership growth as it estimates that the growth in fee-based membership would get offset by the potential risk-based membership decline.^[30] However, it gave an EPS guidance of \$32.60, which represents a 12% YOY growth that would be driven by reduction in the expense ratio.

Centene Corporation (CNC)

CNC offers healthcare plans but its business model focuses more on underinsured and uninsured individuals. Therefore, we can observe that 76% of their membership enrollment belongs to Medicare or Medicaid, a percentage that is more than twice higher than the industry average^[28]. Most of CNC's revenues come from state governments, so they receive a fixed premium per member per month, making its revenue stream steadier than its competitors. In 2022, it has a revenue of \$144.5 billion^[28]. CNC only has two operating segments in 2022.

- (1) Managed care
 - Medicare & Medicaid
 - Medicare Prescription Drug Plan
 - Commercial
- (2) Group and Specialty Services
 - Envolve
 - Healthcare Enterprises

2022 CNC Revenue Decomposition



Source: CNC 10-K

CNC's business strategy is to expertise in the government-sponsored programs, making CNC a competitor as CVS is trying to gain more government-sponsored members into its enrollment.

As a company, other than relatively having more members in the government-sponsored plans, Henry Fund does not see CNC being a more direct competitor with CVS as most of its revenue was generated with premium costs. Among its peers, CNC is in a more unfavorable position as a managed healthcare company since it does not only have the least CMS star, the highest MBR, but also the lowest operating margin with the least market cap.

Similarly to CVS, CNC faced a 1.5 stars reduction in the CMS rating, and this caused CNC to be badly impacted by the absence of the bonus payment in 2024.^[28] Among its peers, CNC is the only company that falls below the 4-star benchmark along with CVS. Moving on, CNC is expected to see a 5% reduction in revenue in 2023 but an increase in EPS to \$6.25 - \$6.40 due to an improving operating efficiency.^[28]

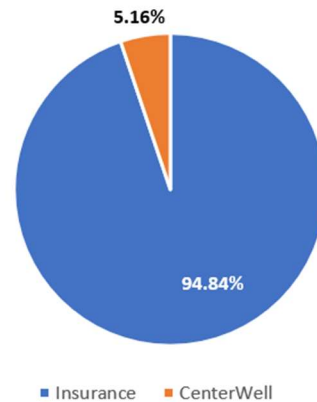
Humana, Inc (HUM)

Unlike other companies like UNH and ELV which provide other types of health services, 89.2% of HUM's revenue comes from their insurance premium ^[29]. A significant amount of HUM's revenue comes from Medicare as they offer services like health assessments and clinical guidance programs to ensure the plans would be more cost-effective for the elderly. HUM entered a contract with CMS to provide the insurance plans in exchange for a fixed

payment per member per month.^[29] In 2022, they found a revenue of \$92.9 billion.^[29] HUM restructured its business segments in 2022 and it currently operates in the following segments:

- (1) Retail
 - Medicare & Medicaid
- (2) Specialty
 - Fully insured commercial group
 - ASO
 - Military Services

2022 HUM Revenue Decomposition



Source: HUM 10-K

Pharmacy Retail

The Pharmacy Retail sub-industry is a \$330 billion revenue business and is mainly dominated by two companies in the U.S., CVS and WBA contributed to more than 65% of the entire market share of the sub-industry, with WMT gaining a small 2.2% market share by introducing the services just 4 years ago.^[4] While companies like Rite Aid, Walmart, Costco are expanding its drug stores operation, it is no doubt that CVS and WBA are the two sole market leaders in the space.^[4] The table below shows the operating metrics for the three companies mentioned. WMT is included in the peer comparison as it is considered as a rapidly growing retail store that is trying to get into the healthcare space, especially since it managed to bring \$42 billion of revenue in 2022.^[27]

	Market Cap	P/E (NTM)	Operational margin	Net Dollar / Prescription	# of Store Location
CVS	106	8.66	5.1	65.54	9674
WBA	28.91	7.12	1.4	133.09	8901
WMT	373.11	22.15	3.3	N/A	30

Source: FactSet

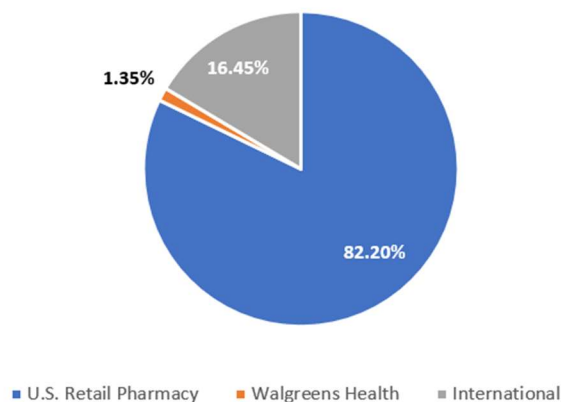
While WBA has a similar market share and number of stores around the U.S. as compared to CVS. It is worth noticing that the net dollar/prescription from WBA is more than twice of what CVS had in 2022.^[34] At the same time, as WBA does not a PBM within the company like CVS, it does not benefit from the negotiations and have a much lower operational margin as compared to the competitor.

Similar to the managed healthcare sub-industry, pharmacy retail is also expected to continue growing over the decade as the U.S. population is aging and would require drugs and medications. According to IBISWorld, the industry is expected to increase in a CAGR of 3.7% for the next five years and reaching a \$405 billion revenue in 2027.^[4]

Walgreens Boots Alliance (WBA)

WBA engages in the provision of healthcare and pharmacy retail services. And it shares approximately 33% of the market share with CVS in the industry. In 2022, WBA sees total revenue of 132 billion, while filling more than 800 million prescriptions in a fiscal year.^[34] WBA restructured its business segments in 2022 and it currently operates in 3 segments:

2022 WBA Revenue Decomposition



Source: WBA 10-K

- U.S. Retail Pharmacy: includes the operations of retail drugstores, health and wellness services, specialty home delivery pharmacies, and other services which accounts for more than 80% of the company's revenue.
- Walgreens Health: a new segment created at the beginning 2022 to engage in technology-enabled healthcare business.

- International: compromises of the retail business outside of the U.S., in countries like Germany, UK, Thailand and Mexico. The segment is exposed to significant exchange rate risk.

As the leading pharmacy retail company, WBA is the best positioned and potentially the only competitor that CVS has in the space as they have similar locations around the U.S. and sell products and services that are highly identical to one another.

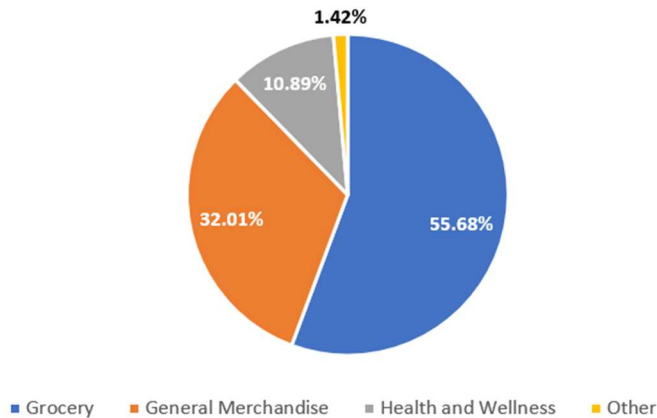
On March 8, 2023, WBA announced that it is planning to stop dispensing Mifepristone, a drug that is used in chemical abortions, to all states in the U.S., including the ones that did not have an abortion ban.^[6] This political move by the CEO is predicted to hurt its business as California Governor Gavin Newsom announced on the same day that the state is withdrawing a \$53 million specialty pharmacy prescription drug contract with WBA to show its disagreement.^[22] The financial impact of the announcement is currently still unknown as there are updates saying that some professionals and state governors are preparing legal documents to sue the company for the decision, and it is yet to know how the shareholders are reacting to the announcement. While hurting WBA, this could be an opportunity for CVS to gain a higher market share, especially if providers and state governors decided to work with CVS instead of WBA due to the dispute.

While WBA recorded an operating loss in FY2022, the company reported a positive 2023 management outlook with a 8-10-% growth in its core business and an EPS estimation of \$4.45 – 4.65.^[34]

Walmart (WMT)

WMT is a giant retail and wholesale company and it offers a variety of merchandise and services at low prices.^[27] While it currently only holds 2.2% of the pharmacy retail market share, it is expected that WMT would slowly gain more shares in the future, especially when the company is actively trying to expand the business and engage in M&A and collaboration plans with other companies within the healthcare space.^[27] In FY2022, WMT recorded a \$393 billion of revenue from its 3 business segments:

2022 WMT Revenue Decomposition



Source: WMT 10-K

- Grocery: consists of the full line of grocery items
- General merchandise: includes entertainment, hardline, apparel and home products
- Health and wellness: includes the pharmacy, over-the-counter drugs, optical services and other clinical services

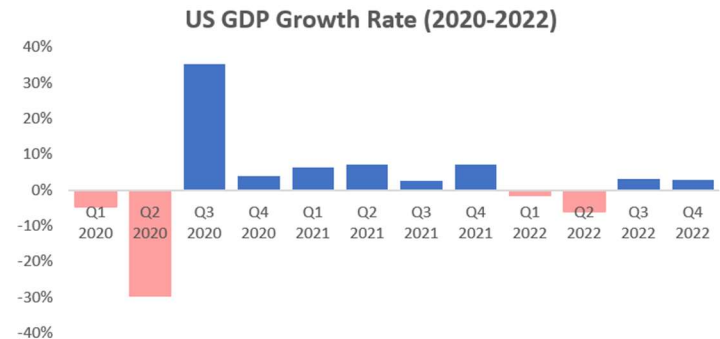
WMT is listed as a peer competitor as a result of the rapidly growing health and wellness segment that the company started in 2019. As mentioned above, WMT also entered into a partnership with UNH and it is expected to speed up the growth in a quicker pace.^[27] By the end of 2023, WMT is planned to open at least another 45 more Walmart Health Centers, which would then bring them to 75+ locations in the U.S.^[27] While the store locations it has is significantly lower than CVS and WBA, it is notable that WMT is one of the largest retail stores in the states and consumers who would like to get over-the-counter drugs could easily find them some in these locations, besides, WMT does have a shelf that sells non-prescription drugs that consumers could easily grab something when they are getting their groceries. New Walmart Health stores would focus in Dallas, Houston, Phoenix and Kansas City.^[27]

ECONOMIC OUTLOOK

GDP Forecast

Due to the reduction in consumer spending and business investment, the US economy saw a slowdown of 1.4% in the first quarter of 2022.^[21] While inflation and supply chain disruption continue to be an issue, the US economy had a negative growth rate in two consecutive quarters in

Q2 2022 with -0.9% which brought the US into a technical recession by definition.^[21] This did not last for long as the economy bounced back 3.2% in the third quarter and the advanced GDP reading for Q4 2022 is 2.9%, signaling that the economy has been performing steadily well despite the recession fears and concerns ^[21].



Sources: Trading Economics

The Henry Fund analysts projected a short-term real GDP growth of -0.33% in the following year as we estimated that there is a 54.6% chance that the US economy would fall into recession sometime in the next 6 -12 months. While it is only an economic indicator, this projection is parallel with the 47.31%, the highest level in 40 years, probability of US recession predicted by Treasury Spread in the next twelve months that was released by the New York Fed in December 2022 ^[18].

Inflation and Interest Rate Expectations

2022 has been a historically abnormal year for Consumer Price Index (CPI) as the YOY inflation rate once went as high as 9.1%, the highest rate in 40 years ^[1]. That makes the inflation data to be one of the economic data that the FED as well as the whole market is paying close attention to. According to monetary policy, the FED mentioned that they would use the Federal Reserve Fund Rate to tame inflation down to the usual 2%. While the aggressive interest rate hike managed to bring inflation down to 6.1% in December 2022, the Henry Fund in-house projection shows that the inflation rate is very likely to be sticky around the 5-6% level before going back to the low and constant inflation rate.

U.S. YoY CPI 2019 - current



Sources: Statista

This then brings the discussion of the interest rate. The current yield curve has been inverted for months, indicating that the market expects inflation to continue being high for the short term and eventually correct itself. As of February 2023, the FED Fund rate is 450-475 basis points, a relatively high rate as compared to the past few years.

As mentioned above with the inflation expectations, the terminal FED Fund rate that the market predicted and is currently being priced in is 5.1%, signaling at least one more 25bps hike, from the next FED meetings. According to the CME Group's FED Watch Tool, 70% of the analysts believe that there will be a second 25bps hike in May, making the FED Fund rate to be 500-525bps^[12]. However, observing how the FED pays high attention to the Consumer Price Index and unemployment claim data, their decision would change according to the short-term market outlook.

Unemployment Rate

Unlike most of the economic data mentioned above, the unemployment rate remained at a steadily low rate for the past months. While the economy is starting to see hiring freezes or layoffs from bigger companies, especially in technology companies, the job market is still looking solid as the unemployment rate as of January 2023 is 3.4%, the lowest rate in the past five decades^[24]. The Henry Fund analysts do not pose as many fears of job cuts as we believe that these companies had hired more employees in the past 2 years than the current layoffs. However, we

are also paying close attention to the unemployment rate as it could be used as one of the indicators for a recession warning.

In the Managed Healthcare industry, the unemployment rate is an important driver since 50.1% of the population's health insurance plans were offered by their employers^[1]. Moreover, employer-sponsored health insurance plans could cover employees' families, making the average annual premiums for employer-provided family health insurance plans in 2021 to be \$21,381^[1]. Therefore, if the economy sees an increase in the unemployment rate, the total insured population is expected to be affected as well.

VALUATION

Revenue growth

Overall, the revenue growth projection for CVS next year is going to be 3.6%, as the company is expected to be back to normal after the pandemic and fewer individuals would require medications as compared to the past two years. Eventually, in 2032, the company is expected to reach its steady growth rate of approximately 2% annually. The segment breakdown revenue could be found at the beginning of the report, along with the individual segment descriptions.

Operating expense

As a retail pharmacy that has inventories, the operating expenses are expected to be relatively constant as CVS is already a pharmacy benefit manager who can negotiate on more competitive drug pricing. At the same time, in the healthcare benefit segment, a medical benefit ratio has to be maintained at a level that is higher than 80% of the premium, for this valuation, an average MBR of 83.4% was maintained in the future projection.

Earnings estimates relative to the consensus

For the next fiscal year, the segment-wide earnings were relatively constant with the consensus, the table below shows the Henry Fund estimation as compared to the management outlook.^[25]

Management 2022 Outlook	Healthcare Benefit	Pharmacy Services	Retail/LTC	Total Revenue
Estimation	\$88.1 - \$89.6	\$162.5 - 165.3	\$99 - \$100.7	\$304 - \$309
Actual	\$91.41	\$169.23	\$106.59	\$322.47
Act vs Est	+ 2.01%	+ 2.38%	+ 5.85%	+ 4.36%

Management 2023 Outlook	Healthcare Benefit	Pharmacy Services	Retail/LTC	Total Revenue
Estimation	\$101.4 - \$102.9	\$170.2 - \$172.7	\$108.0 - \$109.7	\$322.7 - \$338.5
Actual	\$99.48	\$177.86	\$107.76	\$333.99
Act vs Est	- 1.9%	+ 3.0%	within	within

Source: CVS 10-K, Henry Fund model

While the first table shows that CVS has outperformed in all 3 segments as compared to its management outlook last year, it is notable that the global pandemic was still affecting the public in the last year, and it is expected to reduce on the impact it has on the public's daily life. That being said, Henry Fund found the projected 11% increase in healthcare benefit revenue would be challenging to achieve in 2023, making the revenue estimation by Henry Fund to be slightly below the consensus.

Capital expenditure assumptions

Capital expenditure was projected to be \$2.8 billion in 2023 as the management guidance was they are going to spend \$2.8 – 3.0 billion in expanding the business in 2023, the lower estimation was used in this case and slowly increasing to \$3 billion. The average capital expenditure that will be spent is \$2.9 billion per year. Historically, CVS did not have high growth in their PPE, so the Henry Fund is increasing the amount of spending moderately in the following years.

Capital structure forecast

According to CVS's current debt maturity schedule, it has about \$52 billion in long-term debt outstanding, resulting in debt making up almost 40% of its capital structure. While CVS is actively paying its or maturing its debt earlier, the debt ratio is expected to remain at the higher end as the majority of its debt has a maturity of 5 years or longer.

CVS also has a share repurchase program that allows them to buy up to \$10 billion worth of shares to mitigate their financial impacts in the following years. As of the end of 2022, CVS still has \$16.5 billion of authorized repurchases within its program, and the management has already spent \$2 billion in share repurchases on January 4, 2023.

Payout policy forecasts (dividends)

In the past 5 years, CVS has been paying a standard dividend of \$2.00 per share and reserving the remaining income to maintain its cash flow. At the latest earning call, it was announced that they are increasing the dividends by 10% in 2022 and it is expected that the company would continue to pay a dividend of \$2.20 per share until it finished paying off its debt obligations for the acquisitions and managing the slowing growth from the operational headwinds.

Valuation model

DCF/EP model

The target price that DCF/EP model found for CVS is \$146, which is almost 90% upside from its latest closing price. While this value is way above the current stock price, it is on par with the higher end of the target price that professional analysts made. The main driver for the high target stock price is the high CY Year ROIC calculated, which was caused by the assumption that the company is not going to invest more capital in the future. Therefore, while the target price found is almost twice the latest closing price, Henry Fund thinks that the target price is reliable and would be used as the higher end of the target price.

DDM Model

Henry Fund is relying less on the DDM model as CVS would reserve net income and pay a standard dividend per share every year. Therefore, when the company was paying the same \$2.0 dividend when they are making a loss or making \$8 billion in profit. This is the main reason why we rely less on the model as the projection was CVS paying \$2.20 dividend for the next five years before raising it 2028. While it is believe that this model is projecting a lower target price for CVS, the implied price is \$85, representing a 10% upside from the latest closing price.

Relative Valuation

As mentioned in the report, CVS is active in both the managed healthcare industry and the pharmacy retail industry and Henry Fund thought to take a 50:50 weight for the industry average to calculate the relative valuation. This is due to the concern that the two industries would have a very different industry average ratio.

Overall, the industries have a very similar P/E ratio and EV/EBITDA ratio, so taking the average of the two values did not change the valuation a lot. From the model, we can observe that the PEG Ratio for the managed healthcare space is a lot lower than the retail pharmacy space and, in this context, CVS has a more similar PEG Ratio with the managed healthcare industry. On the other hand, the managed healthcare industry has twice as high EV/Sales ratio as the retail pharmacy industry, which CVS has a closer ratio with the retail pharmacy companies. With these differences, it is believed that taking the average ratio from both industries would better position CVS as a diverse company.

The image below summarizes the implied relative value projected for CVS based on the industry average and that brings is to a target price range from \$105 - \$141, which is within the target range found in the other two models.

Implied Relative Value:

P/E (EPS23)	\$ 125.79
P/E (EPS24)	\$ 115.85
PEG (2023E)	\$ 105.02
EV/EBITDA (2023E)	\$ 114.07
EV/Sales (2023E)	\$ 140.92

While the target price of \$105 - \$125 represents a 36-62% upside from its current stock price of \$77, it is notable that CVS was trading above \$100 before December 2022, the announcement of CMS star reduction. The news may have surprised the market, but the fundamental value for CVS is still strong so the Henry Fund expects CVS's stock price to recover to its usual level within the next year. The target price range found is also within FactSet's target price of \$108.

CVS Stock Price from 03/2022 - 03/2023



Sensitivity analysis.

Beta vs Risk-Free Rate

Risk-free Rate	Beta						
	\$ 146.25	0.68	0.72	0.78	0.83	0.88	0.93
3.4%	184.01	175.56	163.93	155.10	146.95	139.41	132.40
3.5%	180.10	171.91	160.64	152.07	144.14	136.80	129.98
3.6%	176.31	168.38	157.45	149.12	141.41	134.27	127.62
3.7%	172.64	164.95	154.35	146.25	138.76	131.80	125.32
3.8%	169.09	161.63	151.33	143.46	136.17	129.39	123.07
3.9%	165.64	158.41	148.40	140.75	133.65	127.05	120.88
4.0%	162.30	155.28	145.56	138.11	131.20	124.76	118.75

The beta shows CVS's sensitivity towards systematic risk and FactSet gave a 0.83 5-year monthly beta. The risk-free rate is taken from the U.S. 10-year treasury yield as of March 10, 2023, which is 3.7%. Both values were needed to compute the WACC which would then affect the DCF calculation; therefore, the sensitivity analysis is needed to show how the DCF stock price could change over the assumptions made. One thing to note is that the U.S. treasury is currently seeing an inverted yield curve, which gives the long-term to have a lower yield than the short-term. If the market is seeing a recession and correcting the yield curve back to its usual shape, we would see the target stock price decreasing as that would increase our WACC estimation.

Equity Risk Premium vs Pre-tax Cost of Debt

Pre-tax Cost of Debt	Equity Risk Premium						
	\$ 146.25	4.8%	5.0%	5.3%	5.5%	5.8%	6.0%
2.9%	191.63	182.98	174.92	167.39	160.33	153.70	147.46
3.4%	182.17	174.21	166.76	159.78	153.22	147.05	141.23
3.9%	173.51	166.15	159.25	152.76	146.65	140.89	135.44
4.4%	165.55	158.72	152.30	146.25	140.55	135.15	130.05
4.9%	158.20	151.85	145.86	140.21	134.86	129.80	125.00
5.4%	151.40	145.47	139.87	134.58	129.56	124.80	120.28
5.9%	145.09	139.55	134.30	129.32	124.60	120.12	115.85

The Equity Risk Premium used is 5.5%, an average that Henry Fund decided based on the average ERP over the decades as well as Damodaran's cash yield ERP as of March 2023. The cost of debt was taken from CVS's 10-K and it is close to the average cost of borrowing for the company.

CV Year ROIC vs CV Year NOPLAT Growth

CV growth of NOPLAT	CV Year ROIC						
	\$ 146.25	11.4%	16.4%	21.4%	26.4%	31.4%	36.4%
0.5%	112.05	113.56	114.37	114.87	115.21	115.46	115.65
1.0%	117.05	120.37	122.14	123.24	123.99	124.53	124.95
1.5%	123.12	128.63	131.57	133.39	134.64	135.54	136.23
2.0%	130.64	138.86	143.24	145.96	147.82	149.17	150.19
2.5%	140.19	151.85	158.07	161.93	164.57	166.48	167.93
3.0%	152.73	168.90	177.53	182.90	186.56	189.21	191.22
3.5%	169.91	192.28	204.21	211.63	216.69	220.36	223.14

The CY year ROIC is calculated based on the NOPLAT value in 2032E and the invested capital in 2031E. The valuation model is assuming that CVS to stop investing more capital in the future, making the ROIC increase to 26.4% in 2032E. The CV Year NOPLAT growth rate is decided to be 2.0%,

which is the average inflation rate of the U.S. economy as it is projected that CVS will be reaching a mature business in 10 years.

Operating Adjustment vs Medical Benefit Ratio

		Operating Adjustment						
Medical Benefit Ratio	\$ 146.25	-0.25%	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%
	82%	230.48	216.84	204.09	192.17	181.02	170.61	160.87
	83%	215.18	201.54	188.79	176.86	165.72	155.30	145.56
	84%	199.87	186.23	173.48	161.56	150.41	140.00	130.26
	85%	184.57	170.93	158.17	146.25	135.11	124.69	114.95
	86%	169.26	155.62	142.87	130.95	119.80	109.39	99.65
	87%	153.96	140.32	127.56	115.64	104.50	94.08	84.34
	88%	138.65	125.01	112.26	100.34	89.19	78.77	69.04

The operating adjustment is a % estimated to decrease in sales growth or improve in operating costs as the company reaches in a steadier growth rate. The model projects CVS to experience higher growth in the next few years as a result of the expansion activities but expects the rate to slow down eventually. The operating adjustment that is used currently is 0.5%. When used in items like pharmacy retail growth and mail choice pharmacy services, the number represents the decrease in sales growth. When used in accounts payable and policyholders' funds, the number represents the improved operating costs over time through synergies and vertical integrations. MBR is an important metric to look at as it affects the benefit costs that CVS is expected to pay off by the end of the year and it is announced that CVS is expecting an MBR of 84.7% in 2023; if the company managed to better manage their cost and improve the ratio, CVS could generate a different net income in the future.

HealthCare Benefit Growth Rate vs Revenue per member Growth Rate

		HealthCare Benefit Growth Rate							
		\$ 146.25	-2.5%	-2.0%	-1.5%	-1.0%	-0.5%	0.0%	0.5%
Revenue per member Growth Rate	-1.5%	119.29	126.88	135.63	145.68	157.20	170.36	185.39	
	-0.5%	119.41	127.03	135.80	145.87	157.41	170.62	185.68	
	0.5%	119.54	127.17	135.96	146.06	157.63	170.87	185.97	
	1.5%	119.67	127.32	136.13	146.25	157.85	171.12	186.26	
	2.5%	119.79	127.46	136.30	146.44	158.07	171.37	186.55	
	3.5%	119.92	127.61	136.46	146.63	158.29	171.62	186.83	
	4.0%	119.98	127.68	136.55	146.73	158.40	171.75	186.98	

As the healthcare benefit segment is expected to experience the highest growth rate in 2023, this operating metric is being used to show the eventual reduction in growth rate that the segment would experience. Currently, the assumption made is that the segment would experience a 1% reduction in growth rate starting from 2023E. At the same time, the revenue forecast from the segment is forecasted with the revenue per member growth rate too and it is estimated that CVS will be able to

growth the revenue they can receive by per member enrolled in the plan by 1.5% annually. Depending on how well CVS could continue to grow the segment and improve their revenue per member, the DCF valuation changes too.

Cost of Goods Sold vs Operating Adjustment

		COGS (less D&A)						
	\$ 146.25	81%	82%	83%	84%	85%	86%	87%
Operating Adjustment	-0.25%	317.70	273.32	228.95	184.57	140.19	95.81	51.44
	0.00%	295.88	254.23	212.58	170.93	129.28	87.63	45.97
	0.25%	275.48	236.38	197.27	158.17	119.07	79.97	40.87
	0.50%	256.40	219.69	182.97	146.25	109.53	72.82	36.10
	0.75%	238.58	204.09	169.60	135.11	100.62	66.13	31.64
	1.00%	221.92	189.51	157.10	124.69	92.28	59.87	27.46
	1.25%	206.35	175.88	145.42	114.95	84.49	54.02	23.56

As mentioned above, the operating adjustment is 0.5% of either the reduction in sales growth or the reduction in operating costs, depending on the context being used. Meanwhile, the cost of goods sold is the percentage that is being used to calculate the expenses for the services provided. This value is similar yet different from the MBR as it only accounts for services provided while MBR only accounts for the benefit costs.

The sensitivity analysis shows how much the DCF price range could differ depending on how optimistic the Henry Fund assumptions are. The target price could range widely and it is a good test to show how likely and unlikely the target price range would be for CVS when one changes the model's assumptions.

CONCLUSION

Overall, Henry Fund believes that CVS is currently at a steady standing in the healthcare industry. While it could be challenging for CVS to capture more market share in the managed healthcare sub-industry, their main business is still under the pharmacy retail sub-industry, which they are currently the market leader of it, and the Henry Fund did not find a threat that could potentially disrupt its competitive position within the sub-industry. While it is notable that other players like Walmart and Amazon are entering the space, CVS still has an upper hand for having the most retail locations around the U.S., and a brand name that is more trustable for new patients. At the same time, CVS' plan to expand its business and diversify its revenue streams.

As of March 10, 2023, Henry Fund is suggesting a BUY rating for the Company as we found a valuation range that is \$105 - \$125, which represents a 36-62% upside.

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CVS Health

Key Assumptions of Valuation Model

Historical + Forecast

	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Amortization Expense Schedule (from 10K notes)	2,436	2,341	2,259	1,808	1,620	1,577	1,526	1,290	1,200	1,116	1,038	966	899	836
LT Debt Maturity Schedule (from 10K notes)	64,699	59,207	51,971	50,479	48,340	44,562	42,062	38,690	33,690	31,940	29,190	26,940	26,940	26,940
Management CapEx Guidance (if available)	2,500	2,400	2,500	2,700	0	2,800	2,900	2,900	2,900	2,900	3,000	3,000	3,000	3,000
Share Repurchases (\$, if applicable)	-	-	-	3,500	2,000	1,500	1,500	1,000	1,000	1,000	500	500	500	500
Total Dividends Paid														
Beginning of FY Shares Outstanding	1,044	1,301	1,309	1,319	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312
Expected Dividend per Share	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.20	\$ 2.87	\$ 3.34	\$ 3.49	\$ 3.64	\$ 3.77
Total Dividends Paid (\$)				2,901.80	2,886.40	2,886.40	2,886.40	2,886.40	2,886.40	3,770.22	4,376.55	4,573.51	4,770.71	4,946.40

Property, Plant and Equipment

PPE (t-1)	11,349	12,044	12,606	12,896	12,873	10,724	11,759	12,708	13,489	14,131	14,658	15,191	15,629	15,990
Less Depreciation	(1,935)	(2,100)	(2,253)	(2,439)	(2,294)	(1,911)	(2,095)	(2,264)	(2,403)	(2,518)	(2,612)	(2,707)	(2,785)	(2,849)
Plus CAPEX	2,500	2,400	2,500	2,700	0	2,800	2,900	2,900	2,900	2,900	3,000	3,000	3,000	3,000
Other	130	262	43	(284)	145	145	145	145	145	145	145	145	145	145
PPE, net	12,044	12,606	12,896	12,873	10,724	11,759	12,708	13,489	14,131	14,658	15,191	15,629	15,990	16,286
PPE growth rate		4.67%	2.30%	-0.18%	-16.69%	9.64%	8.08%	6.14%	4.76%	3.73%	3.64%	2.89%	2.30%	1.85%

Total Debt @ beginning of the year

Current Portion of LT Debt	1,265	3,781	5,440	4,205	2,006	2,699	3,778	2,500	3,372	5,000	1,750	2,750	2,250	-
Long Term Debt	71,444	64,699	59,207	51,971	50,476	48,340	44,562	42,062	38,690	33,690	31,940	29,190	26,940	26,940
Total Debt (t-1)	72,709	68,480	64,647	56,176	52,482	51,039	48,340	44,562	42,062	38,690	33,690	31,940	29,190	26,940

Deferred income taxes

Deferred tax income (t-1)	7,677	7,294	6,794	6,270	3,880	3,512	3,055	2,563	2,028	1,460	857	162	-	-
Deferred tax income (t)	7,294	6,794	6,270	3,880	3,512	3,055	2,563	2,028	1,460	857	162	-	-	-
Tax expense	2,366	2,569	2,522	3,538	1,956	2,432	2,616	2,843	3,020	3,203	3,696	3,848	3,999	4,132
Deferred income taxes	-16.19%	-19.46%	-20.78%	-67.55%	-18.81%	-18.81%	-18.81%	-18.81%	-18.81%	-18.81%	-18.81%	-4.21%	0.00%	0.00%

Historical

	2017	2018	2019	2020	2021	2022	
Depreciation Rate:							
Depreciation Expense			1,935	2,100	2,253	2,439	
Beginning Net PPE			11,349	12,044	12,606	12,896	
Implied Depreciation Rate (%)			17.05%	17.44%	17.87%	18.91%	17.82% Average
Marginal Tax Rate (%)							
US Statutory (Federal) Tax (%)	35.0%	21.0%	21.0%	21.0%	21.0%	21.0%	
State and Local Tax (%)	4.1%	27.7%	4.0%	3.2%	4.1%	3.2%	
Other Adjustment (%)	-19.3%	93.5%	-0.9%	2.1%	1.3%	1.8%	
Implied Marginal Tax Rate	19.80%	142.20%	24.10%	26.30%	26.40%	26.00%	25.70% Average
Effective Tax Rate (%)							
Income tax provision	1,637	2,002	2,366	2,569	2,522	3,538	
Income before tax provision	8,268	1,406	8,997	9,770	10,420	5,628	
Implied Effective Tax Rate	19.80%	142.39%	26.30%	26.29%	24.20%	62.86%	24.15% Average
Normal Cash Calculation (%)							
Cash from B/S	1,696	4,059	5,683	7,854	9,408	12,945	
Revenue	184,765	194,579	256,776	268,706	292,111	322,467	
Cash as a % of Sales	0.92%	2.09%	2.21%	2.92%	3.22%	4.01%	0.92% Minimum
Dividend Payout Ratio (%)							
Total Dividends	2,049	2,038	2,603	2,624	2,625	2,907	
Net Income	6,623	(596)	6,631	7,192	7,898	4,165	
Implied Payout Ratio (%)	30.94%	-	39.26%	36.48%	33.24%	69.80%	27.98% Average
Long Term Operating Lease Liabilities							
Long Term Operating Lease Liabilities			18,926	18,757	18,177	16,800	
Operating Lease Assets			20,860	20,729	19,122	17,872	
LT OLL as a % OLA			90.73%	90.49%	95.06%	94.00%	92.57% Average
Long Term Debt							
Long Term Debt	22,181	71,444	64,699	59,207	51,971	50,476	
Total Liabilities	57,436	137,913	158,279	161,014	157,618	156,960	
Long Term Debt as a % Total Liabilities	38.62%	51.80%	40.88%	36.77%	32.97%	32.16%	38.87% Average
Current Portion of Operating Lease Liabilities							
Current Portion of Operating Lease Liabilities			1,596	1,638	1,646	1,678	
Long Term Operating Lease Liabilities			18,926	18,757	18,177	16,800	
CP OLL as a % of LT OLL			8.43%	8.73%	9.06%	9.99%	9.05% Average
Current Portion of Long Term Debt							
Current Portion of LT Debt	3,545	1,265	3,781	5,440	4,205	2,006	
Long term debt	22,181	71,444	64,699	59,207	51,971	50,476	
CP of LT Debt as a % of LT Debt	15.98%	1.77%	5.84%	9.19%	8.09%	3.97%	6.77% Average

CVS Health
Revenue Decomposition

(in \$ millions if not mentioned otherwise)

<i>Fiscal Years Ending Dec. 31</i>	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues (in \$ millions if not mentioned otherwise)													
Health care Benefits													
Premiums	69,301	76,064	85,274	93,015	99,526	105,497	110,772	115,757	120,387	124,601	128,339	131,547	134,178
Government	48,928	55,739	63,141	70,011	71,972	76,120	79,966	83,722	87,358	90,840	94,139	97,223	100,063
Commercial	20,373	20,325	22,133	23,004	27,553	29,377	30,806	32,035	33,030	33,761	34,200	34,324	34,115
Services	5,683	5,536	5,659	5,785	5,913	6,045	6,179	6,316	6,457	6,600	6,747	6,897	7,050
Net investment income	483	586	586	564	564	564	564	564	564	564	564	564	564
Total Product Revenue	75,467	82,186	91,409	99,363	106,003	112,106	117,515	122,637	127,407	131,764	135,649	139,008	141,792
Memberships (in thousands):													
Commercial	16,902	16,788	17,032	17,441	17,807	18,128	18,399	18,648	18,872	19,070	19,241	19,386	19,502
Medicare Advantage	2,705	2,971	3,270	3,453	3,622	3,774	3,907	4,030	4,142	4,244	4,333	4,409	4,471
Medicare Supplement	1,082	1,285	1,363	1,439	1,510	1,573	1,628	1,680	1,727	1,769	1,806	1,838	1,863
Medicaid	2,723	2,804	2,731	2,884	3,025	3,152	3,263	3,365	3,460	3,544	3,619	3,682	3,734
Revenue per member (in thousands):													
Government	\$ 7.52	\$ 7.90	\$ 8.57	\$ 9.00	\$ 8.82	\$ 8.96	\$ 9.09	\$ 9.23	\$ 9.36	\$ 9.50	\$ 9.65	\$ 9.79	\$ 9.94
Commercial	\$ 1.21	\$ 1.21	\$ 1.30	\$ 1.32	\$ 1.34	\$ 1.36	\$ 1.38	\$ 1.40	\$ 1.42	\$ 1.44	\$ 1.46	\$ 1.49	\$ 1.51
Pharmacy Services (by distribution channel)													
Pharmacy network	85,045	91,715	97,668	99,994	99,994	102,375	104,301	105,741	106,673	107,080	106,952	106,290	105,101
Mail choice	56,071	60,547	70,466	76,654	83,001	89,459	95,973	102,481	108,917	115,214	121,298	127,097	132,538
Other	822	760	1,102	1,212	1,333	1,467	1,613	1,775	1,952	2,147	2,362	2,598	2,858
Total Product Revenue	141,938	153,022	169,236	177,859	184,328	193,301	201,887	209,997	217,543	224,441	230,613	235,986	240,498
Retail / LTC (by major service line)													
Pharmacy	70,176	76,121	82,010	82,901	83,515	87,184	90,792	94,319	97,743	101,042	104,196	107,183	109,984
Front Store	19,655	21,315	22,780	23,774	23,950	25,002	26,037	27,048	28,030	28,976	29,880	30,737	31,540
Other	1,367	2,669	1,848	1,078	1,085	1,133	1,180	1,226	1,270	1,313	1,354	1,393	1,430
Prescriptions filled	1,465	1,588	1,624										
Total Product Revenue	91,198	100,105	106,594	107,752	108,550	113,319	118,009	122,593	127,043	131,331	135,431	139,313	142,953
Total Number of Stores	9,962	9,939	9,674	9,374	9,074	9,124	9,174	9,224	9,274	9,324	9,374	9,424	9,474
Revenue per store	9.15	10.07	11.02	11.49	11.96	12.42	12.86	13.29	13.70	14.09	14.45	14.78	15.09
Corporate / Other													
Premiums	63	68	56	53	51	48	46	44	42	40	38	36	34
Services	48	57	68	81	96	115	136	162	193	230	274	326	388
Net investment income	315	596	406	406	406	406	406	406	406	406	406	406	406
Benefit costs	221	212	319	212	212	212	212	212	212	212	212	212	212
Total Product Revenue	426	721	849	752	765	781	800	824	853	887	929	980	1,040
Intersegment Eliminations	(40,323)	(43,923)	(45,621)	(51,832)	(53,702)	(56,371)	(58,885)	(61,282)	(63,539)	(65,632)	(67,540)	(69,242)	(70,719)
Total Company Revenue	268,706	292,111	322,467	333,894	345,943	363,135	379,326	394,768	409,307	422,792	435,082	446,045	455,564

CVS Health
Revenue Decomposition

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Growth %													
Health care Benefits													
Premiums	9.9%	9.8%	12.1%	8.0%	7.0%	6.0%	5.0%	4.5%	4.0%	3.5%	3.0%	2.5%	2.0%
Government	17.0%	13.9%	13.3%	5.6%	4.9%	4.2%	3.5%	3.2%	2.8%	2.5%	2.1%	1.8%	1.4%
Commercial	-4.0%	-0.2%	8.9%	2.4%	2.1%	1.8%	1.5%	1.4%	1.2%	1.1%	0.9%	0.8%	0.6%
Services	-4.9%	-2.6%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Net investment income	-19.4%	21.3%	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Total Product Revenue	8.4%	8.9%	11.2%	8.7%	6.7%	5.8%	4.8%	4.4%	3.9%	3.4%	2.9%	2.5%	2.0%
Memberships (in thousands):													
Commercial	-4.8%	-0.7%	1.5%	2.4%	2.1%	1.8%	1.5%	1.4%	1.2%	1.1%	0.9%	0.8%	0.6%
Medicare Advantage	16.5%	9.8%	10.1%	5.6%	4.9%	4.2%	3.5%	3.2%	2.8%	2.5%	2.1%	1.8%	1.4%
Medicare Supplement	22.8%	18.8%	6.1%	5.6%	4.9%	4.2%	3.5%	3.2%	2.8%	2.5%	2.1%	1.8%	1.4%
Medicaid	39.2%	3.0%	-2.6%	5.6%	4.9%	4.2%	3.5%	3.2%	2.8%	2.5%	2.1%	1.8%	1.4%
Revenue per member:													
Government	-7.3%	5.0%	8.6%	5.0%	-2.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Commercial	0.9%	0.4%	7.3%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Pharmacy Services													
Pharmacy network	-4.2%	7.8%	6.5%	2.4%	0.0%	2.4%	1.9%	1.4%	0.9%	0.4%	-0.1%	-0.6%	-1.1%
Mail choice	7.5%	8.0%	16.4%	8.8%	8.3%	7.8%	7.3%	6.8%	6.3%	5.8%	5.3%	4.8%	4.3%
Other	38.2%	-7.5%	45.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Total Product Revenue	0.3%	7.8%	10.6%	5.1%	3.6%	4.9%	4.4%	4.0%	3.6%	3.2%	2.7%	2.3%	1.9%
Retail / LTC													
Pharmacy	5.6%	8.5%	7.7%	6.3%	5.8%	5.3%	4.8%	4.3%	3.8%	3.3%	2.8%	2.3%	1.8%
Front Store	1.2%	8.4%	6.9%	1.5%	1.5%	1.0%	0.5%	0.0%	-0.5%	-1.0%	-1.5%	-2.0%	-2.5%
Other	83.7%	95.2%	-30.8%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Prescriptions filled	3.4%	8.4%	2.3%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Total Product Revenue	5.3%	9.8%	6.5%	1.1%	0.7%	4.4%	4.1%	3.9%	3.6%	3.4%	3.1%	2.9%	2.6%
Revenue per store	5.1%	10.0%	9.4%	4.3%	4.1%	3.8%	3.6%	3.3%	3.1%	2.8%	2.6%	2.3%	2.1%
Corporate / Other													
Premiums	-30.8%	7.9%	-17.6%	-4.9%	-4.9%	-4.9%	-4.9%	-4.9%	-4.9%	-4.9%	-4.9%	-4.9%	-4.9%
Services	433.3%	18.8%	19.3%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net investment income	-23.5%	89.2%	-31.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Benefit costs	-22.5%	-4.1%	50.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Product Revenue	-16.8%	69.2%	17.8%	-11.4%	1.7%	2.1%	2.5%	3.0%	3.5%	4.1%	4.7%	5.4%	6.2%
Intersegment Eliminations	-13.0%	-13.1%	-12.4%	-13.4%	-13.4%	-13.4%	-13.4%	-13.4%	-13.4%	-13.4%	-13.4%	-13.4%	-13.4%
Total Company Revenue	4.6%	8.7%	10.4%	3.5%	3.6%	5.0%	4.5%	4.1%	3.7%	3.3%	2.9%	2.5%	2.1%

CVS Health
Income Statement

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues:													
Products	190,688	203,738	226,616	231,755	237,019	247,909	258,475	268,562	278,078	286,931	295,036	302,314	308,690
Premiums	69,364	76,132	85,330	93,015	99,526	105,497	110,772	115,757	120,387	124,601	128,339	131,547	134,178
Services	7,856	11,042	9,683	8,155	8,429	8,759	9,109	9,479	9,873	10,291	10,737	11,214	11,726
Net investment income	798	1,199	838	970	970	970	970	970	970	970	970	970	970
Total revenues	268,706	292,111	322,467	333,894	345,943	363,135	379,326	394,768	409,307	422,792	435,082	446,045	455,564
Operating costs:													
Cost of products sold	163,981	175,803	196,892	205,277	209,499	219,049	228,145	236,971	245,318	253,116	260,317	266,836	272,618
Depreciation	2,100	2,253	2,439	2,294	1,911	2,095	2,264	2,403	2,518	2,612	2,707	2,785	2,849
Amortization	2,341	2,259	1,808	1,620	1,577	1,526	1,290	1,200	1,116	1,038	966	899	836
Cost of products sold less D&A	159,540	171,291	192,645	201,363	206,011	215,428	224,591	233,368	241,684	249,466	256,644	263,153	268,934
Benefit costs	55,679	64,260	71,281	78,784	83,303	88,301	92,716	96,889	100,764	103,045	106,136	108,790	110,966
Store impairments	-	1,358	5,803	-	-	-	-	-	-	-	-	-	-
Goodwill impairment	-	431	2,533	-	-	-	-	-	-	-	-	-	-
Operating expenses	35,135	37,066	38,212	39,566	40,994	43,031	44,950	46,780	48,502	50,100	51,557	52,856	53,984
Total operating costs	254,795	278,918	314,721	323,626	333,796	350,382	365,811	380,640	394,585	406,262	418,010	428,482	437,568
Operating profit (loss)	13,911	13,193	7,746	10,268	12,147	12,753	13,515	14,129	14,722	16,531	17,072	17,564	17,996
Interest expense	2,907	2,503	2,287	2,309	2,246	2,127	1,961	1,851	1,702	1,482	1,405	1,284	1,185
Loss on extinguishment of debt	1,440	452	-	-	-	-	-	-	-	-	-	-	-
Other income	(206)	(182)	169	141	170	208	220	226	243	258	267	282	301
Income before income tax provision	9,770	10,420	5,628	8,100	10,071	10,834	11,774	12,504	13,263	15,306	15,934	16,561	17,112
Income tax provision	2,569	2,522	3,538	1,956	2,432	2,616	2,843	3,020	3,203	3,696	3,848	3,999	4,132
Income from continuing operations	7,201	7,898	4,165	6,144	7,639	8,218	8,931	9,485	10,060	11,610	12,086	12,562	12,980
Loss from discontinued operations, net of tax	(9)	-	-	-	-	-	-	-	-	-	-	-	-
Net income	7,192	7,898	4,165	6,144	7,639	8,218	8,931	9,485	10,060	11,610	12,086	12,562	12,980
Net (income) attributable to noncontrolling interest	(13)	12	(16)	15	16	17	18	19	20	21	22	23	24
Net income attributable to CVS Health Corporation	7,179	7,910	4,149	6,159	7,655	8,235	8,948	9,503	10,080	11,631	12,108	12,585	13,003
Basic earnings per share:													
Income from continuing operations attributable to CVS Health	5.49	6.00	3.16	4.78	6.03	6.56	7.19	7.69	8.22	9.54	9.97	10.40	10.78
Weighted average basic shares outstanding	1,309	1,319	1,312	1,289	1,270	1,255	1,244	1,236	1,226	1,219	1,214	1,210	1,206
Total shares outstanding	1,310	1,322	1,300	1,277	1,262	1,248	1,240	1,231	1,221	1,217	1,212	1,208	1,204
Dividends declared per share	2.00	2.00	2.20	2.20	2.20	2.20	2.20	2.20	2.87	3.34	3.49	3.64	3.77

CVS Health
Balance Sheet

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Assets:													
Cash & cash equivalents	7,854	9,408	12,945	22,728	24,415	23,844	27,690	30,590	31,524	34,834	39,959	45,752	53,880
Investments	3,000	3,117	2,778	3,337	4,102	4,326	4,452	4,788	5,081	5,264	5,554	5,931	6,336
Accounts receivable, net	21,742	24,431	27,276	27,795	28,798	30,229	31,577	32,862	34,072	35,195	36,218	37,131	37,923
Inventories	18,496	17,760	19,090	21,457	22,231	23,336	24,376	25,369	26,303	27,169	27,959	28,664	29,275
Other current assets	5,277	5,292	3,593	5,424	5,620	5,899	6,162	6,413	6,649	6,868	7,068	7,246	7,400
Total current assets	56,369	60,008	65,682	80,740	85,165	87,634	94,257	100,022	103,629	109,330	116,758	124,723	134,815
Long-term investments	20,812	23,025	21,096	8,446	8,438	8,632	8,762	9,035	9,279	9,435	9,665	9,959	10,272
Property & equipment, net	12,606	12,896	12,873	10,724	11,759	12,708	13,489	14,131	14,658	15,191	15,629	15,990	16,286
Operating lease right-of-use assets	20,729	19,122	17,872	15,723	16,758	17,707	18,488	19,130	19,657	20,190	20,628	20,989	21,285
Goodwill	79,552	79,121	78,150	78,150	78,150	78,150	78,150	78,150	78,150	78,150	78,150	78,150	78,150
Intangible assets, net	31,142	29,026	24,754	23,134	21,557	20,031	18,741	17,541	16,425	15,386	14,420	13,522	12,686
Separate accounts assets	4,881	5,087	3,228	4,867	5,208	5,520	5,796	6,057	6,299	6,520	6,715	6,883	7,021
Other assets	4,624	4,714	4,620	6,278	6,272	6,416	6,512	6,716	6,897	7,013	7,184	7,402	7,635
Total assets	230,715	232,999	228,275	228,063	233,305	236,799	244,195	250,781	254,993	261,215	269,150	277,617	288,148
Liabilities:													
Accounts payable	11,138	12,544	14,838	14,753	15,285	16,045	16,760	17,443	18,085	18,681	19,224	19,708	20,129
Pharmacy claims & discounts payable	15,795	17,330	19,423	19,765	20,484	20,515	21,426	22,286	23,087	22,697	23,321	23,865	24,321
Health care costs payable	7,936	8,808	10,406	10,731	11,482	11,644	12,226	12,776	13,287	13,129	13,523	13,861	14,138
Policyholders' funds	4,270	4,301	1,500	4,256	4,554	4,299	4,514	4,718	4,906	4,455	4,589	4,703	4,797
Accrued expenses	14,243	17,670	18,745	17,234	17,856	18,743	19,579	20,376	21,127	21,823	22,457	23,023	23,514
Other insurance liabilities	1,557	1,303	1,140	1,718	1,780	1,868	1,952	2,031	2,106	2,175	2,239	2,295	2,344
Current portion of operating lease liabilities	1,638	1,646	1,678	1,319	1,406	1,485	1,551	1,604	1,649	1,693	1,730	1,760	1,785
Current portion of long-term debt	5,440	4,205	2,006	2,699	3,778	2,500	3,372	5,000	1,750	2,750	2,250	-	-
Total current liabilities	62,017	67,807	69,736	72,475	76,625	77,100	81,380	86,235	85,997	87,404	89,333	89,216	91,029
Long-term operating lease liabilities	18,757	18,177	16,800	14,555	15,512	16,392	17,114	17,708	18,196	18,690	19,095	19,429	19,703
Long-term debt	59,207	51,971	50,476	48,340	44,562	42,062	38,690	33,690	31,940	29,190	26,940	26,940	26,940
Deferred income taxes	6,794	6,270	3,880	3,512	3,055	2,563	2,028	1,460	857	162	-	-	-
Separate accounts liabilities	4,881	5,087	3,228	4,867	5,208	5,520	5,796	6,057	6,299	6,520	6,715	6,883	7,021
Other long-term insurance liabilities	7,007	6,402	6,108	7,658	7,935	8,329	8,700	9,055	9,388	9,697	9,979	10,231	10,449
Other long-term liabilities	2,351	1,904	6,732	3,760	3,896	4,090	4,272	4,446	4,609	4,761	4,900	5,023	5,130
Total liabilities	161,014	157,618	156,960	155,167	156,792	156,054	157,980	158,650	157,287	156,424	156,962	157,722	160,272
Shareholder's equity:													
Common stock	46,513	47,377	48,193	48,434	48,675	48,915	49,156	49,269	49,269	49,269	49,269	49,269	49,269
Treasury stock, at cost	(28,178)	(28,173)	(31,858)	(33,858)	(35,358)	(36,858)	(37,858)	(38,858)	(39,858)	(40,358)	(40,858)	(41,358)	(41,858)
Retained earnings	49,640	54,906	56,145	59,469	64,331	69,804	76,016	82,800	89,356	96,920	104,795	112,980	121,437
Accumulated other comprehensive income (loss)	1,414	965	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)
Total CVS Health Corporation shareholders' equity	69,389	75,075	71,015	72,580	76,182	80,397	85,849	91,746	97,302	104,367	111,742	119,426	127,384
Noncontrolling interest	312	306	300	315	331	348	366	384	404	424	446	469	492
Total shareholders' equity	69,701	75,381	71,315	72,895	76,513	80,745	86,215	92,131	97,706	104,791	112,187	119,895	127,876
Total liabilities and shareholder's equity	230,715	232,999	228,275	228,063	233,305	236,799	244,195	250,781	254,993	261,215	269,150	277,617	288,148

CVS Health
Historical Cash Flow Statement

Fiscal Years Ending Dec. 31	2017	2018	2019	2020	2021	2022
Cash flows from operating activities:						
Cash receipts from customers	176,594	186,519	248,393	264,327	284,219	313,662
Cash paid for inventory & prescriptions dispensed by retail network pharmacies	(149,279)	(148,821)	(149,655)	(158,636)	(165,783)	(189,766)
Insurance benefits paid	-	(7,057)	(52,242)	(55,124)	(63,598)	(69,728)
Cash paid to other suppliers & employees	(15,348)	(17,234)	(28,932)	(29,763)	(31,652)	(32,662)
Interest & investment income received	-	644	955	894	743	1,026
Interest paid	(1,072)	(2,803)	(2,954)	(2,904)	(2,469)	(2,239)
Income taxes paid	(2,909)	(2,383)	(2,717)	(2,929)	(3,195)	(4,116)
Net cash flows from operating activities	8,007	8,865	12,848	15,865	18,265	16,177
Cash flows from investing activities:						
Proceeds from sales & maturities of investments	-	817	7,049	6,467	7,246	6,729
Purchases of investments	-	(692)	(7,534)	(9,639)	(9,963)	(7,746)
Purchases of property & equipment	(1,918)	(2,037)	(2,457)	(2,437)	(2,520)	(2,727)
Proceeds from sale-leaseback transactions	265	-	5	101	-	-
Acquisitions (net of cash acquired)	(1,287)	(42,226)	(444)	(866)	(146)	(139)
Proceeds from sale of subsidiary & other assets	-	832	-	840	-	(1,249)
Other	-	21	42	-	122	85
Net cash flows from investing activities	(2,932)	(43,285)	(3,339)	(5,534)	(5,261)	(5,047)
Cash flows from financing activities:						
Net repayments of short-term debt	(598)	(556)	(720)	-	-	-
Proceeds from issuance of long-term debt	-	44,343	3,736	9,958	987	-
Repayments of long-term debt	-	(5,522)	(8,336)	(15,631)	(10,254)	(4,211)
Dividends paid	(2,049)	(2,038)	(2,603)	(2,624)	(2,625)	(2,907)
Derivative settlements	-	446	(25)	(7)	-	-
Proceeds from exercise of stock options	329	242	210	264	549	551
Payments for taxes related to net share settlement of equity awards	(71)	(97)	(112)	(88)	(168)	(370)
Other	(1)	1	196	432	155	-
Net cash flows from financing activities	(6,751)	36,819	(7,850)	(8,155)	(11,356)	(10,516)
Net increase in cash, cash equivalents & restricted cash	(1,620)	2,395	1,855	2,635	1,648	614
Cash, cash equivalents & restricted cash at the beginning of the period	3,520	1,900	655	8408	11,043	12,691
Cash, cash equivalents & restricted cash at the end of the period	1,900	4,295	8,408	11,043	12,691	13,305

CVS Health
Forecasted Cash Flow Statement

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Net Income / Loss	6,159	7,655	8,235	8,948	9,503	10,080	11,631	12,108	12,585	13,003
Depreciation and Amortization Expenses	3,914	3,488	3,621	3,554	3,603	3,634	3,650	3,673	3,683	3,685
Cash flows from operating activities:										
Account receivables, net	(519)	(1,003)	(1,431)	(1,348)	(1,285)	(1,210)	(1,123)	(1,023)	(913)	(792)
Inventories	(2,367)	(774)	(1,105)	(1,040)	(992)	(934)	(867)	(790)	(705)	(612)
Other current assets	(1,831)	(196)	(279)	(263)	(251)	(236)	(219)	(200)	(178)	(155)
Separate accounts assets	(1,639)	(341)	(312)	(276)	(261)	(242)	(220)	(196)	(168)	(138)
Other long-term assets	(1,658)	6	(144)	(96)	(203)	(181)	(116)	(171)	(218)	(233)
Account payable	(85)	532	760	715	682	642	596	543	484	421
Pharmacy claims & discount payable	342	719	31	911	861	801	(390)	624	543	456
Health care costs payable	325	751	161	582	550	511	(158)	394	338	277
Policyholder's funds	2,756	298	(254)	215	203	189	(451)	134	115	94
Accrued expenses	(1,511)	622	887	836	797	750	696	634	566	491
Other insurance liabilities	578	62	88	83	79	75	69	63	56	49
Operating lease right-of-use assets	2,149	(1,034)	(950)	(781)	(642)	(527)	(533)	(438)	(360)	(296)
Deferred income taxes	(368)	(457)	(492)	(535)	(568)	(602)	(695)	(162)	-	-
Other long-term insurance liabilities	1,550	276	394	371	354	333	309	282	251	218
Other long-term liabilities	(2,972)	136	194	182	174	164	152	138	123	107
Net cash flows from operating activities	4,824	10,740	9,403	12,060	12,605	13,245	12,331	15,614	16,204	16,577
Cash flows from investing activities:										
Purchases of investments	(559)	(765)	(225)	(125)	(336)	(293)	(183)	(290)	(377)	(405)
Purchases of long-term investments	12,650	8	(194)	(129)	(274)	(244)	(156)	(230)	(294)	(313)
Purchase of PPE, gross	(145)	(2,945)	(3,045)	(3,045)	(3,045)	(3,045)	(3,145)	(3,145)	(3,145)	(3,145)
Separate accounts liabilities	1,639	341	312	276	261	242	220	196	168	138
Non-controlling interest	15	16	17	18	19	20	21	22	23	24
Net cash flows from investing activities	13,600	(3,345)	(3,134)	(3,006)	(3,376)	(3,320)	(3,243)	(3,448)	(3,625)	(3,701)
Cash flows from financing activities:										
Net repayments of current portion of long-term debt	693	1,079	(1,278)	872	1,628	(3,250)	1,000	(500)	(2,250)	-
Net repayments of long-term debt	(2,136)	(3,778)	(2,500)	(3,372)	(5,000)	(1,750)	(2,750)	(2,250)	-	-
Short-term operating lease liabilities	(359)	87	80	65	54	44	45	37	30	25
Long-term operating lease liabilities	(2,245)	957	879	723	594	488	494	406	333	274
Dividend paid	(2,835)	(2,794)	(2,761)	(2,737)	(2,719)	(3,524)	(4,066)	(4,233)	(4,400)	(4,546)
Common stock	241	241	241	241	113	-	-	-	-	-
Treasury stock	(2,000)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(500)	(500)	(500)	(500)
Net cash flows from financing activities	(8,642)	(5,708)	(6,839)	(5,208)	(6,330)	(8,992)	(5,778)	(7,041)	(6,786)	(4,747)
Net increase in cash, cash equivalents & restricted cash	9,783	1,687	(571)	3,846	2,900	934	3,310	5,125	5,793	8,128
Cash, cash equivalents & restricted cash at the beginning of the period	12,945	22,728	24,415	23,844	27,690	30,590	31,524	34,834	39,959	45,752
Cash, cash equivalents & restricted cash at the end of the period	22,728	24,415	23,844	27,690	30,590	31,524	34,834	39,959	45,752	53,880

CVS Health
Common Size Income Statement

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenues:													
Products	70.97%	69.75%	70.28%	69.41%	68.51%	68.27%	68.14%	68.03%	67.94%	67.87%	67.81%	67.78%	67.76%
Premiums	25.81%	26.06%	26.46%	27.86%	28.77%	29.05%	29.20%	29.32%	29.41%	29.47%	29.50%	29.49%	29.45%
Services	2.92%	3.78%	3.00%	2.44%	2.44%	2.41%	2.40%	2.40%	2.41%	2.43%	2.47%	2.51%	2.57%
Net investment income	0.30%	0.41%	0.26%	0.29%	0.28%	0.27%	0.26%	0.25%	0.24%	0.23%	0.22%	0.22%	0.21%
Total revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Operating costs:													
Cost of products sold less D&A	83.67%	84.07%	85.01%	83.93%	83.93%	83.93%	83.93%	83.93%	83.93%	83.93%	83.93%	83.93%	83.93%
Benefit costs	80.27%	84.41%	83.54%	84.70%	83.70%	83.70%	83.70%	83.70%	83.70%	82.70%	82.70%	82.70%	82.70%
Operating expenses	13.08%	12.69%	11.85%	11.85%	11.85%	11.85%	11.85%	11.85%	11.85%	11.85%	11.85%	11.85%	11.85%
Total operating costs	94.82%	95.48%	97.60%	96.92%	96.49%	96.49%	96.44%	96.42%	96.40%	96.09%	96.08%	96.06%	96.05%
Operating profit (loss)	5.18%	4.52%	2.40%	3.08%	3.51%	3.51%	3.56%	3.58%	3.60%	3.91%	3.92%	3.94%	3.95%
Interest expense	1.08%	0.86%	0.71%	0.69%	0.65%	0.59%	0.52%	0.47%	0.42%	0.35%	0.32%	0.29%	0.26%
Loss on extinguishment of debt	0.54%	0.15%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other income	-0.08%	-0.06%	0.05%	0.04%	0.05%	0.06%	0.06%	0.06%	0.06%	0.06%	0.06%	0.06%	0.07%
Income before income tax provision	3.64%	3.57%	1.75%	2.43%	2.91%	2.98%	3.10%	3.17%	3.24%	3.62%	3.66%	3.71%	3.76%
Income tax provision	0.96%	0.86%	1.10%	0.59%	0.70%	0.72%	0.75%	0.76%	0.78%	0.87%	0.88%	0.90%	0.91%
Income from continuing operations	2.68%	2.70%	1.29%	1.84%	2.29%	2.46%	2.67%	2.84%	3.01%	3.48%	3.62%	3.76%	3.89%
Loss from discontinued operations, net of tax	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income	2.68%	2.70%	1.29%	1.84%	2.29%	2.46%	2.67%	2.84%	3.01%	3.48%	3.62%	3.76%	3.89%
Net (income) attributable to noncontrolling interest	-4.17%	3.92%	-5.33%	0.00%	0.00%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Net income attributable to CVS Health Corporation	2.67%	2.71%	1.29%	1.84%	2.29%	2.47%	2.68%	2.85%	3.02%	3.48%	3.63%	3.77%	3.89%

CVS Health
Common Size Balance Sheet

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Assets:													
Cash & cash equivalents	2.92%	3.22%	4.01%	6.81%	7.06%	6.57%	7.30%	7.75%	7.70%	8.24%	9.18%	10.26%	11.83%
Investments	5.96%	5.53%	4.63%	5.08%	5.08%	5.08%	5.08%	5.08%	5.08%	5.08%	5.08%	5.08%	5.08%
Accounts receivable, net	8.09%	8.36%	8.46%	8.32%	8.32%	8.32%	8.32%	8.32%	8.32%	8.32%	8.32%	8.32%	8.32%
Inventories	6.88%	6.08%	5.92%	6.43%	6.43%	6.43%	6.43%	6.43%	6.43%	6.43%	6.43%	6.43%	6.43%
Other current assets	1.96%	1.81%	1.11%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%
Total current assets	20.98%	20.54%	20.37%	24.18%	24.62%	24.13%	24.85%	25.34%	25.32%	25.86%	26.84%	27.96%	29.59%
Long-term investments	9.36%	9.98%	9.05%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%
Property & equipment, net	4.69%	4.41%	3.99%	3.21%	3.40%	3.50%	3.56%	3.58%	3.58%	3.59%	3.59%	3.58%	3.57%
Operating lease right-of-use assets	7.71%	6.55%	5.54%	4.71%	4.84%	4.88%	4.87%	4.85%	4.80%	4.78%	4.74%	4.71%	4.67%
Goodwill	29.61%	27.09%	24.24%	23.41%	22.59%	21.52%	20.60%	19.80%	19.09%	18.48%	17.96%	17.52%	17.15%
Intangible assets, net	11.59%	9.94%	7.68%	6.93%	6.23%	5.52%	4.94%	4.44%	4.01%	3.64%	3.31%	3.03%	2.78%
Separate accounts assets	7.04%	6.68%	3.78%	5.23%	5.23%	5.23%	5.23%	5.23%	5.23%	5.23%	5.23%	5.23%	5.23%
Other assets	2.08%	2.04%	1.98%	1.88%	1.81%	1.77%	1.72%	1.70%	1.68%	1.66%	1.65%	1.66%	1.68%
Total assets	85.86%	79.76%	70.79%	68.30%	67.44%	65.21%	64.38%	63.53%	62.30%	61.78%	61.86%	62.24%	63.25%
Liabilities:													
Accounts payable	4.15%	4.29%	4.60%	4.42%	4.42%	4.42%	4.42%	4.42%	4.42%	4.42%	4.42%	4.42%	4.42%
Pharmacy claims & discounts payable	11.16%	12.21%	12.69%	11.11%	11.11%	10.61%	10.61%	10.61%	10.61%	10.11%	10.11%	10.11%	10.11%
Health care costs payable	11.45%	11.58%	12.20%	11.54%	11.54%	11.04%	11.04%	11.04%	11.04%	10.54%	10.54%	10.54%	10.54%
Policyholders' funds	6.16%	5.65%	1.76%	4.58%	4.58%	4.08%	4.08%	4.08%	4.08%	3.58%	3.58%	3.58%	3.58%
Accrued expenses	5.30%	6.05%	5.81%	5.16%	5.16%	5.16%	5.16%	5.16%	5.16%	5.16%	5.16%	5.16%	5.16%
Other insurance liabilities	0.58%	0.45%	0.35%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
Current portion of operating lease liabilities	7.90%	8.61%	9.39%	8.39%	8.39%	8.39%	8.39%	8.39%	8.39%	8.39%	8.39%	8.39%	8.39%
Current portion of long-term debt	2.02%	1.44%	0.62%	0.81%	1.09%	0.69%	0.89%	1.27%	0.43%	0.65%	0.52%	0.00%	0.00%
Total current liabilities	23.08%	23.21%	21.63%	21.71%	22.15%	21.23%	21.45%	21.84%	21.01%	20.67%	20.53%	20.00%	19.98%
Long-term operating lease liabilities	90.49%	95.06%	94.00%	92.57%	92.57%	92.57%	92.57%	92.57%	92.57%	92.57%	92.57%	92.57%	92.57%
Long-term debt	109.34%	94.42%	97.37%	138.53%	120.59%	107.72%	94.97%	79.65%	73.27%	65.13%	58.66%	57.40%	56.31%
Deferred income taxes	2.53%	2.15%	1.20%	1.05%	0.88%	0.71%	0.53%	0.37%	0.21%	0.04%	0.00%	0.00%	0.00%
Separate accounts liabilities	1.82%	1.74%	1.00%	1.46%	1.51%	1.52%	1.53%	1.53%	1.54%	1.54%	1.54%	1.54%	1.54%
Other long-term insurance liabilities	2.61%	2.19%	1.89%	2.29%	2.29%	2.29%	2.29%	2.29%	2.29%	2.29%	2.29%	2.29%	2.29%
Other long-term liabilities	0.87%	0.65%	2.09%	1.13%	1.13%	1.13%	1.13%	1.13%	1.13%	1.13%	1.13%	1.13%	1.13%
Total liabilities	59.92%	53.96%	48.67%	46.47%	45.32%	42.97%	41.65%	40.19%	38.43%	37.00%	36.08%	35.36%	35.18%
Shareholder's equity:													
Common stock	17.31%	16.22%	14.95%	14.51%	14.07%	13.47%	12.96%	12.48%	12.04%	11.65%	11.32%	11.05%	10.82%
Treasury stock, at cost	-10.49%	-9.64%	-9.88%	-10.14%	-10.22%	-10.15%	-9.98%	-9.84%	-9.74%	-9.55%	-9.39%	-9.27%	-9.19%
Retained earnings	18.47%	18.80%	17.41%	17.81%	18.60%	19.22%	20.04%	20.97%	21.83%	22.92%	24.09%	25.33%	26.66%
Accumulated other comprehensive income (loss)	0.53%	0.33%	-0.45%	-0.44%	-0.42%	-0.40%	-0.39%	-0.37%	-0.36%	-0.35%	-0.34%	-0.33%	-0.32%
Total CVS Health Corporation shareholders' equity	25.82%	25.70%	22.02%	21.74%	22.02%	22.14%	22.63%	23.24%	23.77%	24.69%	25.68%	26.77%	27.96%
Noncontrolling interest	-4.17%	3.92%	-5.33%	4.83%	4.83%	4.83%	4.83%	4.83%	4.83%	4.83%	4.83%	4.83%	4.83%
Total shareholders' equity	25.94%	25.81%	22.12%	21.83%	22.12%	22.24%	22.73%	23.34%	23.87%	24.79%	25.79%	26.88%	28.07%
Total liabilities and shareholder's equity	85.86%	79.76%	70.79%	68.30%	67.44%	65.21%	64.38%	63.53%	62.30%	61.78%	61.86%	62.24%	63.25%

CVS Health

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:

Risk-Free Rate	3.70%
Beta	0.83
Equity Risk Premium	5.50%
Cost of Equity	8.27%

ASSUMPTIONS:

10Y Treasury Bond
5-year monthly adjusted beta from Factset
Henry Fund Estimation

Cost of Debt:

Risk-Free Rate	3.70%
Implied Default Premium	0.70%
Pre-Tax Cost of Debt	4.40%
Marginal Tax Rate	26%
After-Tax Cost of Debt	3.27%

10Y Treasury Bond

Weighted average discount rate for operating leases

Market Value of Common Equity:

Total Shares Outstanding	1312
Current Stock Price	\$77.10
MV of Equity	101,155

MV Weights

58.63%

Market Value of Debt:

Short-Term Debt	0
Current Portion of LTD	2,006
Long-Term Debt	50,476
PV of Operating Leases	18,892
MV of Total Debt	71,374

41.37%

Market Value of the Firm

172,529

100.00%

Estimated WACC

6.20%

CVS Health
Value Driver Estimation

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
NOPLAT:													
Revenue	268,706	292,111	322,467	333,894	345,943	363,135	379,326	394,768	409,307	422,792	435,082	446,045	455,564
- Depreciation and Amortization	(4,441)	(4,512)	(4,247)	(3,914)	(3,488)	(3,621)	(3,554)	(3,603)	(3,634)	(3,650)	(3,673)	(3,683)	(3,685)
- Cost of Products Sold less D&A	(163,981)	(175,803)	(196,892)	(201,363)	(206,011)	(215,428)	(224,591)	(233,368)	(241,684)	(249,466)	(256,644)	(263,153)	(268,934)
- Benefit Costs	(55,679)	(64,260)	(71,281)	(78,784)	(83,303)	(88,301)	(92,716)	(96,889)	(100,764)	(103,045)	(106,136)	(108,790)	(110,966)
- Operating Expenses	(35,135)	(37,066)	(38,212)	(39,566)	(40,994)	(43,031)	(44,950)	(46,780)	(48,502)	(50,100)	(51,557)	(52,856)	(53,984)
+ Implied Interest on Operating Lease	971	931	885	786	692	737	779	813	842	865	888	908	923
EBIT	10,441	11,401	12,720	11,054	12,839	13,490	14,294	14,942	15,564	17,395	17,961	18,471	18,919
Marginal Tax Rate	26.30%	26.40%	26.00%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%
Provision for Income Taxes													
+ Tax Shield on Interest Expense	765	661	595	593	577	547	504	476	438	381	361	330	305
- Tax Shield on Net Investment Income	(210)	(317)	(218)	(249)	(249)	(249)	(249)	(249)	(249)	(249)	(249)	(249)	(249)
+ Tax Shield on Amortization	616	596	470	416	405	392	332	308	287	267	248	231	215
+ Tax Shield on Loss on Extinguishment of Debt	379	119	-	-	-	-	-	-	-	-	-	-	-
+ Tax Shield on Other Income/Expenses	(54)	(48)	44	36	44	54	56	58	63	66	69	73	77
+ Tax Shield on Implied Interest on Operating Lease	255	246	230	202	178	189	200	209	216	222	228	233	237
Adjusted Tax	4,319	3,780	4,659	2,955	3,387	3,549	3,686	3,822	3,957	4,384	4,505	4,617	4,717
Changes in Deferred Tax	(500)	(524)	(2,390)	(368)	(457)	(492)	(535)	(568)	(602)	(695)	(162)	-	-
NOPLAT:	5,622	7,097	5,671	7,731	8,995	9,449	10,073	10,553	11,004	12,317	13,293	13,854	14,202
Invested Capital (IC):													
Normal Cash	5,374	5,842	6,449	6,678	6,919	7,263	7,587	7,895	8,186	8,456	8,702	8,921	9,111
Accounts Receivable	21,742	24,431	27,276	27,795	28,798	30,229	31,577	32,862	34,072	35,195	36,218	37,131	37,923
Investories	18,496	17,760	19,090	21,457	22,231	23,336	24,376	25,369	26,303	27,169	27,959	28,664	29,275
Prepaid Expenses and Other Current Assets	5,277	5,292	3,593	5,424	5,620	5,899	6,162	6,413	6,649	6,868	7,068	7,246	7,400
Operating Current Assets	50,889	53,325	56,408	61,353	63,567	66,726	69,701	72,539	75,210	77,688	79,946	81,961	83,710
Account Payable	11,138	12,544	14,838	14,753	15,285	16,045	16,760	17,443	18,085	18,681	19,224	19,708	20,129
Pharmacy Claims and Discount Payable	15,795	17,330	19,423	19,765	20,484	20,515	21,426	22,286	23,087	22,697	23,321	23,865	24,321
Healthcare Costs Payable	7,936	8,808	10,406	10,731	11,482	11,644	12,226	12,776	13,287	13,129	13,523	13,861	14,138
Policyholder's Funds	4,270	4,301	1,500	4,256	4,554	4,299	4,514	4,718	4,906	4,455	4,589	4,703	4,797
Accrued Expenses	14,243	17,670	18,745	17,234	17,856	18,743	19,579	20,376	21,127	21,823	22,457	23,023	23,514
Other Current Liabilities	1,557	1,303	1,140	1,718	1,780	1,868	1,952	2,031	2,106	2,175	2,239	2,295	2,344
Operating Current Liabilities	54,939	61,956	66,052	68,457	71,441	73,115	76,457	79,630	82,598	82,960	85,353	87,455	89,244
Operating Working Capital	(4,050)	(8,631)	(9,644)	(7,104)	(7,874)	(6,388)	(6,756)	(7,091)	(7,388)	(5,272)	(5,406)	(5,494)	(5,534)
Property and Equipment, net	12,606	12,896	12,873	10,724	11,759	12,708	13,489	14,131	14,658	15,191	15,629	15,990	16,286
Intangible Assets, net	31,142	29,026	24,754	23,134	21,557	20,031	18,741	17,541	16,425	15,386	14,420	13,522	12,686
Present Value of Operating Leases	20,729	19,122	17,872	15,723	16,758	17,707	18,488	19,130	19,657	20,190	20,628	20,989	21,285
Separate Account Assets	4,881	5,087	3,228	4,867	5,208	5,520	5,796	6,057	6,299	6,520	6,715	6,883	7,021
Other Long-Term Assets	4,624	4,714	4,620	6,278	6,272	6,416	6,512	6,716	6,897	7,013	7,184	7,402	7,635
Total Long-Term Operating Assets	61,376	57,949	50,474	50,002	49,794	49,675	49,537	49,443	49,277	49,109	48,948	48,795	48,626
Other Long-Term Operating Liabilities	4,881	5,087	3,228	4,867	5,208	5,520	5,796	6,057	6,299	6,520	6,715	6,883	7,021
Invested Capital	65,051	57,127	50,475	48,756	48,471	50,475	50,474	50,425	50,248	52,508	52,456	52,407	52,357
Free Cash Flow (FCF):													
NOPLAT	5,622	7,097	5,671	7,731	8,995	9,449	10,073	10,553	11,004	12,317	13,293	13,854	14,202
Change in IC	(5,029)	(7,924)	(6,652)	(1,720)	(285)	2,004	(0)	(49)	(177)	2,260	(52)	(48)	(50)
FCF	10,651	15,021	12,323	9,451	9,280	7,445	10,073	10,601	11,182	10,057	13,346	13,903	14,252
Return on Invested Capital (ROIC):													
NOPLAT	5,622	7,097	5,671	7,731	8,995	9,449	10,073	10,553	11,004	12,317	13,293	13,854	14,202
Beginning IC	70,081	65,051	57,127	50,475	48,756	48,471	50,475	50,474	50,425	50,248	52,508	52,456	52,407
ROIC	8.0%	10.9%	9.9%	15.3%	18.4%	19.5%	20.0%	20.9%	21.8%	24.5%	25.3%	26.4%	27.1%
Economic Profit (EP):													
Beginning IC	70,081	65,051	57,127	50,475	48,756	48,471	50,475	50,474	50,425	50,248	52,508	52,456	52,407
x (ROIC - WACC)	1.8%	4.7%	3.7%	9.1%	12.3%	13.3%	13.8%	14.7%	15.6%	18.3%	19.1%	20.2%	20.9%
EP	1,278	3,065	2,131	4,603	5,973	6,445	6,944	7,424	7,879	9,202	10,039	10,603	10,954

CVS Health

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:

CV Growth of NOPLAT	2.00%
CV Year ROIC	27.10%
WACC	6.20%
Cost of Equity	8.27%

<i>Fiscal Years Ending Dec. 31</i>	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
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DCF Model:

Free Cash Flow (FCF)	9,451	9,280	7,445	10,073	10,601	11,182	10,057	13,346	13,903	14,252
Continuing Value (CV)										313,317
PV of FCF	8,900	8,228	6,216	7,920	7,848	7,795	6,601	8,249	8,092	182,359

Value of Operating Assets:	252,207
Non-Operating Adjustments	
+ Short term investment	2,778
+ Long term investment	21,096
- Operating lease assets	(17,872)
- Debt Obligations	(52,482)
- PV operating lease liabilities	(18,892)
- ESOP	(231.8)
Value of Equity	186,604
Shares Outstanding	1,289
Intrinsic Value of Last FYE	\$ 144.80
Implied Price as of Today	\$ 147.10

EP Model:

Economic Profit (EP)	4,603	5,973	6,445	6,944	7,424	7,879	9,202	10,039	10,603	10,954
Continuing Value (CV)										260,909
PV of EP	4,334	5,296	5,381	5,460	5,496	5,492	6,040	6,205	6,171	151,856

Total PV of EP	201,732
Invested Capital (last FYE)	50,475
Value of Operating Assets:	252,207
Non-Operating Adjustments	
+ Short term investment	2,778
+ Long term investment	21,096
- Operating lease assets	(17,872)
- Debt Obligations	(52,482)
- PV operating lease liabilities	(18,892)
- ESOP	(232)
Value of Equity	186,604
Shares Outstanding	1,289
Intrinsic Value of Last FYE	\$ 144.80
Implied Price as of Today	\$ 147.10

CVS Health

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
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EPS	\$	4.78	\$	6.03	\$	6.56	\$	7.19	\$	7.69	\$	8.22	\$	9.54	\$	9.97	\$	10.40	\$	10.78
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Key Assumptions

CV growth of EPS 2.00%

CV Year ROE 10.17%

Cost of Equity 8.27%

Future Cash Flows

P/E Multiple (CV Year) 12.82

EPS (CV Year) \$ 10.78

Future Stock Price \$ 138.27

Dividends Per Share	2.20	2.20	2.20	2.20	2.20	2.87	3.34	3.49	3.64
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Discounted Cash Flows	2.03	1.88	1.73	1.60	1.48	1.78	1.91	1.85	1.78	\$	67.66
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Intrinsic Value as of Last FYE \$ 83.71

Implied Price as of Today \$ 85.04

CVS Health

Relative Valuation Models

Ticker	Company	Price	EPS 2023E	EPS 2024E	P/E 23	P/E 24	PEG Ratio 2023E	Enterprise Value	EV/EBITDA 2023E	EV/Sales 2023E
UNH	UnitedHealth Group	\$464.91	\$24.92	\$28.30	18.66	16.43	1.40	491,642	13.80	1.37
ELV	Elevance Health	\$459.96	\$32.79	\$37.01	14.03	12.43	1.39	129,272	11.15	0.78
CI	Cigna	\$271.93	\$24.74	\$28.28	10.99	9.62	1.00	112,593	9.74	0.60
HUM	Humana	\$486.33	\$28.10	\$31.93	17.31	15.23	1.24	68,616	11.93	0.65
CNC	Centene	\$65.54	\$6.38	\$7.25	10.27	9.04	1.22	48,171	8.17	0.32
WBA	Walgreens Boots Alliance	\$33.26	\$4.51	\$4.83	7.37	6.89	28.93	66,939	6.34	0.28
CAH	Cardinal Health	\$71.19	\$5.46	\$6.35	13.04	11.21	4.93	21,115	8.68	0.11
WMT	Walmart	\$136.97	\$6.14	\$6.80	22.31	20.14	5.30	445,219	11.55	0.67
Average (Managed Healthcare)					14.25	12.55	1.25		10.96	0.74
Average (Retail/Pharmacy)					14.24	12.75	5.12		8.86	0.35

CVS Health	\$77.10	\$8.83	\$9.16	8.7	8.4	1.3	162,440	7.23	0.44
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Implied Relative Value:

P/E (EPS23)	\$	125.79
P/E (EPS24)	\$	115.85
PEG (2023E)	\$	105.02
EV/EBITDA (2023E)	\$	114.07
EV/Sales (2023E)	\$	140.92

CVS Health
Key Management Ratios

Fiscal Years Ending Dec. 31	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Liquidity Ratios:													
Current Ratio (Current Assets/Current Liabilities)	0.91	0.88	0.94	1.11	1.11	1.14	1.16	1.16	1.21	1.25	1.31	1.40	1.48
Quick Ratio (Cash + A/R + Marketable Securities)/Current Liabilities	0.48	0.50	0.58	0.70	0.69	0.70	0.73	0.74	0.76	0.80	0.85	0.93	1.01
Asset-Management Ratios:													
Total Asset Turnover (Sales/Total Assets)	1.16	1.25	1.41	1.46	1.48	1.53	1.55	1.57	1.61	1.62	1.62	1.61	1.58
Net Working Capital Turnover (Sales/Net Working Capital)	(66.35)	(33.85)	(33.44)	(47.00)	(43.93)	(56.84)	(56.15)	(55.67)	(55.40)	(80.19)	(80.48)	(81.18)	(82.32)
Receivables Turnover (Sales/Accounts Receivable)	12.36	11.96	11.82	12.01	12.01	12.01	12.01	12.01	12.01	12.01	12.01	12.01	12.01
Inventory Turnover (Net Sales/Inventory)	14.53	16.45	16.89	15.56	15.56	15.56	15.56	15.56	15.56	15.56	15.56	15.56	15.56
Financial Leverage Ratios:													
Debt to Equity (Total Liabilities/Total Shareholder's Equity)	2.31	2.09	2.20	2.13	2.05	1.93	1.83	1.72	1.61	1.49	1.40	1.32	1.25
Equity Multiplier (Total Asset/Total Equity)	3.31	3.09	3.20	3.13	3.05	2.93	2.83	2.72	2.61	2.49	2.40	2.32	2.25
Debt to Asset (Total Liabilities/Total Assets)	0.70	0.68	0.69	0.68	0.67	0.66	0.65	0.63	0.62	0.60	0.58	0.57	0.56
Profitability Ratios:													
Return on Equity (Net Income/Total Shareholder's Equity)	10.3%	10.5%	5.8%	8.4%	10.0%	10.2%	10.4%	10.3%	10.3%	11.1%	10.8%	10.5%	10.2%
Return on Assets (Net Income / Total Assets)	3.1%	3.4%	1.8%	2.7%	3.3%	3.5%	3.7%	3.8%	4.0%	4.5%	4.5%	4.5%	4.5%
Gross Profit Margin (Gross Profit/Revenue)	5.2%	4.5%	2.4%	3.1%	3.5%	3.5%	3.6%	3.6%	3.6%	3.9%	3.9%	3.9%	4.0%
Payout Policy Ratios:													
Dividend Payout Ratio (Dividend/EPS)	36.4%	33.3%	69.6%	46.0%	36.5%	33.5%	30.6%	28.6%	35.0%	35.0%	35.0%	35.0%	35.0%
Total Payout Ratio ((Divs. + Repurchases)/NI)				43.2%	-473.4%	41.9%	38.3%	34.5%	85.2%	66.1%	55.4%	53.5%	50.8%

CVS Health*Present Value of Operating Lease Obligations*

Fiscal Years Ending Dec. 31	2017	2018	2019	2020	2021	2022
Year 1	2,493	2,690	2,699	2,688	2,685	2,685
Year 2	2,361	2,544	2,598	2,583	2,613	2,499
Year 3	2,201	2,399	2,444	2,496	2,398	2,313
Year 4	2,072	2,233	2,335	2,269	2,217	2,142
Year 5	1,934	2,110	2,103	2,089	2,054	1,989
Thereafter	16,090	16,004	15,654	15,017	14,103	12,411
Total Minimum Payments	27,151	27,980	27,833	27,142	26,070	24,039
Less: Cumulative Interest	5,539	6,607	6,725	6,448	5,946	(6,247)
PV of Minimum Payments	21,612	21,373	21,108	20,694	20,124	18,892
Implied Interest in Year 1 Payment		951	983	971	931	885
Pre-Tax Cost of Debt	3.5%	4.4%	4.6%	4.6%	4.5%	4.4%
Years Implied by Year 6 Payment	8.3	7.6	7.4	7.2	6.9	6.2
Expected Obligation in Year 6 & Beyond	1,934	2,110	2,103	2,089	2,054	1,989
Present Value of Lease Payments						
PV of Year 1	2,409	2,577	2,580	2,570	2,569	2,572
PV of Year 2	2,204	2,334	2,375	2,361	2,393	2,293
PV of Year 3	1,985	2,108	2,136	2,181	2,101	2,033
PV of Year 4	1,806	1,880	1,951	1,895	1,859	1,803
PV of Year 5	1,628	1,701	1,680	1,668	1,648	1,604
PV of 6 & beyond	11,580	10,773	10,387	10,019	9,553	8,588
Capitalized PV of Payments	21,612	21,373	21,108	20,694	20,124	18,892

CVS Health

Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	14.752
Average Time to Maturity (years):	4.47
Expected Annual Number of Options Exercised:	3.3

Current Average Strike Price:	\$ 72.96
Cost of Equity:	8.27%
Current Stock Price:	\$77.10

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Increase in Shares Outstanding:	3	3	3	3	2					
Average Strike Price:	\$ 72.96	\$ 72.96	\$ 72.96	\$ 72.96	\$ 72.96	\$ 72.96	\$ 72.96	\$ 72.96	\$ 72.96	\$ 72.96
Increase in Common Stock Account:	241	241	241	241	113	-	-	-	-	-
Share Repurchases (\$)	2,000	1,500	1,500	1,000	1,000	1,000	500	500	500	500
Expected Price of Repurchased Shares:	\$ 77.10	\$ 81.27	\$ 85.67	\$ 90.31	\$ 95.19	\$ 100.34	\$ 105.78	\$ 111.50	\$ 117.53	\$ 123.89
Number of Shares Repurchased:	26	18	18	11	11	10	5	4	4	4
Shares Outstanding (beginning of the year)	1,300	1,277	1,262	1,248	1,240	1,231	1,221	1,217	1,212	1,208
Plus: Shares Issued Through ESOP	3	3	3	3	2	0	0	0	0	0
Less: Shares Repurchased in Treasury	26	18	18	11	11	10	5	4	4	4
Shares Outstanding (end of the year)	1,277	1,262	1,248	1,240	1,231	1,221	1,217	1,212	1,208	1,204
Dividends Paid	2,835	2,794	2,761	2,737	2,719	3,524	4,066	4,233	4,400	4,546

CVS Health*Valuation of Options Granted under ESOP*

Current Stock Price	\$77.10
Risk Free Rate	3.70%
Current Dividend Yield	2.85%
Annualized St. Dev. of Stock Returns	23.03%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
vested at the end of the year and expected to vest in the future	14.752	72.96	4.47	\$ 15.71	\$ 231.778
				\$	-
Total	14.752	\$ 72.96	4.47	\$ 21.88	\$ 231.778

CVS Health
Long-Term Debt / Company's Borrowing

Fiscal Years Ending Dec. 31	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
2.8% senior notes due June 2023	1,300	-	-	-	-	-	-	-	-	-	-
4% senior notes due December 2023	414	-	-	-	-	-	-	-	-	-	-
3.375% senior notes due August 2024	650	650	-	-	-	-	-	-	-	-	-
2.625% senior notes due August 2024	1,000	1,000	-	-	-	-	-	-	-	-	-
3.5% senior notes due November 2024	750	750	-	-	-	-	-	-	-	-	-
5% senior notes due December 2024	299	299	-	-	-	-	-	-	-	-	-
4.1% senior notes due March 2025	950	950	950	-	-	-	-	-	-	-	-
3.875% senior notes due July 2025	2,828	2,828	2,828	-	-	-	-	-	-	-	-
2.875% senior notes due June 2026	1,750	1,750	1,750	1,750	-	-	-	-	-	-	-
3% senior notes due August 2026	750	750	750	750	-	-	-	-	-	-	-
3.625% senior notes due April 2027	750	750	750	750	750	-	-	-	-	-	-
6.25% senior notes due June 2027	372	372	372	372	372	-	-	-	-	-	-
1.3% senior notes due August 2027	2,250	2,250	2,250	2,250	2,250	-	-	-	-	-	-
4.3% senior notes due March 2028	5,000	5,000	5,000	5,000	5,000	5,000	-	-	-	-	-
3.25% senior notes due August 2029	1,750	1,750	1,750	1,750	1,750	1,750	1,750	-	-	-	-
3.75% senior notes due April 2030	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	-	-	-
1.75% senior notes due August 2030	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	-	-	-
1.875% senior notes due February 2031	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	-	-
2.125% senior notes due September 2031	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	-	-
4.875% senior notes due July 2035	652	652	652	652	652	652	652	652	652	652	652
6.625% senior notes due July 2036	771	771	771	771	771	771	771	771	771	771	771
6.75% senior notes due December 2037	533	533	533	533	533	533	533	533	533	533	533
4.78% senior notes due March 2038	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
6.125% senior notes due September 2039	447	447	447	447	447	447	447	447	447	447	447
4.125% senior notes due April 2040	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
2.7% senior notes due August 2040	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250
5.75% senior notes due May 2041	133	133	133	133	133	133	133	133	133	133	133
4.5% senior notes due May 2042	500	500	500	500	500	500	500	500	500	500	500
4.125% senior notes due November 2042	500	500	500	500	500	500	500	500	500	500	500
5.3% senior notes due December 2043	750	750	750	750	750	750	750	750	750	750	750
4.75% senior notes due March 2044	375	375	375	375	375	375	375	375	375	375	375
5.125% senior notes due July 2045	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
3.875% senior notes due August 2047	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
5.05% senior notes due March 2048	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
4.25% senior notes due April 2050	750	750	750	750	750	750	750	750	750	750	750
Finance lease liabilities	1,465	1,465	1,465	1,465	1,465	1,465	1,465	1,465	1,465	1,465	1,465
Other	314	314	314	314	314	314	314	314	314	314	314
Total debt principal	52,753	51,039	48,340	44,562	42,062	38,690	33,690	31,940	29,190	26,940	26,940
- current portion of LT debt	(1,778)	(2,699)	(3,778)	(2,500)	(3,372)	(5,000)	(1,750)	(2,750)	(2,250)	-	-
Long-term debt	50,479	48,340	44,562	42,062	38,690	33,690	31,940	29,190	26,940	26,940	26,940

CVS Health
Sensitivity Tables

Risk-free Rate	Beta							
	\$ 147.10	0.68	0.72	0.78	0.83	0.88	0.93	0.98
	3.4%	184.82	176.36	164.74	155.91	147.76	140.21	133.20
	3.5%	180.91	172.72	161.45	152.87	144.95	137.60	130.77
	3.6%	177.12	169.19	158.25	149.92	142.22	135.07	128.41
	3.7%	173.45	165.76	155.15	147.06	139.56	132.59	126.11
	3.8%	169.89	162.44	152.14	144.27	136.97	130.19	123.86
	3.9%	166.45	159.22	149.21	141.55	134.45	127.84	121.67
	4.0%	163.10	156.09	146.36	138.91	132.00	125.55	119.53

Pre-tax Cost of Debt	Equity Risk Premium							
	\$ 147.10	4.8%	5.0%	5.3%	5.5%	5.8%	6.0%	6.3%
	2.9%	192.56	183.91	175.85	168.31	161.24	154.61	148.36
	3.4%	183.06	175.10	167.65	160.66	154.10	147.92	142.10
	3.9%	174.36	167.00	160.09	153.60	147.49	141.72	136.27
	4.4%	166.35	159.53	153.11	147.06	141.35	135.95	130.84
	4.9%	158.97	152.62	146.63	140.98	135.63	130.57	125.77
	5.4%	152.14	146.21	140.62	135.32	130.30	125.54	121.01
	5.9%	145.80	140.26	135.01	130.03	125.31	120.83	116.55

CV growth of NOP/LAT	CV Year ROIC							
	\$ 147.10	11.4%	16.4%	21.4%	26.4%	31.4%	36.4%	41.4%
	0.5%	112.66	114.18	115.00	115.50	115.84	116.09	116.28
	1.0%	117.70	121.03	122.81	123.92	124.67	125.22	125.63
	1.5%	123.80	129.34	132.29	134.13	135.38	136.29	136.98
	2.0%	131.36	139.62	144.03	146.77	148.63	149.99	151.02
	2.5%	140.96	152.69	158.94	162.83	165.48	167.40	168.86
	3.0%	153.57	169.83	178.51	183.90	187.58	190.25	192.27
	3.5%	170.84	193.34	205.34	212.80	217.88	221.57	224.37

Medical Benefit Ratio	Operating Adjustment							
	\$ 147.10	-0.25%	0.00%	0.25%	0.50%	0.75%	1.00%	1.25%
	82%	231.75	218.04	205.21	193.23	182.02	171.55	161.75
	83%	216.36	202.65	189.82	177.84	166.63	156.16	146.36
	84%	200.97	187.26	174.43	162.45	151.24	140.77	130.98
	85%	185.58	171.87	159.04	147.06	135.85	125.38	115.59
	86%	170.19	156.48	143.65	131.67	120.46	109.99	100.20
	87%	154.80	141.09	128.26	116.28	105.07	94.60	84.81
	88%	139.41	125.70	112.87	100.89	89.68	79.21	69.42

Revenue per member Growth Rate	HealthCare Benefit Growth Rate							
	\$ 147.10	-2.5%	-2.0%	-1.5%	-1.0%	-0.5%	0.0%	0.5%
	-0.5%	120.07	127.73	136.54	146.67	158.28	171.56	186.70
	0.0%	120.13	127.80	136.63	146.77	158.39	171.68	186.85
	0.5%	120.20	127.87	136.71	146.86	158.50	171.81	186.99
	1.5%	120.32	128.02	136.88	147.06	158.72	172.06	187.28
	2.5%	120.45	128.16	137.05	147.25	158.94	172.31	187.57
	3.5%	120.58	128.31	137.21	147.44	159.16	172.57	187.86
	4.0%	120.64	128.38	137.30	147.54	159.27	172.69	188.01

Operating Adjustment	COGS (less D&A)							
	\$ 147.10	81%	82%	83%	84%	85%	86%	87%
	-0.25%	319.45	274.83	230.20	185.58	140.96	96.34	51.72
	0.00%	297.51	255.63	213.75	171.87	129.99	88.11	46.23
	0.25%	276.99	237.68	198.36	159.04	119.73	80.41	41.10
	0.50%	257.81	220.89	183.98	147.06	110.14	73.22	36.30
	0.75%	239.89	205.21	170.53	135.85	101.17	66.49	31.81
	1.00%	223.14	190.55	157.96	125.38	92.79	60.20	27.62
	1.25%	207.48	176.85	146.22	115.59	84.95	54.32	23.69