

## The Henry Fund

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# CVS Health Corp. (CVS)

March 8, 2024

## Healthcare – Pharmacy Benefit Management

Stock Rating

Buy

### Investment Thesis

We recommend a buy rating on CVS Health with a target price range of \$91-\$93, representing potential upside of 32% to 35%. While the market focuses on elevated debt levels, potential regulation, and short-term Medicare Advantage rates, we focus on the favorable position to gain share amongst competitors as its recent acquisitions unlock synergies in all three of its main operating segments.

### Drivers of Thesis

- CVS could capture increased Pharmacy Benefit Management business as the company aims to increase transparency through its new CVS Caremark TrueCost and CVS CostVantage pricing models.
- High utilization of prescription drugs and an aging population in the United States, coupled with a 3.7% CAGR through 2030 in the U.S. pharmacy market could drive top and bottom-line growth through CVS's diversified revenue streams.
- CVS could continue to expand its existing wide moat, as the company fills roughly 1 in 4 prescriptions in the United States.

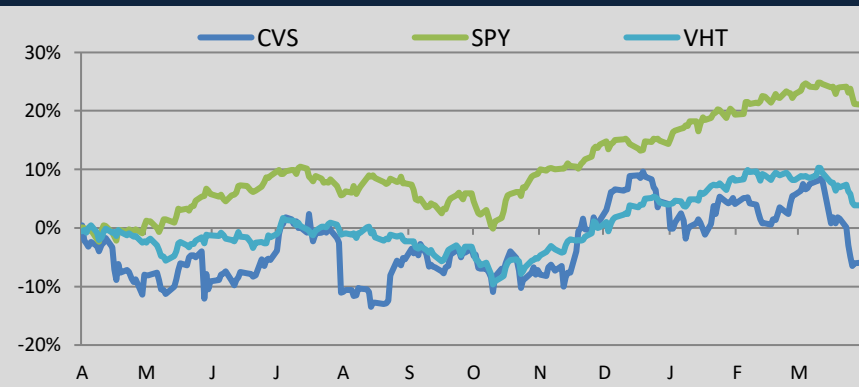
### Risks to Thesis

- CVS has taken on elevated debt levels in recent years to fuel M&A activity. Overpaying for future acquisitions could further dampen its balance sheet.
- Management cut FY24 guidance citing an increase in Medicare Advantage costs. This trend could continue in the years ahead as the aging population of the United States faces increased numbers of hip and knee surgeries.
- Increasing regulation and oversight through the PBM Transparency Act of 2023 could cause a decline in revenue and limit the ability to expand margins in CVS's largest operating segment.

### Earnings Estimates

Year	2021	2022	2023	2024E	2025E	2026E
EPS	\$6.00	\$3.16	\$6.49	\$6.89	\$7.82	\$8.53
HF est.	-	-	-	\$6.92	\$7.80	\$8.54
Growth	9.29%	-47.33%	105.38%	6.63%	12.72%	9.49%

### 12 Month Performance



### Target Price

\$91-93

Henry Fund DCF	\$93
Henry Fund DDM	\$91
Relative Multiple	\$116

### Price Data

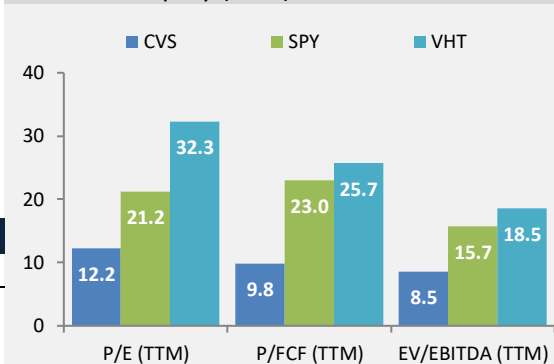
Current Price	\$69.03
52wk Range	\$64.41 – 83.25
Consensus 1yr Target	\$87.91

### Key Statistics

Market Cap (B)	\$87.0
Shares Outstanding (M)	1,285
Institutional Ownership	80.6%
Beta	0.80
Dividend Yield	3.5%
Est. 5yr Growth	3.7%
Price/Earnings (TTM)	12.2
Price/Earnings (FY1)	11.5
Price/Sales (TTM)	0.3
Price/Book (MRQ)	1.3

### Profitability

Operating Margin	4.4%
Profit Margin	2.3%
Return on Assets (TTM)	3.4%
Return on Equity (TTM)	11.3%



### Company Description

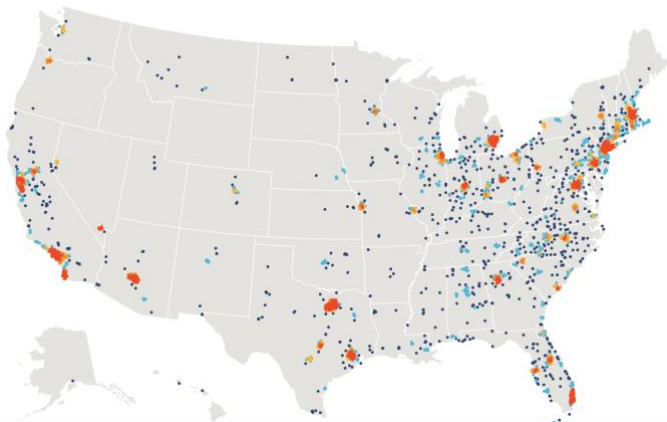
Founded in 1963, CVS Health Corp. has grown to offer a diverse set of healthcare services, operating through four business segments: Pharmacy Services, Retail/Long-Term Care, Health Care Benefits, and Corporate/Other. With an extensive network of 9,160 retail locations, CVS Health provides a comprehensive range of essential healthcare services to consumers in the United States. Home to the largest pharmacy benefit manager (CVS Caremark), the company processes over 2 billion prescription claims annually.

## COMPANY DESCRIPTION

Founded in 1963, CVS Health Corp. has grown to offer a diverse set of healthcare services, operating through four business segments: Pharmacy Services, Retail/Long-Term Care, Health Care Benefits, and Corporate/Other. With an extensive network of 9,160 retail locations, CVS Health provides a comprehensive range of essential healthcare services to consumers in the United States. Home to the largest pharmacy benefit manager (Caremark), the company processes over 2 billion prescription claims annually. CVS engages in frequent M&A activity to further expand their scope and gain share amongst competitors. Through the acquisition of Aetna, the company also operates as a health insurer, serving roughly 26 million medical members in 2023. Additionally, the company's recent acquisitions of Oak Street and Signify Health could provide significant synergies within its existing business segments as it adds primary care services to the mix.

The image below displays the density of the company's retail footprint of 9,160 stores which serve 52 states and territories, and a total of 3,393 cities. Areas shaded in red indicate cities with more retail locations per 1M people.

### CVS Locations in the U.S.



Source: Scrape-It

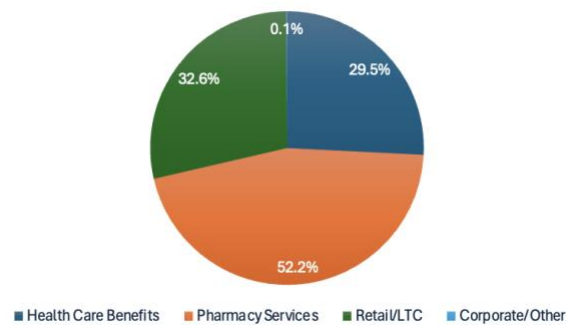
Given its extremely large footprint, CVS implemented a policy change in 2021 to reduce its total store count to cut costs and get ahead of losses<sup>2</sup>. Furthermore, CVS cited shifts in population, consumer purchasing behaviors, and anticipated healthcare demands as key factors influencing their approach to optimizing their retail footprint. Since this announcement, the company is expected to close roughly 900 stores by the end of 2024. We estimate the total store count to be 9,123 by year-end 2024 and 9,031 by year-end 2025. From 2025 onward, we expect a steady store closure rate of 1.0%, resulting in 8,334 stores by

2033. Given this decline in store count, we expect revenue per store to increase from \$12.4 million in 2023 to \$26.1 million by 2033.

## Business Segments

CVS generates revenues through four segments as noted previously. The following graphic displays these segments for FY23:

CVS Revenue Decomposition (2023)



Source: CVS 10K

Although four segments drive revenue, the overwhelming majority (99.9%) is attributable to Pharmacy Services, Health Care Benefits, and Retail/Long-Term Care. The Corporate/Other segment makes up the remaining .1% and is home to various products for which CVS no longer accepts new customers such as large case pensions and long-term care insurance products. Thus, the focus will be on the primary revenue drivers in the following discussion.

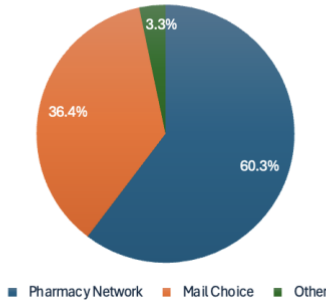
### Pharmacy Services

The Pharmacy Services segment is home to CVS's pharmacy benefit manager, Caremark. As of FYE 2023, revenue attributable to this segment represented 52.2% of total revenue for the company. The segment provides a full range of PBM solutions, delivers health care services in its medical clinics, both virtually and in the home, and offers provider enablement solutions<sup>3</sup>. Its PBM solutions primarily focus on health plan offerings and administration, formulary management, retail pharmacy network management services, and specialty and mail order pharmacy services<sup>3</sup>. The segment's clients and customers are employers, insurance companies, unions, government employee groups, and managed Medicaid plans<sup>3</sup>. In 2023, CVS announced a new pricing model, CVS CostVantage, which will eventually require all clients and customers to use the company's retail pharmacies for their prescription claims<sup>5</sup>. This linkage leads us to build certain

revenue assumptions into our model, which is discussed in further detail later in the report.

Revenues in this segment are driven through three streams: Pharmacy Network, Front Store, and Other. The image below displays the decomposition of revenues for 2023:

**Pharmacy Services Revenue Decomposition (2023)**



Source: CVS 10K

Pharmacy network revenues are tied to claims filed at retail and specialty pharmacies, which include the Company’s retail/long-term care pharmacies. Additionally, mail choice revenues are tied to specialty mail claims at retail pharmacies, as well as mail order and specialty claims fulfilled by the retail/long-term care segment<sup>3</sup>.

As consumers have geared more towards convenience since the COVID-19 pandemic, we forecast that the mail choice channel will slightly take share from the pharmacy network channel, with revenue percentages of 54.8%, 41.3%, and 3.8% in 2033, respectively. We also factor in prescription drug price decreases associated with the Inflation Reduction Act<sup>4</sup>. As negotiated prices are expected to be implemented by 2026, we expect revenue growth to slow YoY before turning negative in 2028 and 2029. From 2030 onward, we expect management to recognize the benefits of implementing low-cost biosimilars onto their formularies, and thus return to a positive growth rate.

In our view, this segment could drive healthy margin expansion as mail choice sees more adoption. The factors we believe could drive this include:

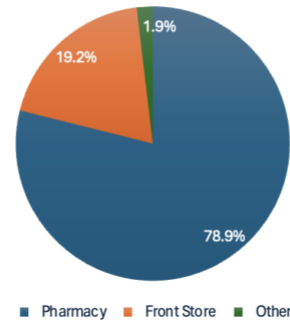
- Mail order pharmacies typically see lower operational costs than retail pharmacies as they don’t require the same level of staffing or physical space.
- Mail order pharmacies mostly ship 90-day supplies of medications, which is more cost-effective than the traditional 30-day supply from retail pharmacies.

**Retail/Long-Term Care**

The Retail/Long-Term Care segment is home to CVS’s vast network of pharmacies, which dispense prescriptions and provide various services including diagnostic testing and vaccination administration<sup>3</sup>. CVS’s retail pharmacies also provide a wide assortment of health and wellness products and general merchandise<sup>3</sup>.

Revenues in this segment are primarily driven through three streams: Pharmacy, Front Store, and Other. The image below displays the decomposition of revenues for 2023:

**Retail/LTC Revenue Decomposition (2023)**



Source: CVS 10K

Pharmacy revenues are driven through the sale of prescription drugs and various pharmaceutical products, while front store and other are driven through the sale of over-the-counter drugs, consumer health products, beauty products, and personal care products<sup>3</sup>.

In terms of CVS’s retail landscape, we followed management guidance for total store count, as the company has been closing stores in recent years. We believe that management will recognize the benefits of these store closures, leading us to forecast a 1.0% decrease in stores YoY once their target is met in 2024. The table below displays our forecasted total stores from 2024-2033:

2024E	2025E	2026E	2027E	2028E
9,123	9,031	8,941	8,852	8,763
2029E	2030E	2031E	2032E	2033E
8,675	8,589	8,503	8,418	8,334

Source: Henry Fund Model

Total store counts were then multiplied by our revenue per store assumptions, which range from growth of 5.4% to 8.6%, to arrive at our forecasted total revenues for this

segment. This range was determined primarily due to two factors: (1) our belief that U.S. consumers will take advantage of drug affordability as drug price decreases are implemented under the IRA, and (2) an aging U.S. population which could require larger amounts of prescription drugs. The table below displays historical and our forecasted revenue per store from 2019-2028:

2019	2020	2021	2022	2023
8.8	9.2	10.1	11.0	12.4
2024E	2025E	2026E	2027E	2028E
13.4	14.2	14.9	16.2	17.6

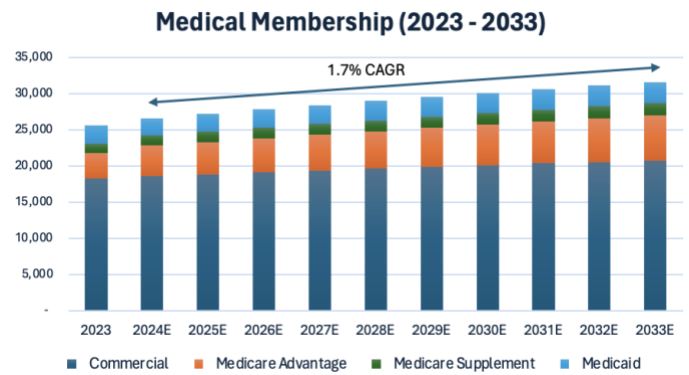
Source: Henry Fund Model \*Revenue in \$MM

### Health Care Benefits

In 2018, CVS expanded its services by acquiring Aetna, marking the introduction of the Health Care Benefits segment. The acquisition, valued at \$78 billion, was financed through a combination of a \$40 billion debt issue and existing cash. This segment now operates as a leading diversified health care benefits provider and serves more than 25 million medical members as of FYE 2023. It offers a broad range of traditional, voluntary, and consumer-directed health insurance products and services, including medical, pharmacy, Medicare Advantage and Medicare Supplement plans, and Medicaid health care management services<sup>3</sup>. Premiums through these health care plans dominate segment revenues, representing 93.8% as of FYE 2023.

Our forecasts are driven through total medical membership, along with assumptions placed on revenue per member. Two key points we feel are necessary to highlight revolve around the following: (1) contracts associated with this segment are up for renewal every 3 years, implying that 33% of the book of business is up for grabs every year, and (2) there are limitations to growth due to the finite population size in the United States along with other competitors attempting to expand their membership, limiting the ability to acquire vast membership YoY in the future. That said, we believe our forecasts will realize as management continues to adopt biosimilars on formularies provided to potential members.

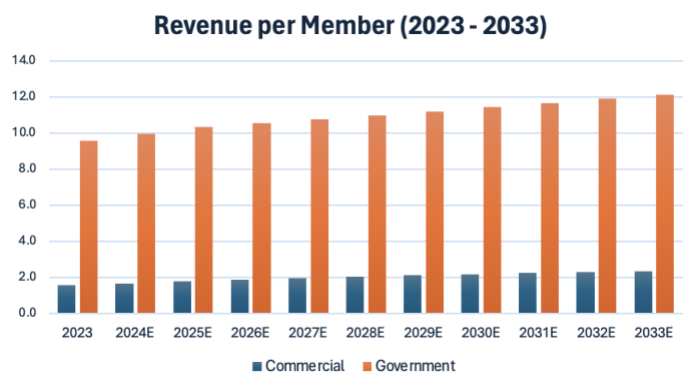
To forecast total medical membership, we largely followed consensus estimates. Our growth rates imply a CAGR of 1.7% from 2024-2033, largely driven by government members (Medicare and Medicaid). The following image displays our forecasts for total medical membership over our forecast horizon:



Source: Henry Fund Model \*Membership in thousands

Commercial membership dominates in not only historical, but also our forecasted years, and it is important to note that the majority of revenue comes through Medicare Advantage, Medicare Supplement, and Medicaid members. Although the majority of membership is commercial, we do not foresee the potential loss of membership as having a material impact on revenues or earnings for this segment. Given that the U.S. federal government is a significant customer, we view government premiums as a revenue stream that can only grow higher. Eliminating or reducing the funding associated with these plans is essentially sacrificing the health of the U.S. consumer and will likely lead voters to support the party who will fight for their health.

The following image displays our forecasts for revenue per member:



Source: Henry Fund Model \*Revenue per Member in thousands

Our forecasts for revenue per member imply a CAGR of 3.4% for commercial and a CAGR of 2.0% for government.

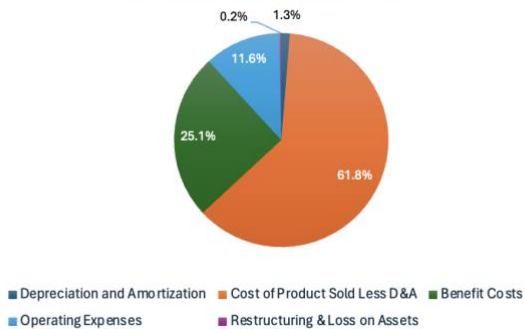
### Cost Structure Analysis

Besides the occasional restructuring, litigation, and impairment charges, CVS primarily reports incurred costs

through three line items: cost of product sold, benefit costs, and operating expenses. Due to the nonrecurring nature of restructuring, litigation, and impairment charges, we did not incorporate any assumption of future charges over our forecast. Thus, the following discussion highlights our assumptions relating to the operating costs that make up roughly 99.8% of costs in a given year.

Below we display the breakdown of each of CVS's reported expenses as a percentage of total costs for FY23. To showcase the percentage of depreciation and amortization, we back these out of cost of product sold:

### Expense Breakdown (2023)

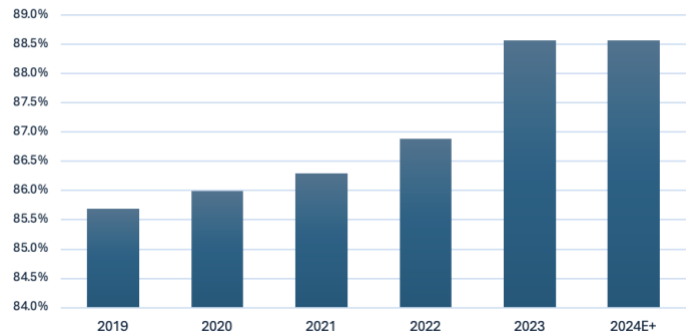


Source: CVS 10K

### Cost of Product Sold

Our forecasts for cost of product sold incorporate our expectations for inflation going forward. We believe that the Fed's target inflation rate of 2.0% does not represent the shifting geopolitical landscape, trade patterns, and structural changes in the current economy. Although this target was not introduced until 2012, if we turn the page back historically, the most recent period of elevated inflation dates to the early 1980s, with inflation rates of 13.5% in 1980 and 6.1% in 1982<sup>6</sup>. If we examine inflation rates since this period to 2010, just 5 years have been below or met this 2.0% target (1986, 1998, 2002, 2009, and 2010)<sup>6</sup>. The average inflation rate over this period was 3.0%<sup>6</sup>. Given this brief history lesson, we believe that a 2.0% target is quite optimistic, and believe the Fed should revise this target to 2.5%-3.0%, at least in the short term. Due to our expectations, we foresee CVS's cost of product sold over the forecast resembling the level seen in FY23 (88.6%) in each period. Below displays CVS's historical costs and our forecasted percentage:

### Cost of Product Sold % of Product Revenue

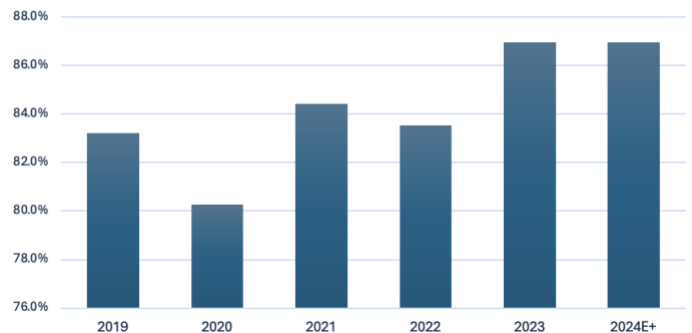


Source: CVS 10K & Henry Fund Model

### Benefit Costs

Our benefit costs assumptions follow a similar thinking but relates primarily to the impact that COVID-19 had on delayed procedures. Benefit costs can be interpreted as an insurers medical cost ratio, which represents the ratio of medical costs to earned premiums. Due to the COVID-19 pandemic, most insurers saw less utilization of benefits as consumers delayed procedures, ultimately reducing total claims cost. We foresee benefit costs to closely resemble the rate seen in FY23 (86.9%) over our forecast period as consumers begin to plan for the procedures they delayed, while also taking advantage of increased protections from medical costs under the ACA. Below displays CVS's historical costs and our forecasted percentage:

### Benefit Costs % of Premium Revenue

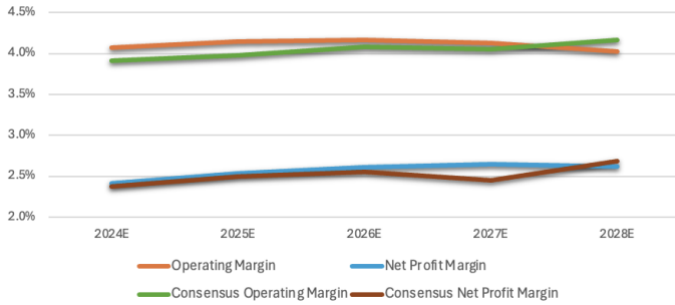


Source: CVS 10K & Henry Fund Model

### Operating and Net Profit Margin

Taking these cost assumptions into consideration, we expect CVS's operating margin to slightly decline over the forecast period. On the other hand, we expect net profit margin to steadily increase over the forecasted period. This steady increase is attributable to our assumption that CVS will begin to pay down its elevated debt levels, reducing the interest expense currently seen. Below displays our forecasts for both margin metrics:

### Operating Margin & Net Profit Margin vs. Consensus (2024 - 2028)



Source: FactSet & Henry Fund Model

Looking at the image above, our margin estimates are largely consistent with consensus estimates. The largest deviation for both operating and net profit margin is 20 basis points.

### ESG Analysis

The Henry Fund does not consider ESG to be a screening category; however, we view it as important to provide a brief section highlighting this framework as it is becoming increasingly important in the investment decision process.

In May 2020, CVS unveiled its ESG strategy, Health 2030. This strategy lays the foundation for how the company will drive a healthier and more sustainable future through four key areas: Healthy People, Healthy Business, Healthy Community, and Healthy Planet.

Below we display CVS’s ESG risk rating and industry rank as it compares to the peer group we have identified. The higher the risk rating, the more concern investors may have.

Company	ESG Rating	
	Score	Category
CVS Health Corp. (CVS)	22.0	Medium
Humana, Inc. (HUM)	20.0	Medium
United Health Group, Inc. (UNH)	15.3	Low
The Cigna Group (CI)	14.5	Low

Source: Morningstar Sustainalytics

In our view, CVS has a higher ESG rating due to opioid settlements in recent years. In 2022, CVS agreed to a financial resolution of \$5 billion, designed to resolve all opioid lawsuits and claims against the company<sup>36</sup>. Although CVS ranks higher than the peer group in terms of ESG ratings, we do not view this as overly worrisome. The following highlights key milestones we believe are important to our story:

- Specialty generic dispensing rate remained at 22%, resulting in \$899M in savings for PBM clients and members<sup>7</sup>.
- Eight Medicaid health plans achieved NCQA Health Equity Accreditation, with Michigan achieving Health Equity Plus accreditation (one of the first in the country)<sup>7</sup>.
- Named for the 6<sup>th</sup> consecutive year by the Points of Light Institute to the Civic 50 list of America’s most community-minded companies<sup>7</sup>.

### Debt Maturity Analysis

Management has taken on debt levels to fuel the majority of their mergers and acquisitions activity in recent years. The acquisition that contributed to CVS’s extreme increase in debt levels dates to 2018 with the purchase of Aetna, a managed health company. The total cost of the acquisition was roughly \$70 billion, \$40 billion of which was funded through an issue of unsecured senior notes at a weighted-average rate of 4.2%<sup>3</sup>. From 2018 to 2022, CVS consistently paid down their unusually high debt levels from \$71.4 billion to \$50.5 billion, respectively. In 2023, the company saw an uptick once again due to its acquisition of Oak Street Health, funded with borrowings of \$5 billion from a term loan agreement<sup>3</sup>. According to S&P Global, CVS has a long-term debt rating of BBB. This is largely similar to our peer group (HUM with a BBB rating, CI with a BBB+ rating, and UNH with A+ rating). Below we discuss our expectations going forward, along with a five-year debt maturity schedule:

#### Five-Year Debt Maturity Schedule

Fiscal Year	Coupon*	Payment (\$mil)
2024	3.6%	\$2,705
2025	4.0%	3,785
2026	3.6%	4,008
2027	3.7%	3,379
2028	4.3%	5,007
Thereafter	4.7%	41,685
Subtotal	-	60,569
Commercial Paper	-	200
Finance Lease Liabilities	-	1,391
<b>Total Debt Principal</b>	<b>4.0%</b>	<b>\$62,160</b>

Source: CVS 10K \*Average Coupon Rate in Given Year

While we examine the company’s five-year debt schedule, we do not see any room to worry. CVS has a history of generating strong operating free cash flow (\$13.4 billion in 2023). Additionally, CVS had just under \$8 billion in cash

and cash equivalents in 2023.

It is our belief that management has had a consistent record of overspending on these acquisitions and has been punished by the Street for taking on these debt levels. Although these acquisitions serve as a way for CVS to continue to grow, we believe management has recognized the effect that elevated debt levels have had. Although frequent M&A is likely to occur, we expect them to more closely evaluate the sheer cost of this activity.

Taking the above into consideration, we expect CVS to continue its recent trend of paying down its debt and returning to a more historic capital structure. The following is a table that highlights our forecasts for long-term debt:

2024E	2025E	2026E	2027E	2028E
56,586	51,728	47,475	44,762	38,134
2029E	2030E	2031E	2032E	2033E
37,611	31,891	30,141	33,111	27,141

Source: Henry Fund Model (in millions)

## RECENT DEVELOPMENTS

### Recent Earnings Announcement

CVS Health reported Q4 and FY23 results on February 7, 2024. Karen Lynch, the President and CEO, highlighted the company's adjusted operating income of \$4.2 billion and adjusted EPS of \$2.12 for the fourth quarter. Tom Cowhey, the Chief Financial Officer, expressed that fourth-quarter revenues grew 12% YoY to \$94 billion. For FY23, total revenues grew 11% YoY to \$358 billion, with adjusted operating income reaching \$17.5 billion and adjusted EPS totaling \$8.74.

Compared to Street consensus, CVS Health's revenue, profit, and EPS results exceeded market expectations. We believe this largely reflects the strength of its diversified business streams. Management cited the factors attributable to this outperformance include strong operational execution across the company's segments, and growth in healthcare benefits (particularly through Medicare Advantage)<sup>9</sup>. Looking forward, we believe CVS's commitment to achieving 4-5% margin in Medicare Advantage can have dramatic results for the company's financials, as roughly 55 million CVS Health customers engage with at least two of the company's offerings<sup>9</sup>.

Management revised its full-year 2024 guidance,

expressing caution regarding utilization pressure in Medicare Advantage (medical benefit ratio increased 270 basis points to 88.5%)<sup>9</sup>. They foresee the medical benefit ratio to slowly decline to 87.7%; however, out of the abundance of caution, we are forecasting higher benefits costs in each of our forecasted periods. They did not provide revenue guidance but noted the revision of adjusted EPS to at least \$8.30 (from \$8.50) and cash flow from operations of at least \$12 billion (from \$12.5 billion).

Lastly, we view it as important to highlight the outlined initiatives to address challenges in the Pharmacy Services and Retail/LTC segments. The company recently introduced CVS CostVantage and CVS Caremark TrueCost (further discussed below) and expressed their commitment to driving greater adoption of biosimilars. We believe these initiatives will greatly enhance transparency, lower costs, and improve access to affordable healthcare, all of which could contribute to CVS gaining share from competitors.

### CVS CostVantage

At its 2023 Investor Day, CVS announced CVS CostVantage. This new model for retail pharmacy evolves from the traditional pharmacy reimbursement model and brings greater transparency and simplicity to the system<sup>5</sup>. The model will use a transparent formula built on the cost of the drug, a set markup, and a fee that reflects the care and value of pharmacy services<sup>5</sup>. CVS expects this model to create more predictable and stable earnings for pharmacies by aligning reimbursement more closely with the actual cost and value provided. It is expected to launch with PBMs for their commercial payors in 2025<sup>5</sup>.

We believe this initiative has potential to take share away from competitors in the PBM industry because the firms identified in the peer group have yet to announce further efforts to improve the transparency of their businesses. We also believe this initiative will provide CVS with a reduced impact to regulation as Federal and State governments continue to crack down on PBM business practices.

### CVS Caremark TrueCost

At its 2023 Investor Day, CVS also announced CVS Caremark TrueCost. Similarly to CostVantage, the aim is to provide client pricing that reflects the true net cost of prescription drugs, with visibility into administrative fees<sup>5</sup>.

This model is targeted at CVS's PBM services, and is expected to launch in 2025.

We believe this initiative will reaffirm to clients and customers that CVS holds true to its commitment to providing the best prescription drug prices possible. Given this model is similar to Mark Cuban's Cost Plus Drug model, which has seen success in recent years, we expect this pricing model to have a significant impact on the drug market.

## INDUSTRY TRENDS

### Mergers and Acquisitions (M&A)

M&A has been a common way for companies to fuel top and bottom-line growth, gain share amongst peers, and diversify revenue streams. The main drivers of this activity we identified are increasing scale and efficiency (leveraging size to negotiate better terms with drug manufacturers) and diversification of services. Below, recent M&A activity is provided for each company in the peer group:

#### CVS Health Corp.

##### *CVS acquires Oak Street Health*

In May 2023, CVS Health announced that it had completed its acquisition of Oak Street Health. The companies entered into a definitive agreement in February 2023, with a total transaction value of approximately \$10.6 billion, financed with borrowings of \$5 billion and existing cash<sup>10</sup>. The acquisition reiterates CVS's continued efforts to improve long-term health of its customers by improving outcomes and reducing costs<sup>10</sup>.

##### *CVS acquires Signify Health*

In March 2023, CVS Health announced that it had completed its acquisition of Signify Health. The companies entered into a definitive agreement in September 2022 with a total transaction value of approximately \$8 billion, funded with cash<sup>11</sup>. CEO Karen Lynch explained, "This transaction advances our value-based care strategy by enhancing our presence in the home."<sup>11</sup>

##### *CVS acquires Aetna*

In November 2018, CVS completed debatably one of the most significant acquisitions in recent years within the

industry. The companies entered into a definitive agreement in December 2017 with a total transaction value of approximately \$78 billion, funded through a \$40 billion debt issue and existing cash on hand<sup>12</sup>. The acquisition provided CVS with access to Aetna's existing membership of roughly 22 million individuals. CVS's previous CEO stated, "By fully integrating Aetna's medical information and analytics with CVS Health's pharmacy data, we can develop new ways to engage consumers in their total health and wellness... leading to improved health outcomes and lower medical costs."<sup>12</sup>

#### The Cigna Group

##### *The Cigna Group sells Medicare Business to HCSC*

In January 2024, HCSC signed a definitive agreement to acquire The Cigna Group's Medicare Advantage, Medicare Supplemental, Medicare D, and CareAllies businesses<sup>13</sup>. The total transaction value was approximately \$3.7 billion, with both companies agreeing to enter into a four-year service agreement. Under the agreement, Evernorth Health Services (The Cigna Group's PBM) will continue to provide pharmacy benefit services to the Medicare businesses<sup>13</sup>.

##### *The Cigna Group acquires Express Scripts*

In December 2018, The Cigna Group completed debatably one of the most significant acquisitions in recent years within the industry<sup>14</sup>. The deal gave The Cigna Group access to one of the largest PBMs in the country, with a total transaction value of \$67 billion. The acquisition positioned The Cigna Group to deliver more health care options, deliver better care for its customers, and drive down costs for consumers<sup>14</sup>.

#### UnitedHealth Group, Inc.

##### *UnitedHealth Group Acquires Change Healthcare*

In October 2022, UnitedHealth Group completed its acquisition of Change Healthcare for a total transaction value of \$13 billion after a long battle with the Department of Justice<sup>15</sup>. Grounds for the lawsuit were discussed by Attorney General Doha Mekki, "The proposed transaction threatens an inflection point in the health care industry by giving United control of a critical data highway through which about half of all Americans' health insurance claims pass each year."<sup>16</sup>



## MARKETS AND COMPETITION

### Humana, Inc.

#### *Humana acquires Inlusa*

In August 2022, Humana announced that it will acquire the assets of Inlusa, a Managed Care Organization that provides long-term care to older adults and adults with disabilities<sup>17</sup>. The terms and value of the acquisition were not disclosed.

#### *Humana acquires One Homecare Solutions*

In June 2021, Humana announced that it signed a definitive agreement to acquire One Homecare Solutions. Management cited that the acquisition would help advance their goal of providing a value-based home health offering<sup>17</sup>. The terms and value of the acquisition were not disclosed.

### Industry Regulation

As one would imagine after reading about the large amounts of M&A activity, Federal and State governments have started to crack down on the competitiveness and lack of transparency within the industry. Between the years of 2017 and 2023, laws regulating PBMs accounted for more than half of all enacted prescription drug legislation<sup>18</sup>. Furthermore, all 50 states in the U.S. have enacted at least one law on PBMs, accounting for more than 150 in total<sup>18</sup>.

In 2022, the Federal Trade Commission (FTC) launched an investigation into the industry, requiring the six major players within the industry to provide records relating to their business practices<sup>19</sup>. The goal of the investigation was to determine the impact of vertically integrated PBMs on the cost of prescription drugs<sup>19</sup>.

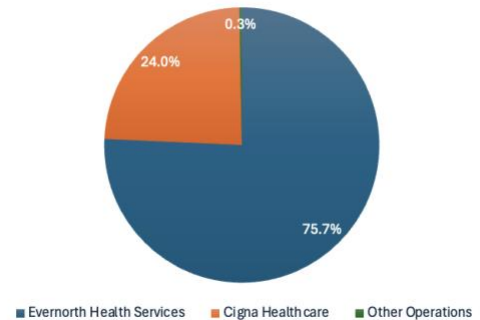
In 2023, the Senate introduced the PBM Transparency Act of 2023, which aimed to stop deceptive business practices plaguing the industry. Specifically, the Act would make it illegal for PBMs to engage in spread pricing, require PBMs to pass along 100% of rebates, and require PBMs to file annual reports with the FTC<sup>20</sup>. Although this has been introduced, it is unlikely to pass as attempts in prior years have been unsuccessful.

### Peer Comparisons

#### The Cigna Group (CI)

The Cigna Group, together with its subsidiaries, is a global health company<sup>21</sup>. It operates through three segments: Evernorth Health Services, Cigna Healthcare, and Other. The company employs 71,300+ individuals as of 2023 and was founded in 1792.

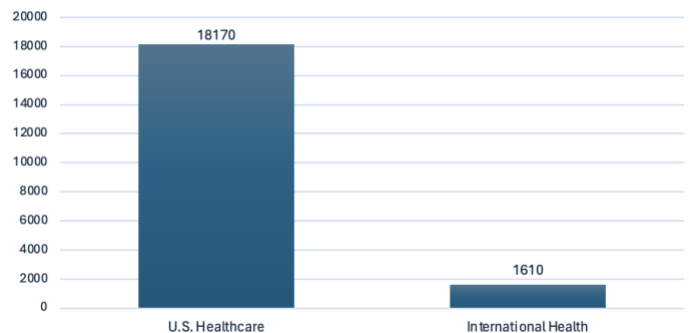
**The Cigna Group Revenue Decomposition (2023)**



Source: The Cigna Group 10K

The Cigna Group generates an overwhelming majority of its revenue from its Evernorth Health Services segment, which represents the company's PBM. It includes a broad range of coordinated and point solution health services and capabilities<sup>21</sup>. The Cigna Healthcare segment provides comprehensive medical and coordinated solutions to members in the United States (Commercial and Government) and international businesses. Below displays the breakdown of total membership under the Cigna Healthcare segment:

**The Cigna Group Membership Breakdown (2023)**



Source: The Cigna Group 10K \*Membership in Thousands

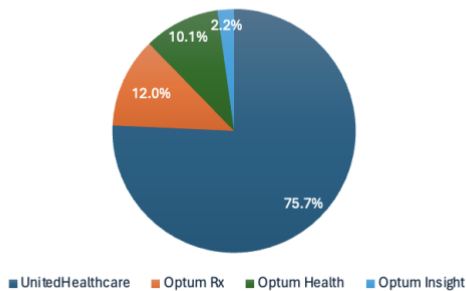
The Cigna Group also has a strong management team in place, with the average tenure for the Board and management being 7 and 8 years, respectively<sup>22</sup>.

Additionally, 92% of the Board is an independent director<sup>22</sup>.

### UnitedHealth Group, Inc. (UNH)

UnitedHealth Group is a diversified health care company, providing patient-centered care, pharmacy services, and data consultancy services. It operates through four segments: UnitedHealthcare, Optum Rx, Optum Health, and Optum Insight. The company employs 400,000+ individuals as of 2023 and was founded in 1977.

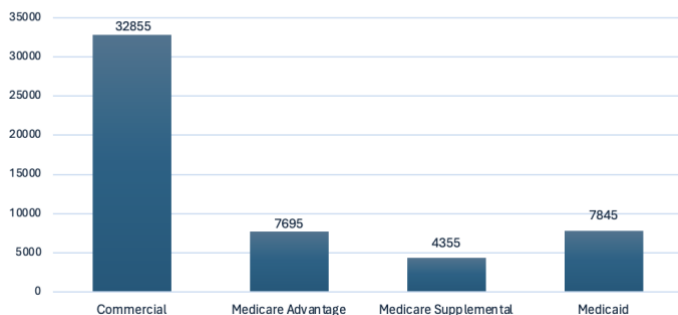
**UnitedHealth Group Revenue Decomposition (2023)**



Source: UnitedHealth Group 10K

UnitedHealth Group generates the majority of its revenue from its UnitedHealthcare segment, which provides a full range of health benefits, enabling affordable coverage and delivering access to high-quality care<sup>23</sup>. Optum Rx is the PBM segment of the business and contracts with more than 67,000 retail pharmacies nationwide<sup>37</sup>. Below displays the breakdown of total membership under the UnitedHealthcare segment:

**United Health Group Membership Breakdown (2023)**



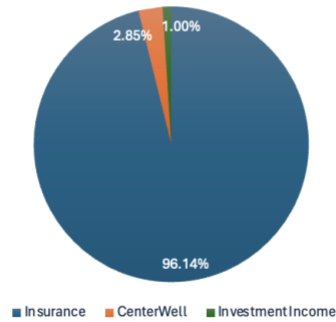
Source: UnitedHealth Group 10K \*Membership in Thousands

In terms of management and the Board, UnitedHealth Group is positioned similar to CVS and The Cigna Group. The average tenure for the Board and management is 7 and 6 years, respectively<sup>22</sup>. Additionally, 73% of the Board is an independent director<sup>22</sup>.

### Humana, Inc. (HUM)

Humana, Inc. is a leading health and well-being company focused on delivering healthcare solutions to its medical and specialty members. In December 2022, the company realigned its business into two distinct segments: Insurance and CenterWell. The company employs 67,100+ individuals and was founded in 1961.

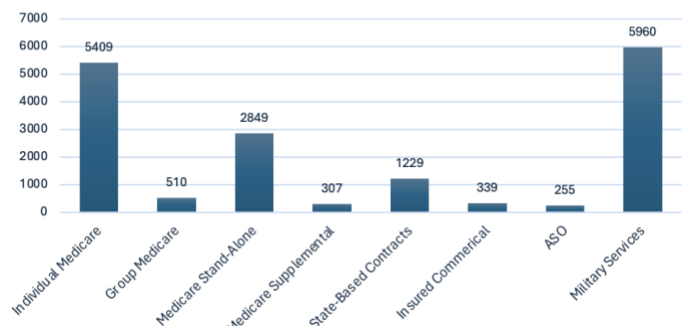
**Humana Revenue Decomposition (2023)**



Source: Humana 10K

Humana generates an overwhelming majority of its revenue from its insurance segment, of which contains revenues attributable to its PBM business. Management believes the realignment of its business in 2022 will create greater collaboration and will accelerate work that is underway to centralize and integrate operations within the organization<sup>24</sup>. Below displays the breakdown of total membership under the Insurance segment:

**Humana Membership Breakdown (2023)**



Source: Humana 10K \*Membership in Thousands

Humana has a similar Board and management makeup compared to its peers, with the average tenure of the Board and management being 7 and 6 years, respectively<sup>22</sup>. Additionally, 100% of the Board is an independent director<sup>22</sup>.

### **Financial Metrics**

The following table provides insight into two valuation

metrics (P/E, EV/EBITDA), margins, and ROE for each of the firms in the peer group:

Ticker	EV/EBITDA	P/E	Op. Margin	Profit Margin	ROE
UNH	12.6	15.4	8.1%	6.0%	25.0%
CVS	6.9	8.0	3.7%	2.3%	11.3%
CI	11.3	11.9	4.5%	2.7%	11.8%
HUM	9.2	16.7	0.2%	2.3%	15.7%

Source: FactSet \*P/E, EV/EBITDA = NTM, Op. Margin, Profit Margin, ROE = TTM

While comparing peers in the PBM industry, we can see UnitedHealth Group nearly doubles CVS, Cigna, and Humana in terms of operating margin, profit margin, and return-on-equity. One thing to note is that UnitedHealth Group does appear to be slightly overvalued compared to peers while looking at the P/E and EV/EBITDA metrics. Out of the four peers shown, CVS looks the most attractive, as it has the lowest EV/EBITDA and P/E, while hovering in the middle for the other metrics displayed.

## Operating Metrics

The following table provides insights into three key operating metrics for each of the firms in the peer group:

Ticker	Generic Dispensing Rate	Pharmacy Claims Volume	Medical Cost Ratio
UNH	N/A	1,438	83.2%
CVS	87.4%	2,337	83.5%
CI	86.3%	1,575	81.3%
HUM	N/A	528	87.2%

Source: Company 10K's \*Pharmacy Claims Volume in millions

### Generic Dispensing Rate

The generic dispensing rate measures the percentage of prescriptions filled with generic drugs compared to the total number of prescriptions. A higher ratio indicates greater utilization of lower-cost generic medications, which can reduce total costs for consumers. In our view, we would like to see a higher ratio due to the margin potential generic drugs provide. Researchers at the University of Southern California found drastic differences in gross margin between generic drugs vs. branded drugs, with PBMs seeing 8.0% vs. 2.0% and Pharmacies seeing 42.7% vs. 3.5%, respectively<sup>38</sup>. As shown in the table above, CVS comes ahead in this metric compared to its peer, The Cigna Group. It is important to note that

UnitedHealth Group and Humana do not report this metric on their 10K's.

### Pharmacy Claims Volume

Pharmacy claims volume is a metric that measures the total amount of drug claims/scripts processed by a PBM. The higher this number, the more revenue a PBM is able to generate. As shown in the table above, CVS comes ahead by roughly 800 (in millions) compared to its peers. The range of volume in the provided table makes sense given the market share of each company (CVS with 29.0%, The Cigna Group with 23.1%, UnitedHealth Group with 18.4%, and Humana with 4.8%)<sup>25</sup>.

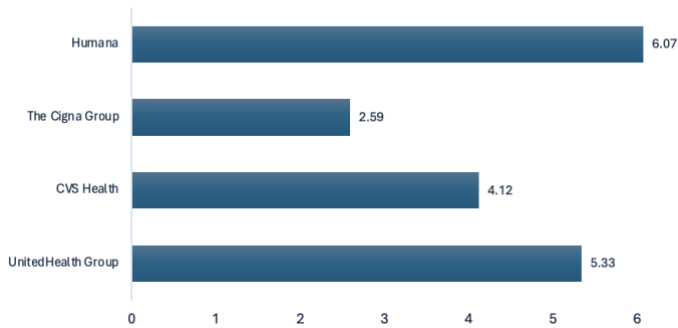
### Medical Cost Ratio

The medical cost ratio represents the ratio of medical expenses to earned premiums. This ratio is commonly used to provide insights into the efficiency and profitability of a health insurance company's medical operations. The lower the ratio, the better a company is at cost management, leading to higher profitability. The factors that contribute to the variance in this ratio across the peers include differing membership mixes (higher/lower proportions of government-sponsored plans) and differing designs of insurance plans (levels of deductibles, copayments, and out-of-pocket maximums) that can affect the utilization of medical services. We can see that The Cigna Group has the lowest medical cost ratio, while Humana has the highest of the peer group.

### Revenue per Member

Revenue per member can provide valuable insight into how efficient a company in the peer group is at generating revenue. It is important to note that the revenue used in this calculation is not the net revenue for the company, rather the revenue attributable to the segment in which the company reports its membership. The following is a graph that compares this metric amongst the peer group:

### Revenue per Member (2023)



Source: Company 10K's

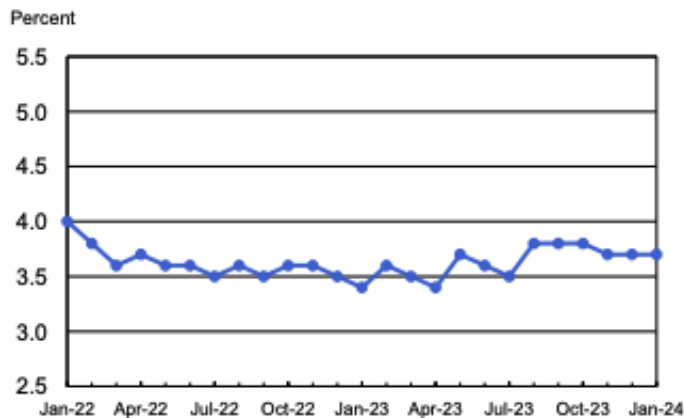
## ECONOMIC OUTLOOK

### Unemployment Rate

The unemployment rate is extremely important for the PBM industry. If the number of unemployed individuals in the United States increases, PBMs are likely to experience declines in their commercial membership. This decline could potentially be offset as laid off individuals may be eligible for coverage through Medicaid. Although there is potential for offsetting to take place, it is important to keep in mind that an individual may be assigned a plan with a competitor.

As of January 2024, the unemployment rate remained at 3.7%, and total nonfarm payroll employment rose by 353,000<sup>26</sup>. Below is a graphic displaying the seasonally adjusted unemployment rate from January 2022 – January 2024:

**Chart 1. Unemployment rate, seasonally adjusted, January 2022 – January 2024**



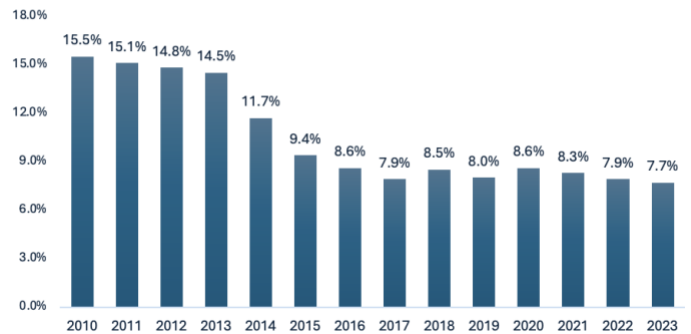
Source: Bureau of Labor Statistics

The Henry Fund team forecasts the unemployment rate to remain within the range shown above in both the near-term (6 months) and long-term (2 years).

### Uninsured Rate

The uninsured rate measures the percentage of the U.S. population without health insurance. Our focus revolves around the idea that a higher uninsured rate can lead to a reduction in the volume of prescriptions processed through PBMs. This reduction has potential to greatly impact revenue streams for PBMs, as they have fewer transactions to manage and fewer opportunities to leverage rebates and discounts with manufacturers. Below is a graphic displaying the uninsured rate from 2010 – 2023:

### Uninsured Rate (% of Total U.S. Population)

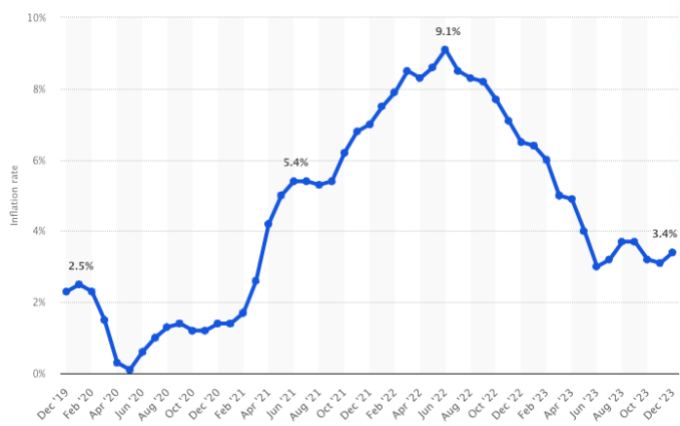


Source: US Department of Health & Human Services

The Henry Fund team expects the uninsured rate to remain within the range from 2016 – 2023 in the short-term, supported by tax credits that help Americans purchase Marketplace insurance within the American Rescue Plan and Inflation Reduction Act. We do not have an outlook in the long-term, as the factors influencing this rate are typically viewed as political and fluctuate depending on which party holds office.

### Consumer Price Index (CPI)

While we acknowledge the efforts the Federal Reserve of the United States has made in managing severely heightened inflation from Q1 2021 through Q2 2023, Fed Chair Jerome Powell reiterated that the job is not done. In a recent interview, Chair Powell reaffirmed the Fed's dedication to restoring price stability and achieving its 2% target<sup>27</sup>. As cited in CVS's recent 10K, elevated levels of inflation and high interest rates can materially impact a PBMs business as existing customers reduce their workforce to manage costs, which could result in reduced revenues and membership<sup>3</sup>. Below is a graphic displaying the inflation rate in the United States from 2019 to 2023:



Source: Statista

The Henry Fund team forecasts CPI in the near term (6 months) to lower to 3.1%, coupled with a Fed Funds Rate of 5.00 – 5.25%. Long term (2 years), our CPI forecast is 2.7%, coupled with a Fed Funds Rate of 3.25 – 3.50%. If these forecasts hold true, the PBM industry could see heightened cost and consumer spending pressures returning to a fairly normal level.

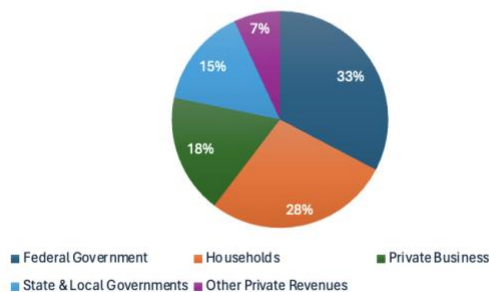
## U.S. National Healthcare Expenditure

National Healthcare Expenditure is an important metric to consider when looking at any industry within the Healthcare sector, as it provides an estimate for the total spending for healthcare in the United States<sup>28</sup>.

In 2022, National Healthcare Expenditures grew 4.1% to \$4.5 trillion, equating to roughly \$13,493 per person, and accounted for 17.3% of GDP<sup>29</sup>. Of this \$4.5 trillion, Medicare and Medicaid spending made up roughly 39% of total expenditures, with spending of \$944.3 billion and \$805.7 billion, respectively<sup>29</sup>. Additionally, on a positive note for PBMs, prescription drug spending increased 8.4% to \$405.9 billion in 2022<sup>29</sup>.

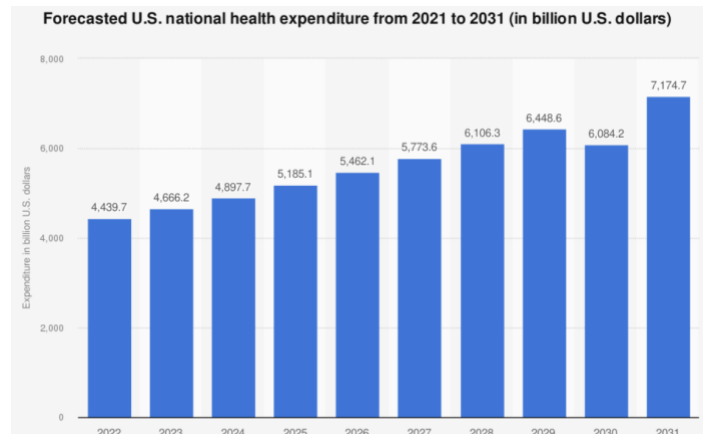
Below is a graphic that displays the total share of healthcare spending per category:

% of National Healthcare Expenditures by Category (2023)



Source: Centers for Medicare and Medicaid Services

Looking forward, healthcare expenditures are expected to continue to outpace GDP with a CAGR of 5.5% through 2031, which would result in a share of 19.6% of total GDP<sup>29</sup>. It is also important to note that due to the Inflation Reduction Act passed in 2022, lower out-of-pocket spending on prescription drugs is expected in 2024 and beyond. This is primarily due to the spending cap of \$2,000 on out-of-pocket expenses<sup>29</sup>. Below is a graphic that displays the projected growth in total healthcare expenditures through 2031:



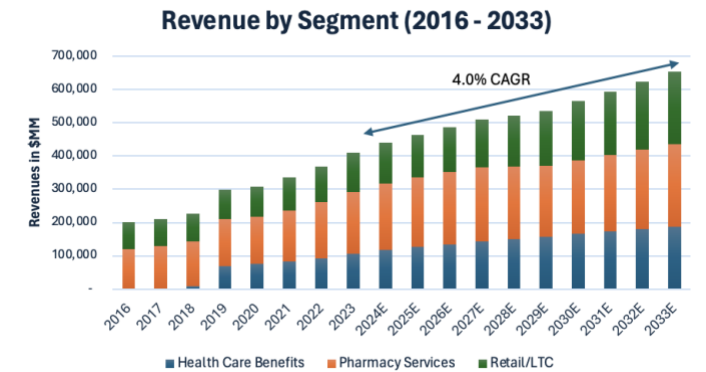
Source: Statista

The above graph shows that from 2023 to 2031, U.S. National Healthcare Expenditures are expected to increase nearly 54%, which translates to a CAGR of 5.5%.

## VALUATION

### Revenue Assumptions

Although CVS has four segments in which it reports revenues, three make up the overwhelming majority (99.9% in 2023). Thus, the following will outline the revenue forecasts for the Health Care Benefits, Pharmacy Services, and Retail/Long-Term Care segments. The image below displays revenue growth by segment from 2016 to our forecast horizon of 2033:



Source: Henry Fund Model \*Revenue in \$MM

## Health Care Benefits

Revenues attributable to the Health Care Benefits segment are largely driven by premiums (93.8% in 2023) generated through CVS's medical membership. Our forecasts in FY24 and FY25 closely resemble consensus estimates for revenue per member and total medical membership, which are then multiplied together to arrive at total premium revenue for a given year. As we drift away from consensus estimates in FY26, we recognize that there are limitations to growth due to the finite population size in the United States along with other competitors attempting to expand their membership, limiting the ability to acquire vast membership YoY in the future. For this reason, we forecast membership growth to slowly decline by roughly 10 basis points per year (2.2% YoY in 2026 vs. 1.5% YoY in 2033). We expect 2033 net membership to be 31.6 million, representing a CAGR of 2.1% over the forecast period.

## Pharmacy Services

Revenues attributable to the Pharmacy Services segment are largely driven by pharmacy network and mail choice. Similarly to the Health Care Benefit segment, our revenue estimates for FY24 and FY25 closely resemble consensus estimates. Our estimates for these distribution channels drift as additional price decreases for drugs selected under the Drug Price Negotiation Program go into effect in 2026 through 2029<sup>4</sup>.

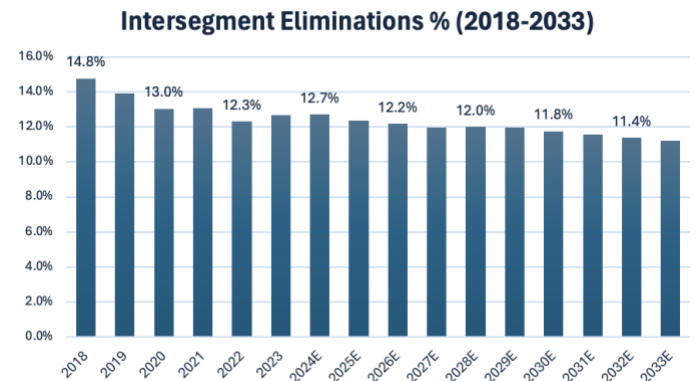
## Retail/LTC

Revenues attributable to the Retail/LTC segment are largely driven through CVS's vast network of retail pharmacies. We factor in management guidance relating to a decrease in store count, arriving at 9,123 stores in FY24. For the remainder of the forecast period, we anticipate management recognizing the benefits of decreasing the vast network of stores, and thus forecast a decrease of 1% in each additional period. We also believe that as drug price cuts are implemented under the Inflation Reduction Act, consumers will take advantage of drug affordability, driving revenues higher for each pharmacy. We forecast revenue per store to increase in each year and arrive at total revenue for this segment by multiplying revenue per store by total store count.

## Intersegment Eliminations

Intersegment revenue eliminations relate to intersegment

revenue generating activities that occur between the Health Care Benefits segment, the Pharmacy Services segment, and/or the Retail/LTC segment<sup>3</sup>. These occur when members of the Health Services segment's clients enrolled in Maintenance Choice elect to pick up maintenance prescriptions at one of the Company's retail pharmacies instead of receiving them through the mail<sup>3</sup>. Our forecasts follow the trend seen in recent years of intersegment eliminations becoming a smaller percentage of revenue. The image below displays total intersegment eliminations from 2016 to our forecast horizon of 2033:



Source: Henry Fund Model

## **Operating Expense Assumptions**

The main operating expense assumptions we think will provide valuable insights into our forecasts revolve around Cost of Product Sold and Benefits Costs. Cost of Product sold has ranged from 85.7% in 2019 to 88.6% in 2023. Given our inflation expectations, we expect them to remain around 88.8%. To arrive at our forecasts, we applied this percentage to product revenue in each forecasted period.

While forecasting Benefits Costs, Management guidance indicates that they expect elevated levels of medical costs to continue in the near future<sup>31</sup>. We differ in our forecasts due to the expectation that these elevated costs remain higher for longer. To arrive at our forecasts, we applied a constant percentage of 86.9% to premium revenue in each forecasted period.

Our DCF and EP models are highly sensitive to these inputs, and we believe the most reliable implied price is arrived at by holding these constant. The images below display our sensitivity tests on these inputs:

DCF		Cost of Product Sold % of Product Revenue							
		92.77	88.45%	88.55%	88.65%	88.75%	88.85%	88.95%	89.05%
Benefit Costs %	86.65%	101.91	100.76	99.60	98.45	97.29	96.14	94.98	
	86.75%	100.02	98.87	97.71	96.55	95.40	94.24	93.09	
	86.85%	98.13	96.97	95.82	94.66	93.51	92.35	91.20	
	86.95%	96.23	95.08	93.92	92.77	91.61	90.46	89.30	
	87.05%	94.34	93.19	92.03	90.88	89.72	88.57	87.41	
	87.15%	92.45	91.29	90.14	88.98	87.83	86.67	85.52	
	87.25%	90.56	89.40	88.25	87.09	85.94	84.78	83.63	

Source: Henry Fund Model

## CAPEX Assumptions

Capital Expenditures for CVS have remained relatively consistent YoY, with a range of \$2.5B in 2021 to \$3.0B in 2023. Approximately 74% of the Company's total capital expenditures were for technology, digital and other strategic initiatives and 26% were for store, fulfillment, and support facilities expansion and improvements<sup>3</sup>. We expect this trend to continue and have decided to grow CapEx by a 3% rate YoY.

## WACC

Given our changing capital structure assumption as CVS pays down its debt, we used a variable weighted average cost of capital. The table below displays the WACC used in each year, along with a summary of key inputs:

2024E	2025E	2026E	2027E	2028E
6.49%	6.52%	6.55%	6.58%	6.62%
2029E	2030E	2031E	2032E	2033E
6.65%	6.69%	6.72%	6.75%	6.78%

Source: Henry Fund Model

The cost of equity was calculated using a risk-free rate of 4.3% (yield on 10yr U.S. Treasury), a 5yr raw beta of 0.80 which we regressed to the 5yr adjusted beta of 0.85, and an equity risk premium of 5.00%. The after-tax cost of debt was calculated using a pre-tax cost of debt of 5.40% (YTM on June 2033 senior notes) and a marginal tax rate of 24.70% (implied marginal tax rate in FY23). The weights for the market value of equity and the market value of total debt used in each year are shown in the table below:

2024E	2025E	2026E	2027E	2028E
E: 57.4%	58.4%	59.6%	60.5%	62.1%
D: 42.6%	41.6%	40.4%	39.5%	37.9%
2029E	2030E	2031E	2032E	2033E
E: 62.9%	64.4%	65.3%	65.1%	66.0%
D: 37.1%	35.6%	34.7%	34.9%	34.0%

Source: Henry Fund Model

## DCF and EP

Our enterprise discounted cash flow (DCF) and economic profit (EP) models resulted in an implied price per share of \$92.77. The primary inputs used in these models consisted of a CV growth of NOPLAT of 2.0%, a CV year ROIC of 21.6%, a cost of equity of 8.3%, and our variable WACC.

Free cash flow and economic profit was discounted by the WACC assumptions, resulting in a value of operating assets of \$166,792 (in millions) for both models. We then adjusted for non-operating assets consisting of excess cash, short and long-term investments, debt obligations, the present value of operating leases, non-controlling interest, and employee stock options. These adjustments resulted in a value of equity of \$118,558 (in millions) and was divided by shares outstanding of 1,288 (in millions), resulting in an intrinsic value of \$92.05. After accounting for the days since the last FYE, we arrived at an implied price as of today of \$92.77.

## DDM

Our dividend discount model (DDM) resulted in an implied price per share of \$90.78. The primary inputs used in this model consisted of a CV growth of EPS of 2.0%, a CV year ROE of 10.1%, and a cost of equity of 8.3%. To arrive at our forecasted dividends per share, we also assumed a constant payout ratio of 35.24%.

Forecasted dividends were discounted by the cost of equity. For our CV, we leveraged a P/E multiple that was multiplied by our final EPS estimation, which was also discounted by the cost of equity. The resulting discounted cash flows provided an intrinsic value of \$90.08. Similar to the DCF & EP profit models, we accounted for the days since the last FYE, and arrived at an implied price as of today of \$90.78.

## Relative Valuation

Our relative valuation models leveraged a FY24 and FY25 P/E multiple from the Pharmacy Benefit Management and Retail Pharmacy industries. The average multiple for the Pharmacy Benefit Management industry was 16.8 and 14.3, respectively. Additionally, the average multiple for the Retail Pharmacy industry was 19.4 and 16.6, respectively. To arrive at our implied relative value, we multiplied these P/E multiples by our FY24 and FY25 EPS estimates of 6.92 and 7.80. The image below displays our

implied relative value for all the multiples mentioned above:

**Implied Relative Value:**

<b>PBM P/E (EPS24)</b>	<b>\$ 116.11</b>
<b>PBM P/E (EPS25)</b>	<b>\$ 111.81</b>
<b>Retail Pharmacy P/E (EPS24)</b>	<b>\$ 134.48</b>
<b>Retail Pharmacy P/E (EPS25)</b>	<b>\$ 129.71</b>

Source: Henry Fund Model

As CVS generates roughly 40-50% of net revenue over our forecast period through their Pharmacy Services segment (home to their PBM, Caremark), we ultimately place more weight on the PBM industry relative values of \$116.11 and \$111.81.

**Valuation Conclusion**

We believe our DDM and DCF/EP models more closely resemble our story for CVS, and thus place more weight on these models for our price target. Although we can form a peer group of other companies within the Retail Pharmacy and PBM industries, we feel as if the only company that resembles the scope that CVS has segment wise is UnitedHealth Group.

Our valuations do come slightly above consensus price targets. According to FactSet, the average sell-side price target is \$87.91, with the highest price target of \$103.00 coming from Morningstar Equity Research and the lowest price target of \$74.00 coming from Nephron Research<sup>22</sup>.

The assumptions that are likely driving this discrepancy can be seen through our revenue growth rates in the Pharmacy Services and Retail/LTC segments. We are optimistic that individuals will take advantage of drug affordability under the IRA, thus driving revenues higher for the Retail/LTC segment. Although we foresee slight declines in revenue for the Pharmacy Services segment from 2027-2029 due to the IRA, we implement an assumption that CVS will adopt more usage of biosimilars on the formularies provided to members, potentially increasing membership, and revenue along with it.

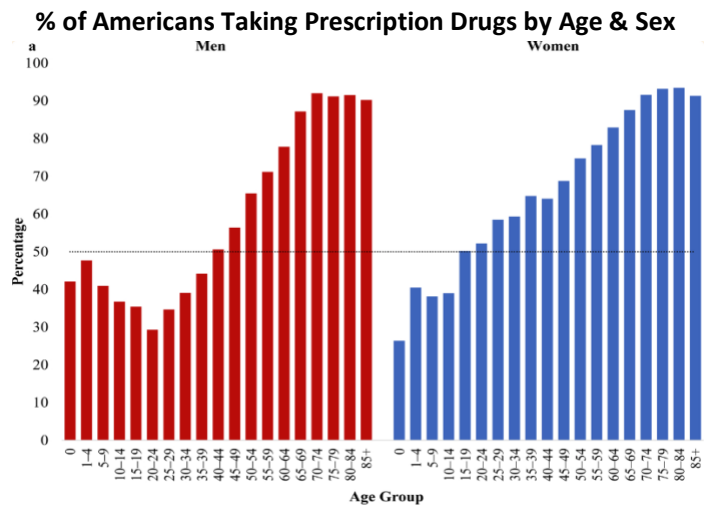
**Summary**

We are recommending a buy rating on CVS with a target price range of \$91-\$93, representing potential upside of 32% to 35%. CVS is well positioned to capture growth as prescription drug utilization and the age of the U.S. population continue to increase.

**KEYS TO MONITOR**

**Catalysts for Growth**

Prescription drug use continues to rise in the United States as the population grows older and increasing medicalization becomes more prevalent. Total filled prescriptions reached 6.7 billion in 2022, up from 6.1 billion in 2018<sup>33</sup>. We believe CVS is well positioned to handle this trend, as the company currently fills roughly 1 in 4 prescriptions in the United States. As more consumers are made aware of CVS’s commitment to lowering prescription drug costs for their members, the company could capture share in this category. In the graph below, we can see just how relevant the aging population has become in terms of prescription drug use:



Source: National Library of Medicine

**Risks to Thesis**

The largest identifiable risk to our thesis originates around increasing regulation within the Pharmacy Benefit Management industry. The DOJ, the FTC, and Federal, State, and Local governments have all expressed interest into the business practices of PBM’s. They are particularly interested in rebate and spread pricing that has noticeably increased in recent years. Currently, we don’t foresee this increased regulation having a material impact on CVS’s operations, as the company seems to be a step ahead with the upcoming implementations of CVS CostVantage and CVS Caremark TrueCost. With that said, we remain cautious in the sense that new regulation could be introduced, potentially shifting our outlook not only on the industry, but on CVS as well.



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38. [USC: Generic vs. Branded Drugs Study](#)

## DISCLAIMER

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CVS Health

Revenue Decomposition

Revenues in \$MM, Memberships/Store Count in \$K

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Health Care Benefits:</b>													
Premiums	76,064	85,274	99,144	115,476	125,262	132,915	140,938	148,802	156,900	164,725	172,669	180,220	187,812
Government	55,739	63,141	70,094	82,468	89,746	95,094	100,669	106,377	112,205	118,137	124,155	130,241	136,375
Commercial	20,325	22,133	29,050	33,008	35,517	37,822	40,269	42,424	44,695	46,588	48,514	49,979	51,437
Services	5,536	5,659	5,737	6,029	6,160	6,290	6,422	6,557	6,694	6,835	6,972	7,111	7,246
Net Investment Income	586	476	765	802	841	882	925	970	1,017	1,066	1,118	1,173	1,230
<b>Net Revenue from Health Care Benefits</b>	<b>82,186</b>	<b>91,409</b>	<b>105,646</b>	<b>122,307</b>	<b>132,264</b>	<b>140,087</b>	<b>148,285</b>	<b>156,328</b>	<b>164,612</b>	<b>172,626</b>	<b>180,759</b>	<b>188,504</b>	<b>196,288</b>
<i>% Growth</i>	8.9%	11.2%	15.6%	15.8%	8.1%	5.9%	5.9%	5.4%	5.3%	4.9%	4.7%	4.3%	4.1%
<b>Medical Memberships:</b>													
Commercial	16,788	17,032	18,339	18,605	18,886	19,154	19,422	19,675	19,930	20,170	20,391	20,595	20,781
Medicare Advantage	2,971	3,270	3,460	4,235	4,455	4,678	4,902	5,128	5,353	5,578	5,801	6,022	6,238
Medicare Supplement	1,285	1,363	1,343	1,381	1,418	1,455	1,493	1,528	1,562	1,593	1,622	1,648	1,671
Medicaid	2,804	2,731	2,517	2,358	2,472	2,536	2,602	2,664	2,723	2,777	2,827	2,873	2,913
<b>Net Membership</b>	<b>23,848</b>	<b>24,396</b>	<b>25,659</b>	<b>26,579</b>	<b>27,230</b>	<b>27,822</b>	<b>28,419</b>	<b>28,995</b>	<b>29,568</b>	<b>30,118</b>	<b>30,642</b>	<b>31,137</b>	<b>31,603</b>
<i>% Growth</i>	1.9%	2.3%	5.2%	3.6%	2.4%	2.2%	2.1%	2.0%	2.0%	1.9%	1.7%	1.6%	1.5%
<b>Revenue per Member:</b>													
Commercial	1.21	1.30	1.58	1.77	1.88	1.97	2.07	2.16	2.24	2.31	2.38	2.43	2.48
<i>% Growth</i>	0.4%	7.3%	21.9%	12.0%	6.0%	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%
Government (Medicare & Medicaid)	7.90	8.57	9.58	10.34	10.76	10.97	11.19	11.41	11.64	11.87	12.11	12.35	12.60
<i>% Growth</i>	5.0%	8.6%	11.7%	8.0%	4.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<b>Pharmacy Services:</b>													
Pharmacy Network	91,715	102,968	112,718	97,557	101,752	105,822	107,939	104,809	102,817	105,902	108,867	111,807	114,714
Mail Choice	60,547	63,825	67,992	71,732	75,533	79,083	81,535	79,089	77,507	79,832	82,068	84,284	86,475
Other	760	2,783	6,133	6,524	6,922	7,268	7,522	7,221	7,005	7,250	7,503	7,766	8,038
<b>Net Revenue from Pharmacy Services</b>	<b>153,022</b>	<b>169,576</b>	<b>186,843</b>	<b>175,813</b>	<b>184,207</b>	<b>192,174</b>	<b>196,996</b>	<b>191,119</b>	<b>187,329</b>	<b>192,984</b>	<b>198,438</b>	<b>203,856</b>	<b>209,226</b>
<i>% Growth</i>	7.8%	10.8%	10.2%	-5.9%	4.8%	4.3%	2.5%	-3.0%	-2.0%	3.0%	2.8%	2.7%	2.6%
<b>Retail/LTC:</b>													
Pharmacy	76,121	82,010	92,111	96,818	101,504	106,376	114,567	123,274	132,643	142,591	153,000	164,016	175,825
Front Store	21,315	22,780	22,458	23,208	23,765	24,335	25,917	27,550	29,286	31,101	32,999	35,012	37,112
Other	2,652	1,848	2,199	2,311	2,466	2,626	2,815	3,015	3,229	3,455	3,694	3,949	4,213
Net Investment Income	17	(44)	(5)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
<b>Net Revenue from Retail/LTC</b>	<b>100,105</b>	<b>106,594</b>	<b>116,763</b>	<b>122,334</b>	<b>127,771</b>	<b>133,324</b>	<b>143,342</b>	<b>153,829</b>	<b>165,083</b>	<b>176,997</b>	<b>189,596</b>	<b>202,904</b>	<b>217,146</b>
<i>% Growth</i>	9.8%	6.5%	9.5%	4.8%	4.4%	4.3%	7.5%	7.3%	7.3%	7.2%	7.1%	7.0%	7.0%
<b>Store Count:</b>													
	9,939	9,674	9,395	9,123	9,031	8,941	8,852	8,763	8,675	8,589	8,503	8,418	8,334
<i>% Growth</i>	-0.2%	-2.7%	-2.9%	-2.9%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
Revenue per Store	10.07	11.02	12.43	13.41	14.15	14.91	16.19	17.55	19.03	20.61	22.30	24.10	26.06
<i>% Growth</i>	10.0%	9.4%	12.8%	7.9%	5.5%	5.4%	8.6%	8.4%	8.4%	8.3%	8.2%	8.1%	8.1%
<b>Corporate/Other:</b>													
Premiums	68	56	48	48	48	48	47	47	47	47	47	46	46
Services	57	68	9	9	10	10	11	11	12	13	13	14	15
Net Investment Income	596	406	394	370	376	383	389	395	402	409	415	422	429
<b>Net Revenue from Corporate/Other</b>	<b>721</b>	<b>530</b>	<b>451</b>	<b>428</b>	<b>434</b>	<b>441</b>	<b>447</b>	<b>454</b>	<b>461</b>	<b>468</b>	<b>475</b>	<b>483</b>	<b>490</b>
<i>% Growth</i>	69.2%	-26.5%	-14.9%	-5.1%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Intersegment Eliminations:	(43,923)	(45,302)	(51,927)	(53,485)	(55,089)	(56,742)	(58,444)	(60,198)	(62,004)	(63,864)	(65,780)	(67,753)	(69,786)
<b>Net Revenue from All Segments:</b>	<b>292,111</b>	<b>322,807</b>	<b>357,776</b>	<b>367,397</b>	<b>389,587</b>	<b>409,284</b>	<b>430,626</b>	<b>441,533</b>	<b>455,482</b>	<b>479,212</b>	<b>503,489</b>	<b>527,993</b>	<b>553,365</b>
<i>% Growth</i>	8.7%	10.5%	10.8%	2.7%	6.0%	5.1%	5.2%	2.5%	3.2%	5.2%	5.1%	4.9%	4.8%

CVS Health

Revenue Decomposition

% Growth Rates

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Health Care Benefits:</b>													
Premiums	9.8%	12.1%	16.3%	16.5%	8.5%	6.1%	6.0%	5.6%	5.4%	5.0%	4.8%	4.4%	4.2%
Government	13.9%	13.3%	11.0%	17.7%	8.8%	6.0%	5.9%	5.7%	5.5%	5.3%	5.1%	4.9%	4.7%
Commercial	-0.2%	8.9%	31.3%	13.6%	7.6%	6.5%	6.5%	5.4%	5.4%	4.2%	4.1%	3.0%	2.9%
Services	-2.6%	2.2%	1.4%	5.1%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%	2.0%	2.0%	1.9%
Net Investment Income	21.3%	-18.8%	60.7%	9.3%	7.2%	5.2%	5.2%	5.1%	5.1%	5.0%	4.9%	4.8%	4.7%
<b>Net Revenue from Health Care Benefits</b>	<b>8.9%</b>	<b>11.2%</b>	<b>15.6%</b>	<b>15.8%</b>	<b>8.1%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>5.4%</b>	<b>5.3%</b>	<b>4.9%</b>	<b>4.7%</b>	<b>4.3%</b>	<b>4.1%</b>
<b>Medical Memberships:</b>													
Commercial	-0.7%	1.5%	7.7%	1.5%	1.5%	1.4%	1.4%	1.3%	1.3%	1.2%	1.1%	1.0%	0.9%
Medicare Advantage	9.8%	10.1%	5.8%	22.4%	5.2%	5.0%	4.8%	4.6%	4.4%	4.2%	4.0%	3.8%	3.6%
Medicare Supplement	18.8%	6.1%	-1.5%	2.8%	2.7%	2.6%	2.6%	2.4%	2.2%	2.0%	1.8%	1.6%	1.4%
Medicaid	3.0%	-2.6%	-7.8%	-6.3%	4.8%	2.6%	2.6%	2.4%	2.2%	2.0%	1.8%	1.6%	1.4%
<b>Net Membership</b>	<b>1.9%</b>	<b>2.3%</b>	<b>5.2%</b>	<b>3.6%</b>	<b>2.4%</b>	<b>2.2%</b>	<b>2.1%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>1.9%</b>	<b>1.7%</b>	<b>1.6%</b>	<b>1.5%</b>
<b>Revenue per Member:</b>													
Commercial	0.4%	7.3%	21.9%	12.0%	6.0%	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%	2.0%	2.0%
Government (Medicare & Medicaid)	5.0%	8.6%	11.7%	8.0%	4.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<b>Pharmacy Services:</b>													
Pharmacy Network	7.8%	12.3%	9.5%	-13.5%	4.3%	4.0%	2.0%	-2.9%	-1.9%	3.0%	2.8%	2.7%	2.6%
Mail Choice	8.0%	5.4%	6.5%	5.5%	5.3%	4.7%	3.1%	-3.0%	-2.0%	3.0%	2.8%	2.7%	2.6%
Other	-7.5%	266.2%	120.4%	6.4%	6.1%	5.0%	3.5%	-4.0%	-3.0%	3.5%	3.5%	3.5%	3.5%
<b>Net Revenue from Pharmacy Services</b>	<b>7.8%</b>	<b>10.8%</b>	<b>10.2%</b>	<b>-5.9%</b>	<b>4.8%</b>	<b>4.3%</b>	<b>2.5%</b>	<b>-3.0%</b>	<b>-2.0%</b>	<b>3.0%</b>	<b>2.8%</b>	<b>2.7%</b>	<b>2.6%</b>
<b>Retail/LTC:</b>													
Pharmacy	8.5%	7.7%	12.3%	5.1%	4.8%	4.8%	7.7%	7.6%	7.6%	7.5%	7.3%	7.2%	7.2%
Front Store	8.4%	6.9%	-1.4%	3.3%	2.4%	2.4%	6.5%	6.3%	6.3%	6.2%	6.1%	6.1%	6.0%
Other	94.0%	-30.3%	19.0%	5.1%	6.7%	6.5%	7.2%	7.1%	7.1%	7.0%	6.9%	6.9%	6.7%
Net Investment Income	-	-358.8%	-88.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Revenue from Retail/LTC</b>	<b>9.8%</b>	<b>6.5%</b>	<b>9.5%</b>	<b>4.8%</b>	<b>4.4%</b>	<b>4.3%</b>	<b>7.5%</b>	<b>7.3%</b>	<b>7.3%</b>	<b>7.2%</b>	<b>7.1%</b>	<b>7.0%</b>	<b>7.0%</b>
<b>Store Count:</b>													
Revenue per Store	-0.2%	-2.7%	-2.9%	-2.9%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
	10.0%	9.4%	12.8%	7.9%	5.5%	5.4%	8.6%	8.4%	8.4%	8.3%	8.2%	8.1%	8.1%
<b>Corporate/Other:</b>													
Premiums	7.9%	-17.6%	-14.3%	0.4%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%
Services	18.8%	19.3%	-86.8%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Net Investment Income	89.2%	-31.9%	-3.0%	-6.0%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
<b>Net Revenue from Corporate/Other</b>	<b>69.2%</b>	<b>-26.5%</b>	<b>-14.9%</b>	<b>-5.1%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.5%</b>
Intersegment Eliminations:	8.9%	3.1%	14.6%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
<b>Net Revenue from All Segments:</b>	<b>8.7%</b>	<b>10.5%</b>	<b>10.8%</b>	<b>2.7%</b>	<b>6.0%</b>	<b>5.1%</b>	<b>5.2%</b>	<b>2.5%</b>	<b>3.2%</b>	<b>5.2%</b>	<b>5.1%</b>	<b>4.9%</b>	<b>4.8%</b>

CVS Health  
Income Statement

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Revenues:</b>													
Products	203,738	226,616	245,138	235,830	247,465	258,875	271,514	274,524	280,250	295,563	311,154	327,365	344,341
Premiums	76,132	85,330	99,192	115,524	125,310	132,963	140,985	148,849	156,947	164,772	172,715	180,266	187,858
Services	11,042	9,683	12,293	14,873	15,558	16,194	16,770	16,805	16,940	17,553	18,182	18,840	19,512
Net Investment Income	1,199	838	1,153	1,162	1,207	1,254	1,303	1,355	1,408	1,464	1,523	1,584	1,648
<b>Total Revenues, Net of Intersegment Eliminations</b>	<b>292,111</b>	<b>322,467</b>	<b>357,776</b>	<b>367,397</b>	<b>389,587</b>	<b>409,284</b>	<b>430,626</b>	<b>441,533</b>	<b>455,482</b>	<b>479,212</b>	<b>503,489</b>	<b>527,993</b>	<b>553,365</b>
<b>Operating Costs:</b>													
Cost Of Product Sold	175,803	196,892	217,098	209,299	219,625	229,752	240,969	243,640	248,721	262,312	276,149	290,536	306,119
Depreciation and Amortization	4,512	4,247	4,366	4,334	4,380	4,195	4,180	3,997	4,212	4,206	4,208	4,218	4,235
Depreciation	2,253	2,439	2,461	2,323	2,416	2,508	2,600	2,691	2,783	2,876	2,970	3,065	3,162
Amortization	2,259	1,808	1,905	2,011	1,964	1,687	1,580	1,306	1,429	1,331	1,239	1,153	1,073
Cost of Product Sold Less D&A	171,291	192,645	212,732	204,966	215,245	225,556	236,789	239,643	244,509	258,106	271,941	286,319	301,884
Benefit Costs	64,260	71,281	86,247	100,448	108,957	115,611	122,587	129,424	136,466	143,269	150,176	156,741	163,343
Operating Expenses	37,066	38,212	39,832	42,691	44,842	46,863	49,307	50,688	52,471	55,301	58,203	61,142	64,190
<b>Total Operating Costs</b>	<b>278,918</b>	<b>314,721</b>	<b>344,033</b>	<b>352,439</b>	<b>373,424</b>	<b>392,226</b>	<b>412,862</b>	<b>423,752</b>	<b>437,659</b>	<b>460,882</b>	<b>484,528</b>	<b>508,419</b>	<b>533,652</b>
<b>Operating Profit:</b>	<b>13,193</b>	<b>7,746</b>	<b>13,743</b>	<b>14,958</b>	<b>16,163</b>	<b>17,058</b>	<b>17,764</b>	<b>17,781</b>	<b>17,823</b>	<b>18,330</b>	<b>18,960</b>	<b>19,574</b>	<b>19,713</b>
Interest Expense	2,503	2,287	2,658	3,327	3,202	2,998	2,780	2,600	2,330	2,180	1,952	1,790	1,788
Other Income	(182)	(169)	(88)	(92)	(97)	(101)	(106)	(112)	(117)	(123)	(129)	(135)	(141)
Income Before Income Tax Provision	10,420	5,628	11,173	11,723	13,058	14,161	15,090	15,292	15,610	16,273	17,137	17,919	18,066
Income Tax Provision	2,522	1,463	2,805	2,896	3,225	3,498	3,727	3,777	3,856	4,019	4,233	4,426	4,462
Income (Loss) From Continuing Operations	7,898	4,165	8,368	8,827	9,833	10,663	11,363	11,515	11,755	12,254	12,904	13,493	13,604
Net Income (Loss)	7,898	4,165	8,368	8,827	9,833	10,663	11,363	11,515	11,755	12,254	12,904	13,493	13,604
Net Income (Loss) Attributable To Noncontrolling Interest	12	(16)	(24)	25	26	28	29	31	32	34	35	37	39
<b>Net Income (Loss) Attributable to CVS Health Corporation</b>	<b>7,910</b>	<b>4,149</b>	<b>8,344</b>	<b>8,852</b>	<b>9,859</b>	<b>10,691</b>	<b>11,392</b>	<b>11,546</b>	<b>11,787</b>	<b>12,287</b>	<b>12,940</b>	<b>13,530</b>	<b>13,643</b>
<b>Share Information (Basic):</b>													
Weighted Average Shares Outstanding	1,319	1,312	1,285	1,280	1,264	1,252	1,244	1,236	1,230	1,226	1,221	1,216	1,212
Year End Shares Outstanding	1,322	1,300	1,288	1,272	1,257	1,248	1,240	1,233	1,228	1,223	1,219	1,214	1,210
EPS (Loss) Per Share From Continuing Operations	6.00	3.16	6.49	6.92	7.80	8.54	9.16	9.34	9.58	10.03	10.60	11.12	11.25
Dividends Declared Per Common Share	2.00	2.20	2.42	2.44	2.75	3.01	3.23	3.29	3.38	3.53	3.73	3.92	3.97

CVS Health  
Balance Sheet

<i>Fiscal Years Ending Dec. 31</i>	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Assets:</b>													
Cash & Cash Equivalents	9,408	12,945	7,996	12,296	15,078	18,177	22,359	24,385	29,372	33,362	38,899	47,614	53,364
Investments	3,117	2,778	3,259	3,417	3,583	3,758	3,940	4,132	4,333	4,543	4,764	4,995	5,238
Accounts Receivable, Net	24,431	27,276	35,227	31,511	33,414	35,103	36,934	37,869	39,065	41,101	43,183	45,285	47,461
Inventories	17,760	19,090	18,025	18,365	19,271	20,160	21,144	21,378	21,824	23,017	24,231	25,493	26,815
Other Current Assets	5,292	3,593	3,151	6,194	6,568	6,901	7,260	7,444	7,679	8,080	8,489	8,902	9,330
<b>Total Current Assets</b>	<b>60,008</b>	<b>65,682</b>	<b>67,858</b>	<b>71,784</b>	<b>77,915</b>	<b>84,098</b>	<b>91,638</b>	<b>95,209</b>	<b>102,274</b>	<b>110,102</b>	<b>119,565</b>	<b>132,290</b>	<b>142,208</b>
Long-Term Investments	23,025	21,096	23,019	24,046	25,118	26,238	27,409	28,631	29,908	31,242	32,635	34,091	35,611
Property & Equipment, Net	12,896	12,873	13,183	13,715	14,238	14,757	15,276	15,797	16,323	16,855	17,396	17,946	18,508
Operating Lease Right-of-Use Assets	19,122	17,872	17,252	17,948	18,633	19,312	19,991	20,673	21,361	22,057	22,765	23,486	24,221
Goodwill	79,121	78,150	91,272	91,272	91,272	91,272	91,272	91,272	91,272	91,272	91,272	91,272	91,272
Intangible Assets, Net	29,026	24,754	29,234	27,223	25,259	23,572	21,992	20,686	19,257	17,926	16,688	15,535	14,461
Separate Accounts Assets	5,087	3,228	3,250	6,433	6,978	7,404	7,851	8,289	8,739	9,175	9,618	10,038	10,461
Other Assets	4,714	4,620	4,660	6,402	6,788	7,131	7,503	7,693	7,936	8,350	8,773	9,200	9,642
<b>Total Assets:</b>	<b>232,999</b>	<b>228,275</b>	<b>249,728</b>	<b>258,821</b>	<b>266,200</b>	<b>273,786</b>	<b>282,932</b>	<b>288,250</b>	<b>297,070</b>	<b>306,980</b>	<b>318,711</b>	<b>333,857</b>	<b>346,385</b>
<b>Liabilities:</b>													
Accounts Payable	12,544	14,838	14,897	15,845	16,802	17,652	18,572	19,043	19,644	20,668	21,715	22,772	23,866
Pharmacy Claims & Discounts Payable	17,330	19,423	22,874	22,355	23,428	24,481	25,548	25,780	26,237	27,517	28,818	30,165	31,574
Health Care Costs Payable	8,808	10,406	12,049	13,676	14,834	15,740	16,690	17,621	18,580	19,506	20,446	21,340	22,239
Policyholders' Funds	4,301	1,500	1,326	1,788	1,939	2,057	2,182	2,303	2,429	2,550	2,672	2,789	2,907
Accrued Expenses	17,670	18,745	22,189	20,571	21,813	22,916	24,111	24,722	25,503	26,831	28,191	29,563	30,983
Other Insurance Liabilities	1,303	1,140	1,141	2,086	2,212	2,323	2,445	2,507	2,586	2,720	2,858	2,997	3,141
Current Portion of Operating Lease Liabilities	1,646	1,678	1,741	1,567	1,626	1,686	1,745	1,804	1,864	1,925	1,987	2,050	2,114
Current Portion of Long-Term Debt	4,205	2,006	2,772	2,705	3,785	4,008	3,379	5,007	2,750	4,250	3,000	-	3,000
<b>Total Current Liabilities</b>	<b>67,807</b>	<b>69,736</b>	<b>79,189</b>	<b>80,592</b>	<b>86,440</b>	<b>90,864</b>	<b>94,671</b>	<b>98,787</b>	<b>99,593</b>	<b>105,967</b>	<b>109,687</b>	<b>111,676</b>	<b>119,824</b>
Long-Term Operating Lease Liabilities	18,177	16,800	16,034	16,627	17,262	17,892	18,521	19,152	19,789	20,435	21,090	21,758	22,439
Long-Term Debt	51,971	50,476	58,638	56,586	51,728	47,475	44,762	38,134	37,611	31,891	30,141	33,111	27,141
Deferred Income Taxes	6,270	3,880	4,311	3,868	3,471	3,115	2,795	2,508	2,251	2,020	1,812	1,626	1,459
Separate Accounts Liabilities	5,087	3,228	3,250	6,433	6,978	7,404	7,851	8,289	8,739	9,175	9,618	10,038	10,461
Other Long-Term Insurance Liabilities	6,402	6,108	5,459	9,361	9,927	10,428	10,972	11,250	11,606	12,210	12,829	13,453	14,100
Other Long-Term Liabilities	1,904	6,732	6,211	4,667	4,948	5,199	5,470	5,608	5,785	6,087	6,395	6,706	7,029
<b>Total Liabilities:</b>	<b>157,618</b>	<b>156,960</b>	<b>173,092</b>	<b>178,135</b>	<b>180,754</b>	<b>182,376</b>	<b>185,042</b>	<b>183,728</b>	<b>185,374</b>	<b>187,785</b>	<b>191,572</b>	<b>198,369</b>	<b>202,453</b>
<b>Shareholder's Equity:</b>													
Common Stock	47,377	48,193	48,992	49,188	49,383	49,579	49,774	49,970	49,997	49,997	49,997	49,997	49,997
Treasury Stock, at cost	(28,173)	(31,858)	(33,838)	(35,729)	(37,534)	(38,682)	(39,777)	(40,823)	(41,322)	(41,798)	(42,252)	(42,686)	(43,099)
Retained Earnings	54,906	56,145	61,604	67,325	73,667	80,555	87,906	95,358	102,971	110,912	119,275	128,020	136,839
Accumulated OCI (loss)	965	(1,465)	(297)	(297)	(297)	(297)	(297)	(297)	(297)	(297)	(297)	(297)	(297)
Noncontrolling Interest	306	300	175	200	227	254	284	314	346	380	416	453	492
<b>Total Shareholders' Equity:</b>	<b>75,381</b>	<b>71,315</b>	<b>76,636</b>	<b>80,687</b>	<b>85,446</b>	<b>91,410</b>	<b>97,890</b>	<b>104,522</b>	<b>111,696</b>	<b>119,195</b>	<b>127,139</b>	<b>135,488</b>	<b>143,932</b>
<b>Total Liabilities Plus Shareholder's Equity:</b>	<b>232,999</b>	<b>228,275</b>	<b>249,728</b>	<b>258,821</b>	<b>266,200</b>	<b>273,786</b>	<b>282,932</b>	<b>288,250</b>	<b>297,070</b>	<b>306,980</b>	<b>318,711</b>	<b>333,857</b>	<b>346,385</b>

**CVS Health**  
*Historical Cash Flow Statement*

<i>Fiscal Years Ending Dec. 31</i>	2016	2017	2018	2019	2020	2021	2022	2023
<b>Cash Flow from Operations:</b>								
Cash receipts from customers	172,310	176,594	186,519	248,393	264,327	284,219	313,662	345,464
Cash paid for inventory & prescriptions dispensed by retail network pharmacies	(140,312)	(146,469)	(148,821)	(149,655)	(158,636)	(165,783)	(189,766)	(208,848)
Insurance benefits paid	(2,199)	(2,810)	(7,057)	(52,242)	(55,124)	(63,598)	(69,728)	(84,097)
Cash paid to other suppliers & employees	(15,478)	(15,348)	(17,234)	(28,932)	(29,763)	(31,652)	(32,662)	(34,735)
Interest & investment income received	20	21	644	955	894	743	1,026	1,584
Interest paid	(1,140)	(1,072)	(2,803)	(2,954)	(2,904)	(2,469)	(2,239)	(2,418)
Income taxes paid	(3,060)	(2,909)	(2,383)	(2,717)	(2,929)	(3,195)	(4,116)	(3,524)
<b>Net Cash Flows from Operating Activities:</b>	<b>10,141</b>	<b>8,007</b>	<b>8,865</b>	<b>12,848</b>	<b>15,865</b>	<b>18,265</b>	<b>16,177</b>	<b>13,426</b>
<b>Cash Flow from Investing:</b>								
Proceeds from sales & maturities of investments	91	61	817	7,049	6,467	7,246	6,729	7,729
Purchases of investments	(80)	(137)	(692)	(7,534)	(9,639)	(9,963)	(7,746)	(9,043)
Purchases of property & equipment	(2,224)	(1,918)	(2,037)	(2,457)	(2,437)	(2,520)	(2,727)	(3,031)
Proceeds from sale-leaseback transactions	230	265	-	5	101	-	-	-
Acquisitions (net of cash acquired)	(524)	(1,181)	(42,226)	(444)	(866)	(146)	(139)	(16,612)
Proceeds from sale of subsidiary & other assets	-	-	832	-	840	-	(1,249)	-
Other	37	33	21	42	-	122	85	68
<b>Net Cash Flows from Investing Activities:</b>	<b>(2,470)</b>	<b>(2,877)</b>	<b>(43,285)</b>	<b>(3,339)</b>	<b>(5,534)</b>	<b>(5,261)</b>	<b>(5,047)</b>	<b>(20,889)</b>
<b>Cash Flow from Financing:</b>								
Net Repayments of Short-Term Debt	1,874	(598)	(556)	(720)	-	-	-	200
Proceeds from issuance of long-term debt	3,455	-	44,343	3,736	9,958	987	-	10,898
Repayments of long-term debt	(5,943)	-	(5,522)	(8,336)	(15,631)	(10,254)	(4,211)	(3,166)
Dividends paid	(1,840)	(2,049)	(2,038)	(2,603)	(2,624)	(2,625)	(2,907)	(3,132)
Derivative settlements	-	-	446	(25)	(7)	-	-	-
Proceeds from exercise of stock options	296	329	242	210	264	549	551	277
Payments for taxes related to net share settlement of equity awards	(72)	(71)	(97)	(112)	(88)	(168)	(370)	(181)
Repurchase of common stock	(4,461)	(4,361)	-	-	-	-	(3,500)	(2,012)
Other	(5)	(1)	1	196	432	155	(79)	(201)
<b>Net cash flows from financing activities</b>	<b>(6,761)</b>	<b>(6,751)</b>	<b>36,819</b>	<b>(7,654)</b>	<b>(7,696)</b>	<b>(11,356)</b>	<b>(10,516)</b>	<b>2,683</b>
Effect of exchange rate changes on cash, cash equivalents & restricted cash	2	1	(4)	-	-	-	-	-
Net increase (decrease) in cash, cash equivalents & restricted cash	912	(1,620)	2,395	1,855	2,635	1,648	614	(4,780)
Cash, cash equivalents & restricted cash at the beginning of the period	2,608	3,520	1,900	6,553	8,408	11,043	12,691	13,305
<b>Cash, cash equivalents &amp; restricted cash at the end of the period</b>	<b>3,520</b>	<b>1,900</b>	<b>4,295</b>	<b>8,408</b>	<b>11,043</b>	<b>12,691</b>	<b>13,305</b>	<b>8,525</b>

CVS Health

Forecasted Cash Flow Statement

<b>Fiscal Years Ending Dec. 31</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
<b>Cash Flow from Operations</b>										
Net Income	8,852	9,859	10,691	11,392	11,546	11,787	12,287	12,940	13,530	13,643
Depreciation and Amortization	4,334	4,380	4,195	4,180	3,997	4,212	4,206	4,208	4,218	4,235
Accounts Receivables, Net	3,716	(1,903)	(1,689)	(1,830)	(935)	(1,196)	(2,035)	(2,082)	(2,102)	(2,176)
Inventories	(340)	(906)	(889)	(984)	(234)	(446)	(1,193)	(1,214)	(1,262)	(1,322)
Other Current Assets	(3,043)	(374)	(332)	(360)	(184)	(235)	(400)	(409)	(413)	(428)
Separate Accounts Assets	(3,183)	(545)	(426)	(447)	(438)	(451)	(436)	(442)	(420)	(423)
Other Long-Term Assets	(1,742)	(387)	(343)	(372)	(190)	(243)	(413)	(423)	(427)	(442)
Accounts Payable	948	957	849	920	470	602	1,023	1,047	1,057	1,094
Pharmacy Claims & Discounts Payable	(519)	1,073	1,053	1,067	232	457	1,279	1,301	1,348	1,409
Health Care Costs Payable	1,627	1,158	906	950	931	959	926	940	894	899
Policyholders' Funds	462	151	118	124	122	125	121	123	117	117
Accrued Expenses	(1,618)	1,242	1,103	1,195	611	781	1,329	1,359	1,372	1,421
Other Insurance Liabilities	945	126	112	121	62	79	135	138	139	144
Operating Lease Right-of-Use Assets	(696)	(685)	(680)	(679)	(682)	(688)	(696)	(708)	(721)	(736)
Deferred Income Taxes	(443)	(397)	(356)	(320)	(287)	(257)	(231)	(207)	(186)	(167)
Other Long-Term Insurance Liabilities	3,902	565	502	544	278	355	605	619	624	646
Other Long-Term Liabilities	(1,544)	282	250	271	139	177	301	308	311	322
<b>Net Cash Flows from Operating Activities:</b>	<b>11,659</b>	<b>14,598</b>	<b>15,065</b>	<b>15,773</b>	<b>15,437</b>	<b>16,018</b>	<b>16,809</b>	<b>17,497</b>	<b>18,079</b>	<b>18,237</b>
<b>Cash Flow from Investing:</b>										
Purchases of Investments	(158)	(166)	(174)	(183)	(191)	(201)	(211)	(221)	(232)	(243)
Purchases of Long-Term Investments	(1,027)	(1,072)	(1,120)	(1,170)	(1,222)	(1,277)	(1,334)	(1,393)	(1,456)	(1,520)
Purchases of Property, Plant, & Equipment, Gross	(2,854)	(2,940)	(3,028)	(3,119)	(3,212)	(3,309)	(3,408)	(3,510)	(3,616)	(3,724)
Separate Accounts Liabilities	3,183	545	426	447	438	451	436	442	420	423
Non-Controlling Interest	25	26	28	29	31	32	34	35	37	39
<b>Net Cash Flows from Investing Activities:</b>	<b>(831)</b>	<b>(3,607)</b>	<b>(3,868)</b>	<b>(3,996)</b>	<b>(4,158)</b>	<b>(4,303)</b>	<b>(4,483)</b>	<b>(4,647)</b>	<b>(4,845)</b>	<b>(5,025)</b>
<b>Cash Flow from Financing:</b>										
Current Portion of Operating Lease Liabilities	(174)	60	59	59	60	60	61	62	63	64
Long-Term Operating Lease Liabilities	593	635	630	629	632	637	645	656	668	682
Current Portion of Long-Term Debt	(67)	1,080	223	(629)	1,628	(2,257)	1,500	(1,250)	(3,000)	3,000
Long-Term Debt	(2,052)	(4,858)	(4,253)	(2,713)	(6,628)	(523)	(5,720)	(1,750)	2,970	(5,970)
Common Stock	196	196	196	196	196	27	-	-	-	-
Treasury Stock, at cost	(1,891)	(1,805)	(1,148)	(1,096)	(1,046)	(499)	(476)	(454)	(434)	(414)
Dividends Paid	(3,132)	(3,517)	(3,803)	(4,041)	(4,094)	(4,174)	(4,346)	(4,577)	(4,785)	(4,824)
<b>Net Cash Flows from Financing Activities:</b>	<b>(6,527)</b>	<b>(8,210)</b>	<b>(8,096)</b>	<b>(7,595)</b>	<b>(9,253)</b>	<b>(6,728)</b>	<b>(8,336)</b>	<b>(7,314)</b>	<b>(4,518)</b>	<b>(7,462)</b>
Net increase in cash, cash equivalents & restricted cash	4,300	2,781	3,100	4,182	2,026	4,987	3,990	5,537	8,716	5,750
Cash, cash equivalents & restricted cash at the beginning of the period	7,996	12,296	15,078	18,177	22,359	24,385	29,372	33,362	38,899	47,614
<b>Cash, cash equivalents &amp; restricted cash at the end of the period</b>	<b>12,296</b>	<b>15,078</b>	<b>18,177</b>	<b>22,359</b>	<b>24,385</b>	<b>29,372</b>	<b>33,362</b>	<b>38,899</b>	<b>47,614</b>	<b>53,364</b>

CVS Health

Common Size Income Statement

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Revenues:</b>													
Products	69.75%	70.28%	68.52%	64.19%	63.52%	63.25%	63.05%	62.18%	61.53%	61.68%	61.80%	62.00%	62.23%
Premiums	26.06%	26.46%	27.72%	31.44%	32.16%	32.49%	32.74%	33.71%	34.46%	34.38%	34.30%	34.14%	33.95%
Services	3.78%	3.00%	3.44%	4.05%	3.99%	3.96%	3.89%	3.81%	3.72%	3.66%	3.61%	3.57%	3.53%
Net Investment Income	0.41%	0.26%	0.32%	0.32%	0.31%	0.31%	0.30%	0.31%	0.31%	0.31%	0.30%	0.30%	0.30%
<b>Net Revenues</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Operating Costs:</b>													
Cost Of Product Sold	60.18%	61.06%	60.68%	58.50%	56.37%	56.14%	55.96%	55.18%	54.61%	54.74%	54.85%	55.03%	55.32%
Depreciation and Amortization	1.54%	1.32%	1.22%	1.21%	1.12%	1.03%	0.97%	0.91%	0.92%	0.88%	0.84%	0.80%	0.77%
Depreciation	0.77%	0.76%	0.69%	0.65%	0.62%	0.61%	0.60%	0.61%	0.61%	0.60%	0.59%	0.58%	0.57%
Amortization	0.77%	0.56%	0.53%	0.56%	0.50%	0.41%	0.37%	0.30%	0.31%	0.28%	0.25%	0.22%	0.19%
Benefit Costs	22.00%	22.10%	24.11%	28.08%	27.97%	28.25%	28.47%	29.31%	29.96%	29.90%	29.83%	29.69%	29.52%
Operating Expenses	12.69%	11.85%	11.13%	11.62%	11.51%	11.45%	11.45%	11.48%	11.52%	11.54%	11.56%	11.58%	11.60%
<b>Total Operating Costs</b>	<b>95.48%</b>	<b>97.60%</b>	<b>96.16%</b>	<b>95.93%</b>	<b>95.85%</b>	<b>95.83%</b>	<b>95.87%</b>	<b>95.97%</b>	<b>96.09%</b>	<b>96.17%</b>	<b>96.23%</b>	<b>96.29%</b>	<b>96.44%</b>
<b>Operating Profit:</b>	4.52%	2.40%	3.84%	4.07%	4.15%	4.17%	4.13%	4.03%	3.91%	3.83%	3.77%	3.71%	3.56%
Interest Expense	0.86%	0.71%	0.74%	0.91%	0.82%	0.73%	0.65%	0.59%	0.51%	0.45%	0.39%	0.34%	0.32%
Other Income	-0.06%	-0.05%	-0.02%	-0.03%	-0.02%	-0.02%	-0.02%	-0.03%	-0.03%	-0.03%	-0.03%	-0.03%	-0.03%
Income Before Income Tax Provision	3.57%	1.75%	3.12%	3.19%	3.35%	3.46%	3.50%	3.46%	3.43%	3.40%	3.40%	3.39%	3.26%
Income Tax Provision	0.86%	0.45%	0.78%	0.79%	0.83%	0.85%	0.87%	0.86%	0.85%	0.84%	0.84%	0.84%	0.81%
Income (Loss) From Continuing Operations	2.70%	1.29%	2.34%	2.40%	2.52%	2.61%	2.64%	2.61%	2.58%	2.56%	2.56%	2.56%	2.46%
Net Income (Loss)	2.70%	1.29%	2.34%	2.40%	2.52%	2.61%	2.64%	2.61%	2.58%	2.56%	2.56%	2.56%	2.46%
Net Income (Loss) Attributable To Noncontrolling Interest	0.00%	0.00%	-0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
<b>Net Income Attributable to CVS Health Corporation</b>	<b>2.71%</b>	<b>1.29%</b>	<b>2.33%</b>	<b>2.41%</b>	<b>2.53%</b>	<b>2.61%</b>	<b>2.65%</b>	<b>2.61%</b>	<b>2.59%</b>	<b>2.56%</b>	<b>2.57%</b>	<b>2.56%</b>	<b>2.47%</b>



CVS Health

Common Size Balance Sheet (% of Revenue)

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Assets:</b>													
Cash & cash equivalents	3.22%	4.01%	2.23%	3.44%	4.21%	5.08%	6.25%	6.82%	8.21%	9.32%	10.87%	13.31%	14.92%
Investments	1.07%	0.86%	0.91%	0.93%	0.92%	0.92%	0.92%	0.94%	0.95%	0.95%	0.95%	0.95%	0.95%
Accounts receivable, net	8.36%	8.46%	9.85%	8.58%	8.58%	8.58%	8.58%	8.58%	8.58%	8.58%	8.58%	8.58%	8.58%
Inventories	6.08%	5.92%	5.04%	5.00%	4.95%	4.93%	4.91%	4.84%	4.79%	4.80%	4.81%	4.83%	4.85%
Other current assets	1.81%	1.11%	0.88%	1.69%	1.69%	1.69%	1.69%	1.69%	1.69%	1.69%	1.69%	1.69%	1.69%
<b>Total current assets</b>	<b>20.54%</b>	<b>20.37%</b>	<b>18.97%</b>	<b>19.54%</b>	<b>20.00%</b>	<b>20.55%</b>	<b>21.28%</b>	<b>21.56%</b>	<b>22.45%</b>	<b>22.98%</b>	<b>23.75%</b>	<b>25.06%</b>	<b>25.70%</b>
Long-term investments	7.88%	6.54%	6.43%	6.54%	6.45%	6.41%	6.36%	6.48%	6.57%	6.52%	6.48%	6.46%	6.44%
Property & equipment, net	4.41%	3.99%	3.68%	3.73%	3.65%	3.61%	3.55%	3.58%	3.58%	3.52%	3.46%	3.40%	3.34%
Operating lease right-of-use assets	6.55%	5.54%	4.82%	4.89%	4.78%	4.72%	4.64%	4.68%	4.69%	4.60%	4.52%	4.45%	4.38%
Goodwill	27.09%	24.24%	25.51%	24.84%	23.43%	22.30%	21.20%	20.67%	20.04%	19.05%	18.13%	17.29%	16.49%
Intangible assets, net	9.94%	7.68%	8.17%	7.41%	6.48%	5.76%	5.11%	4.69%	4.23%	3.74%	3.31%	2.94%	2.61%
Separate accounts assets	1.74%	1.00%	0.91%	1.75%	1.79%	1.81%	1.82%	1.88%	1.92%	1.91%	1.91%	1.90%	1.89%
Other assets	1.61%	1.43%	1.30%	1.74%	1.74%	1.74%	1.74%	1.74%	1.74%	1.74%	1.74%	1.74%	1.74%
<b>Total Assets:</b>	<b>79.76%</b>	<b>70.79%</b>	<b>69.80%</b>	<b>70.45%</b>	<b>68.33%</b>	<b>66.89%</b>	<b>65.70%</b>	<b>65.28%</b>	<b>65.22%</b>	<b>64.06%</b>	<b>63.30%</b>	<b>63.23%</b>	<b>62.60%</b>
<b>Liabilities:</b>													
Accounts payable	4.29%	4.60%	4.16%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%
Pharmacy claims & discounts payable	5.93%	6.02%	6.39%	6.08%	6.01%	5.98%	5.93%	5.84%	5.76%	5.74%	5.72%	5.71%	5.71%
Health care costs payable	3.02%	3.23%	3.37%	3.72%	3.81%	3.85%	3.88%	3.99%	4.08%	4.07%	4.06%	4.04%	4.02%
Policyholders' funds	1.47%	0.47%	0.37%	0.49%	0.50%	0.50%	0.51%	0.52%	0.53%	0.53%	0.53%	0.53%	0.53%
Accrued expenses	6.05%	5.81%	6.20%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%
Other insurance liabilities	0.45%	0.35%	0.32%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%	0.57%
Current portion of operating lease liabilities	0.56%	0.52%	0.49%	0.43%	0.42%	0.41%	0.41%	0.41%	0.41%	0.40%	0.39%	0.39%	0.38%
Current portion of long-term debt	1.44%	0.62%	0.77%	0.74%	0.97%	0.98%	0.78%	1.13%	0.60%	0.89%	0.60%	0.00%	0.54%
<b>Total current liabilities</b>	<b>23.21%</b>	<b>21.63%</b>	<b>22.13%</b>	<b>21.94%</b>	<b>22.19%</b>	<b>22.20%</b>	<b>21.98%</b>	<b>22.37%</b>	<b>21.87%</b>	<b>22.11%</b>	<b>21.79%</b>	<b>21.15%</b>	<b>21.65%</b>
Long-term operating lease liabilities	6.22%	5.21%	4.48%	4.53%	4.43%	4.37%	4.30%	4.34%	4.34%	4.26%	4.19%	4.12%	4.06%
Long-term debt	17.79%	15.65%	16.39%	15.40%	13.28%	11.60%	10.39%	8.64%	8.26%	6.65%	5.99%	6.27%	4.90%
Deferred income taxes	2.15%	1.20%	1.20%	1.05%	0.89%	0.76%	0.65%	0.57%	0.49%	0.42%	0.36%	0.31%	0.26%
Separate accounts liabilities	1.74%	1.00%	0.91%	1.75%	1.79%	1.81%	1.82%	1.88%	1.92%	1.91%	1.91%	1.90%	1.89%
Other long-term insurance liabilities	2.19%	1.89%	1.53%	2.55%	2.55%	2.55%	2.55%	2.55%	2.55%	2.55%	2.55%	2.55%	2.55%
Other long-term liabilities	0.65%	2.09%	1.74%	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%	1.27%
<b>Total liabilities:</b>	<b>53.96%</b>	<b>48.67%</b>	<b>48.38%</b>	<b>48.49%</b>	<b>46.40%</b>	<b>44.56%</b>	<b>42.97%</b>	<b>41.61%</b>	<b>40.70%</b>	<b>39.19%</b>	<b>38.05%</b>	<b>37.57%</b>	<b>36.59%</b>
<b>Shareholder's Equity:</b>													
Common stock	16.22%	14.95%	13.69%	13.39%	12.68%	12.11%	11.56%	11.32%	10.98%	10.43%	9.93%	9.47%	9.04%
Treasury stock, at cost	-9.64%	-9.88%	-9.46%	-9.72%	-9.63%	-9.45%	-9.24%	-9.25%	-9.07%	-8.72%	-8.39%	-8.08%	-7.79%
Retained earnings	18.80%	17.41%	17.22%	18.32%	18.91%	19.68%	20.41%	21.60%	22.61%	23.14%	23.69%	24.25%	24.73%
Accumulated other comprehensive income (loss)	0.33%	-0.45%	-0.08%	-0.08%	-0.08%	-0.07%	-0.07%	-0.07%	-0.07%	-0.06%	-0.06%	-0.06%	-0.05%
Noncontrolling interest	0.10%	0.09%	0.05%	0.05%	0.06%	0.06%	0.07%	0.07%	0.08%	0.08%	0.08%	0.09%	0.09%
<b>Total Shareholders' Equity:</b>	<b>25.81%</b>	<b>22.12%</b>	<b>21.42%</b>	<b>21.96%</b>	<b>21.93%</b>	<b>22.33%</b>	<b>22.73%</b>	<b>23.67%</b>	<b>24.52%</b>	<b>24.87%</b>	<b>25.25%</b>	<b>25.66%</b>	<b>26.01%</b>
<b>Total Liabilities Plus Shareholder's Equity:</b>	<b>79.76%</b>	<b>70.79%</b>	<b>69.80%</b>	<b>70.45%</b>	<b>68.33%</b>	<b>66.89%</b>	<b>65.70%</b>	<b>65.28%</b>	<b>65.22%</b>	<b>64.06%</b>	<b>63.30%</b>	<b>63.23%</b>	<b>62.60%</b>

CVS Health  
Value Driver Estimation

Fiscal Years Ending Dec. 31	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>NOPLAT:</b>													
Revenue	290,912	321,629	356,623	366,227	388,333	408,033	429,269	440,178	454,137	477,888	502,052	526,471	551,711
Less: Cost of Products Sold	175,803	196,892	217,098	209,299	219,625	229,752	240,969	243,640	248,721	262,312	276,149	290,536	306,119
Less: Depreciation & Amortization	4,512	4,247	4,366	4,334	4,380	4,195	4,180	3,997	4,212	4,206	4,208	4,218	4,235
Less: Benefit Costs	64,260	71,281	86,247	100,448	108,957	115,611	122,587	129,424	136,466	143,269	150,176	156,741	163,343
Less: Operating Expenses	37,066	38,212	39,832	42,691	44,842	46,863	49,307	50,688	52,471	55,301	58,203	61,142	64,190
Plus: Implied Interest on Operating Leases	1,070	1,036	970	969	1,006	1,043	1,080	1,116	1,154	1,191	1,229	1,268	1,308
<b>EBIT:</b>	<b>10,341</b>	<b>12,033</b>	<b>10,050</b>	<b>10,424</b>	<b>11,535</b>	<b>12,654</b>	<b>13,307</b>	<b>13,544</b>	<b>13,420</b>	<b>13,990</b>	<b>14,544</b>	<b>15,102</b>	<b>15,132</b>
<b>Income Tax Provision:</b>	<b>2,522</b>	<b>1,463</b>	<b>2,805</b>	<b>2,896</b>	<b>3,225</b>	<b>3,498</b>	<b>3,727</b>	<b>3,777</b>	<b>3,856</b>	<b>4,019</b>	<b>4,233</b>	<b>4,426</b>	<b>4,462</b>
Plus: Tax Shield on Interest Expense	628	553	657	822	791	740	687	642	575	538	482	442	442
Less: Tax on Investment Income	301	203	285	287	298	310	322	335	348	362	376	391	407
Less: Tax on Non-Operating Expense (Income)	(46)	(41)	(22)	(23)	(24)	(25)	(26)	(28)	(29)	(30)	(32)	(33)	(35)
Plus: Tax Shield on Operating Leases	269	251	240	239	249	258	267	276	285	294	304	313	323
<b>Adjusted Tax:</b>	<b>3,726</b>	<b>4,123</b>	<b>3,649</b>	<b>3,693</b>	<b>3,991</b>	<b>4,211</b>	<b>4,385</b>	<b>4,388</b>	<b>4,397</b>	<b>4,521</b>	<b>4,674</b>	<b>4,823</b>	<b>4,855</b>
<b>Changes in Deferred Taxes:</b>	<b>(524)</b>	<b>(2,390)</b>	<b>431</b>	<b>(443)</b>	<b>(397)</b>	<b>(356)</b>	<b>(320)</b>	<b>(287)</b>	<b>(257)</b>	<b>(231)</b>	<b>(207)</b>	<b>(186)</b>	<b>(167)</b>
<b>NOPLAT:</b>	<b>6,091</b>	<b>5,520</b>	<b>6,831</b>	<b>6,289</b>	<b>7,148</b>	<b>8,086</b>	<b>8,602</b>	<b>8,869</b>	<b>8,765</b>	<b>9,238</b>	<b>9,663</b>	<b>10,093</b>	<b>10,110</b>
<b>Invested Capital (IC):</b>	<b>57,103</b>	<b>50,459</b>	<b>53,388</b>	<b>52,360</b>	<b>50,909</b>	<b>49,927</b>	<b>49,139</b>	<b>48,370</b>	<b>47,550</b>	<b>47,151</b>	<b>46,864</b>	<b>46,749</b>	<b>46,762</b>
<b>Operating Current Assets:</b>													
Normal Cash	5,818	6,433	7,132	7,325	7,767	8,161	8,585	8,804	9,083	9,558	10,041	10,529	11,034
Accounts Receivable	24,431	27,276	35,227	31,511	33,414	35,103	36,934	37,869	39,065	41,101	43,183	45,285	47,461
Inventory	17,760	19,090	18,025	18,365	19,271	20,160	21,144	21,378	21,824	23,017	24,231	25,493	26,815
Other Operating Current Assets	5,292	3,593	3,151	6,194	6,568	6,901	7,260	7,444	7,679	8,080	8,489	8,902	9,330
<b>Total Operating Current Assets:</b>	<b>53,301</b>	<b>56,392</b>	<b>63,535</b>	<b>63,395</b>	<b>67,020</b>	<b>70,324</b>	<b>73,923</b>	<b>75,495</b>	<b>77,652</b>	<b>81,755</b>	<b>85,944</b>	<b>90,209</b>	<b>94,640</b>
<b>Operating Current Liabilities:</b>													
Accounts Payable	12,544	14,838	14,897	15,845	16,802	17,652	18,572	19,043	19,644	20,668	21,715	22,772	23,866
Pharmacy Claims & Discounts Payable	17,330	19,423	22,874	22,355	23,428	24,481	25,548	25,780	26,237	27,517	28,818	30,165	31,574
Health Care Costs Payable	8,808	10,406	12,049	13,676	14,834	15,740	16,690	17,621	18,580	19,506	20,446	21,340	22,239
Policyholders' Funds	4,301	1,500	1,326	1,788	1,939	2,057	2,182	2,303	2,429	2,550	2,672	2,789	2,907
Accrued Expenses	17,670	18,745	22,189	20,571	21,813	22,916	24,111	24,722	25,503	26,831	28,191	29,563	30,983
Other Insurance Liabilities	1,303	1,140	1,141	2,086	2,212	2,323	2,445	2,507	2,586	2,720	2,858	2,997	3,141
<b>Operating Current Liabilities:</b>	<b>61,956</b>	<b>66,052</b>	<b>74,476</b>	<b>76,321</b>	<b>81,029</b>	<b>85,170</b>	<b>89,548</b>	<b>91,975</b>	<b>94,978</b>	<b>99,792</b>	<b>104,700</b>	<b>109,627</b>	<b>114,710</b>
<b>Net Operating Working Capital:</b>	<b>(8,655)</b>	<b>(9,660)</b>	<b>(10,941)</b>	<b>(12,926)</b>	<b>(14,009)</b>	<b>(14,846)</b>	<b>(15,624)</b>	<b>(16,480)</b>	<b>(17,327)</b>	<b>(18,037)</b>	<b>(18,757)</b>	<b>(19,417)</b>	<b>(20,070)</b>
<b>Property &amp; Equipment, Net:</b>	<b>12,896</b>	<b>12,873</b>	<b>13,183</b>	<b>13,715</b>	<b>14,238</b>	<b>14,757</b>	<b>15,276</b>	<b>15,797</b>	<b>16,323</b>	<b>16,855</b>	<b>17,396</b>	<b>17,946</b>	<b>18,508</b>
<b>Other Operating Assets:</b>													
Intangible Assets, Net	29,026	24,754	29,234	27,223	25,259	23,572	21,992	20,686	19,257	17,926	16,688	15,535	14,461
PV of Operating Leases	19,122	17,872	17,252	17,948	18,633	19,312	19,991	20,673	21,361	22,057	22,765	23,486	24,221
Separate Accounts Assets	5,087	3,228	3,250	6,433	6,978	7,404	7,851	8,289	8,739	9,175	9,618	10,038	10,461
Other Assets	4,714	4,620	4,660	6,402	6,788	7,131	7,503	7,693	7,936	8,350	8,773	9,200	9,642
<b>Net Other Operating Assets</b>	<b>57,949</b>	<b>50,474</b>	<b>54,396</b>	<b>58,005</b>	<b>57,658</b>	<b>57,420</b>	<b>57,337</b>	<b>57,341</b>	<b>57,293</b>	<b>57,509</b>	<b>57,843</b>	<b>58,258</b>	<b>58,785</b>
<b>Other Operating Liabilities:</b>													
Separate Accounts Liabilities	5,087	3,228	3,250	6,433	6,978	7,404	7,851	8,289	8,739	9,175	9,618	10,038	10,461
<b>Free Cash Flow (FCF):</b>													
NOPLAT	6,091	5,520	6,831	6,289	7,148	8,086	8,602	8,869	8,765	9,238	9,663	10,093	10,110
Change in IC	(7,932)	(6,645)	2,930	(1,028)	(1,451)	(982)	(789)	(769)	(820)	(399)	(287)	(115)	13
<b>FCF</b>	<b>14,023</b>	<b>12,165</b>	<b>3,901</b>	<b>7,317</b>	<b>8,599</b>	<b>9,068</b>	<b>9,391</b>	<b>9,638</b>	<b>9,585</b>	<b>9,638</b>	<b>9,949</b>	<b>10,208</b>	<b>10,097</b>
<b>Return on Invested Capital (ROIC):</b>													
NOPLAT	6,091	5,520	6,831	6,289	7,148	8,086	8,602	8,869	8,765	9,238	9,663	10,093	10,110
Beginning IC	65,035	57,103	50,459	53,388	52,360	50,909	49,927	49,139	48,370	47,550	47,151	46,864	46,749
<b>ROIC</b>	<b>9.37%</b>	<b>9.67%</b>	<b>13.54%</b>	<b>11.78%</b>	<b>13.65%</b>	<b>15.88%</b>	<b>17.23%</b>	<b>18.05%</b>	<b>18.12%</b>	<b>19.43%</b>	<b>20.49%</b>	<b>21.54%</b>	<b>21.63%</b>
<b>Economic Profit (EP):</b>													
Beginning IC	65,035	57,103	50,459	53,388	52,360	50,909	49,927	49,139	48,370	47,550	47,151	46,864	46,749
x (ROIC - WACC)	2.93%	3.24%	7.11%	5.29%	7.13%	9.33%	10.65%	11.43%	11.47%	12.74%	13.77%	14.78%	14.85%
<b>EP</b>	<b>1,908</b>	<b>1,848</b>	<b>3,586</b>	<b>2,824</b>	<b>3,733</b>	<b>4,750</b>	<b>5,315</b>	<b>5,616</b>	<b>5,546</b>	<b>6,058</b>	<b>6,492</b>	<b>6,929</b>	<b>6,940</b>

CVS Health

Variable Weighted Average Cost of Capital (WACC) Estimation

<b>Fiscal Years Ending Dec. 31</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
<b>Cost of Equity:</b>										
Risk-Free Rate	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%
Equity Risk Premium	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Beta	0.80	0.80	0.81	0.82	0.82	0.83	0.83	0.84	0.85	0.85
<b>Cost of Equity:</b>	<b>8.29%</b>	<b>8.32%</b>	<b>8.35%</b>	<b>8.38%</b>	<b>8.41%</b>	<b>8.44%</b>	<b>8.47%</b>	<b>8.50%</b>	<b>8.53%</b>	<b>8.57%</b>
<b>Cost of Debt:</b>										
Risk-Free Rate	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%
Implied Default Premium	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%
Pre-Tax Cost of Debt	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%
Marginal Tax Rate	24.70%	24.70%	24.70%	24.70%	24.70%	24.70%	24.70%	24.70%	24.70%	24.70%
<b>After-Tax Cost of Debt:</b>	<b>4.07%</b>	<b>4.07%</b>	<b>4.07%</b>	<b>4.07%</b>	<b>4.07%</b>	<b>4.07%</b>	<b>4.07%</b>	<b>4.07%</b>	<b>4.07%</b>	<b>4.07%</b>
<b>MV Weight of Equity:</b>	57.4%	58.4%	59.6%	60.5%	62.1%	62.9%	64.4%	65.3%	65.1%	66.0%
<b>MV Weight of Debt:</b>	42.6%	41.6%	40.4%	39.5%	37.9%	37.1%	35.6%	34.7%	34.9%	34.0%
<b>Forward WACC:</b>	6.49%	6.55%	6.62%	6.68%	6.77%	6.82%	6.90%	6.97%	6.97%	7.04%
<b>Discount Factor:</b>	1.0649	1.1347	1.2098	1.2905	1.3779	1.4718	1.5734	1.6830	1.8004	1.9271
<b>Implied Constant WACC:</b>	<b>6.49%</b>	<b>6.52%</b>	<b>6.55%</b>	<b>6.58%</b>	<b>6.62%</b>	<b>6.65%</b>	<b>6.69%</b>	<b>6.72%</b>	<b>6.75%</b>	<b>6.78%</b>

**CVS Health**

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

## Key Inputs:

CV Growth of NOPLAT	2.00%
CV Year ROIC	21.63%
WACC	6.43%
Cost of Equity	8.26%

<b>Fiscal Years Ending Dec. 31</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
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**DCF Model:**

Free Cash Flow (FCF)	7317	8599	9068	9391	9638	9585	9638	9949	10208	10097
Continuing Value (CV)										191945
PV of FCF	6871	7578	7496	7277	6995	6512	6125	5912	5670	106357

Value of Operating Assets:	166,792
Non-Operating Adjustments	
Plus: Excess Cash	4,949
Plus: Short-Term Investments	3,259
Plus: Long-Term Investments	23,019
Less: Debt Obligations	(61,610)
Less: PV of Op. Lease Liabilities	(17,392)
Less: Non-Controlling Interest	(175)
Less: ESOP	(282)
Value of Equity	118,558
Shares Outstanding	1,288
Intrinsic Value of Last FYE	\$ 92.05
<b>Implied Price as of Today</b>	<b>\$ 92.77</b>

**EP Model:**

Economic Profit (EP)	2824	3733	4750	5315	5616	5546	6058	6492	6929	6940
Continuing Value (CV)										145196
PV of EP	2652	3290	3927	4118	4076	3768	3850	3858	3848	80453

Total PV of EP	113840
Invested Capital (last FYE)	53388
Value of Operating Assets:	167229
Non-Operating Adjustments	
Plus: Excess Cash	4,949
Plus: Short-Term Investments	3,259
Plus: Long-Term Investments	23,019
Less: Debt Obligations	(61,610)
Less: PV of Op. Lease Liabilities	(17,392)
Less: Non-Controlling Interest	(175)
Less: ESOP	(282)
Value of Equity	118,995
Shares Outstanding	1,288
Intrinsic Value of Last FYE	\$ 92.39
<b>Implied Price as of Today</b>	<b>\$ 93.11</b>

## CVS Health

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

<b>Fiscal Years Ending</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
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EPS	\$ 6.92	\$ 7.80	\$ 8.54	\$ 9.16	\$ 9.34	\$ 9.58	\$ 10.03	\$ 10.60	\$ 11.12	\$ 11.25
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### Key Assumptions

CV growth of EPS	2.00%
CV Year ROE	10.07%
Cost of Equity	8.26%

### Future Cash Flows

P/E Multiple (CV Year)										12.80
EPS (CV Year)										\$ 11.25
Future Stock Price										\$ 144.07
Dividends Per Share	2.44	2.75	3.01	3.23	3.29	3.38	3.53	3.73	3.92	
Discounted Cash Flows	2.25	2.34	2.37	2.35	2.21	2.10	2.03	1.98	1.92	70.53

Intrinsic Value as of Last FYE	\$ 90.08
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<b>Implied Price as of Today</b>	<b>\$ 90.78</b>
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**CVS Health***Relative Valuation Models*

Ticker	Company	Price	EPS 2024E	EPS 2025E	P/E 24	P/E 25
CI	The Cigna Group	\$341.35	\$23.27	\$26.61	14.67	12.83
HUM	Humana, Inc.	\$367.14	\$19.92	\$25.49	18.43	14.40
UNH	UnitedHealth Group Inc.	\$521.06	\$26.52	\$30.04	19.65	17.35
ELV	Elevance Health	\$508.91	\$35.33	\$39.84	14.40	12.77
WMT	Walmart	\$175.86	\$6.81	\$7.35	25.82	23.93
TGT	Target Corporation	\$151.48	\$8.32	\$9.00	18.21	16.83
WBA	Walgreens Boots Alliance, Inc.	\$22.31	\$1.56	\$2.44	14.30	9.14
PBM Average					<b>16.79</b>	<b>14.34</b>
Retail Pharmacy Average					<b>19.44</b>	<b>16.63</b>

CVS	CVS Health	\$79.32	6.92	7.80	11.5	10.2
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**Implied Relative Value:**

<b>PBM P/E (EPS24)</b>	<b>\$ 116.11</b>
<b>PBM P/E (EPS25)</b>	<b>\$ 111.80</b>
<b>Retail Pharmacy P/E (EPS24)</b>	<b>\$ 134.48</b>
<b>Retail Pharmacy P/E (EPS25)</b>	<b>\$ 129.70</b>

**CVS Health**

*Present Value of Operating Lease Obligations*

<b>Fiscal Years Ending Dec. 31</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Year 1	2175.0	2279.0	2405.0	2458.0	2493.0	2690.0	2699.0	2688.0	2685.0	2685.0	2716.0
Year 2	2129.0	2220.0	2321.0	2361.0	2361.0	2544.0	2598.0	2583.0	2613.0	2499.0	2559.0
Year 3	2055.0	2121.0	2197.0	2209.0	2201.0	2399.0	2444.0	2496.0	2398.0	2313.0	2369.0
Year 4	1964.0	2007.0	2044.0	2040.0	2072.0	2233.0	2335.0	2269.0	2217.0	2142.0	2181.0
Year 5	1853.0	1861.0	1877.0	1910.0	1934.0	2110.0	2103.0	2089.0	2054.0	1989.0	2024.0
Thereafter	16914.0	16794.0	16837.0	16368.0	16090.0	16004.0	15654.0	15017.0	14103.0	12411.0	11004.0
Total Minimum Payments	27090.0	27282.0	27681.0	27346.0	27151.0	27980.0	27833.0	27142.0	26070.0	24039.0	22853.0
Less: Cumulative Interest	8281.7	8242.0	8284.6	8015.3	7857.9	7776.5	7639.2	7328.0	6884.2	6080.4	5460.5
<b>PV of Minimum Payments</b>	<b>18808.3</b>	<b>19040.0</b>	<b>19396.4</b>	<b>19330.7</b>	<b>19293.1</b>	<b>20203.5</b>	<b>20193.8</b>	<b>19814.0</b>	<b>19185.8</b>	<b>17958.6</b>	<b>17392.5</b>
<b>Implied Interest in Year 1 Payment</b>		<b>1015.7</b>	<b>1028.2</b>	<b>1047.4</b>	<b>1043.9</b>	<b>1041.9</b>	<b>1091.0</b>	<b>1090.5</b>	<b>1070.0</b>	<b>1036.1</b>	<b>969.8</b>
Pre-Tax Cost of Debt	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%
Years Implied by Year 6 Payment	9.1	9.0	9.0	8.6	8.3	7.6	7.4	7.2	6.9	6.2	5.4
Expected Obligation in Year 6 & Beyond	1853	1861	1877	1910	1934	2110	2103	2089	2054	1989	2024
<b>Present Value of Lease Payments</b>											
PV of Year 1	2063.6	2162.2	2281.8	2332.1	2365.3	2552.2	2560.7	2550.3	2547.4	2547.4	2576.8
PV of Year 2	1916.4	1998.3	2089.3	2125.3	2125.3	2290.0	2338.6	2325.1	2352.1	2249.5	2303.5
PV of Year 3	1755.0	1811.4	1876.3	1886.6	1879.7	2048.8	2087.3	2131.7	2048.0	1975.4	2023.2
PV of Year 4	1591.4	1626.2	1656.2	1653.0	1678.9	1809.4	1892.0	1838.5	1796.4	1735.6	1767.2
PV of Year 5	1424.5	1430.7	1443.0	1468.3	1486.8	1622.1	1616.7	1605.9	1579.0	1529.1	1556.0
PV of 6 & beyond	10057.4	10011.1	10049.9	9865.4	9757.1	9881.0	9698.5	9362.5	8862.9	7921.6	7165.7
Capitalized PV of Payments	18808.3	19040.0	19396.4	19330.7	19293.1	20203.5	20193.8	19814.0	19185.8	17958.6	17392.5

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

Number of Options Outstanding (shares):	14.79
Average Time to Maturity (years):	<u>5.14</u>
Expected Annual Number of Options Exercised:	3
Current Average Strike Price:	\$ 67.95
Cost of Equity:	8.26%
Current Stock Price:	\$79.32

<b>Fiscal Years Ending Dec. 31</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
Increase in Shares Outstanding:	3	3	3	3	3	0.40	0	0	0	0
Average Strike Price:	\$ 67.95	\$ 67.95	\$ 67.95	\$ 67.95	\$ 67.95	\$ 67.95	\$ 67.95	\$ 67.95	\$ 67.95	\$ 67.95
<b>Increase in Common Stock Account:</b>	<b>196</b>	<b>196</b>	<b>196</b>	<b>196</b>	<b>196</b>	<b>27</b>	-	-	-	-
Share Repurchases (\$)	1,500	1,500	1,000	1,000	1,000	500	500	500	500	500
Expected Price of Repurchased Shares:	\$ 79.32	\$ 83.12	\$ 87.10	\$ 91.27	\$ 95.64	\$ 100.23	\$ 105.03	\$ 110.06	\$ 115.33	\$ 120.85
<b>Number of Shares Repurchased:</b>	<b>19</b>	<b>18</b>	<b>11</b>	<b>11</b>	<b>10</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>4</b>
Shares Outstanding (beginning of the year)	1,288	1,272	1,257	1,248	1,240	1,233	1,228	1,223	1,219	1,214
Plus: Shares Issued Through ESOP	3	3	3	3	3	0	0	0	0	0
Less: Shares Repurchased in Treasury	19	18	11	11	10	5	5	5	4	4
<b>Shares Outstanding (end of the year)</b>	<b>1,272</b>	<b>1,257</b>	<b>1,248</b>	<b>1,240</b>	<b>1,233</b>	<b>1,228</b>	<b>1,223</b>	<b>1,219</b>	<b>1,214</b>	<b>1,210</b>



**CVS Health***Valuation of Options Granted under ESOP*

Current Stock Price	\$79.32
Risk Free Rate	4.30%
Current Dividend Yield	3.47%
Annualized St. Dev. of Stock Returns	22.73%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Vested YE & Expected	14.79	67.95	5.14	\$ 19.10	\$ 282.49
<b>Total</b>	14.79	\$ 67.95	5.14	\$ 28.67	<b>\$ 282.49</b>

CVS Health

Key Management Ratios

<i>Fiscal Years Ending Dec. 31</i>	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Liquidity Ratios:</b>													
Current Ratio ( <i>Current Assets/Current Liabilities</i> )	0.88	0.94	0.86	0.89	0.90	0.93	0.97	0.96	1.03	1.04	1.09	1.18	1.19
Quick Ratio ( <i>Cash + Marketable Securities + Receivables/Current Liabilities</i> )	0.55	0.62	0.59	0.59	0.60	0.63	0.67	0.67	0.73	0.75	0.79	0.88	0.89
Cash Ratio ( <i>Cash + Marketable Securities/Current Liabilities</i> )	0.18	0.23	0.14	0.19	0.22	0.24	0.28	0.29	0.34	0.36	0.40	0.47	0.49
Defensive Interval Ratio ( <i>Current Assets/Daily Expenditures</i> )	80.34	79.35	72.99	75.27	77.06	79.11	81.84	82.79	86.12	88.00	90.86	95.77	98.04
<b>Asset-Management Ratios:</b>													
Inventory Turnover Ratio ( <i>Cost of Goods Sold/Inventory</i> )	9.90	10.31	12.04	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.42
Receivables Turnover ( <i>Revenue/Receivables</i> )	11.96	11.82	10.16	11.66	11.66	11.66	11.66	11.66	11.66	11.66	11.66	11.66	11.66
Payables Turnover ( <i>Cost of Goods Sold/Accounts Payable</i> )	14.01	13.27	14.57	13.21	13.07	13.02	12.97	12.79	12.66	12.69	12.72	12.76	12.83
Working Capital Turnover ( <i>Revenue/Net Working Capital</i> )	(33.75)	(33.38)	(32.70)	(28.42)	(27.81)	(27.57)	(27.56)	(26.79)	(26.29)	(26.57)	(26.84)	(27.19)	(27.57)
Total Asset Turnover ( <i>Revenue/Total Assets</i> )	1.25	1.41	1.43	1.42	1.46	1.49	1.52	1.53	1.53	1.56	1.58	1.58	1.60
<b>Financial Leverage Ratios:</b>													
Debt-To-Capital Ratio ( <i>Total Liabilities/(Total Liabilities + Total Shareholders' Equity)</i> )	0.68	0.69	0.69	0.69	0.68	0.67	0.65	0.64	0.62	0.61	0.60	0.59	0.58
Debt-To-Equity Ratio ( <i>Total Liabilities/Total Shareholders' Equity</i> )	2.09	2.20	2.26	2.21	2.12	2.00	1.89	1.76	1.66	1.58	1.51	1.46	1.41
Financial Leverage Ratio ( <i>Total Assets/Total Shareholders' Equity</i> )	3.09	3.20	3.26	3.21	3.12	3.00	2.89	2.76	2.66	2.58	2.51	2.46	2.41
<b>Profitability Ratios:</b>													
Return on Equity ( <i>Net Income/Beginning Total Shareholders' Equity</i> )	11.35%	5.50%	11.70%	11.55%	12.22%	12.51%	12.46%	11.79%	11.28%	11.00%	10.86%	10.64%	10.07%
Return on Assets ( <i>Net Income/Total Assets</i> )	3.43%	1.78%	3.66%	3.54%	3.81%	4.02%	4.16%	4.08%	4.09%	4.14%	4.22%	4.25%	4.09%
Gross Profit Margin ( <i>Gross Profit/Revenue</i> )	39.82%	38.94%	39.32%	43.03%	43.63%	43.86%	44.04%	44.82%	45.39%	45.26%	45.15%	44.97%	44.68%
Operating Profit Margin ( <i>Operating Profit/Revenue</i> )	4.52%	2.40%	3.84%	4.07%	4.15%	4.17%	4.13%	4.03%	3.91%	3.83%	3.77%	3.71%	3.56%
Net Profit Margin ( <i>Net Income/Revenue</i> )	2.71%	1.29%	2.33%	2.41%	2.53%	2.61%	2.65%	2.61%	2.59%	2.56%	2.57%	2.56%	2.47%
<b>Payout Policy Ratios:</b>													
Dividend Payout Ratio ( <i>Dividend/EPS</i> )	33.33%	69.62%	37.29%	35.24%	35.24%	35.24%	35.24%	35.24%	35.24%	35.24%	35.24%	35.24%	35.24%
Total Payout Ratio ( <i>(Divs. + Repurchases)/NI</i> )	33.16%	158.76%	61.78%	56.74%	53.98%	46.31%	45.09%	44.52%	39.64%	39.25%	38.88%	38.57%	38.39%

**CVS Health**  
Sensitivity Tables

DDM		Equity Risk Premium							
Dividend Payout %		90.78	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
0.26		88.75	87.25	85.79	84.38	83.00	81.65	80.34	
0.29		90.87	89.36	87.89	86.46	85.06	83.71	82.39	
0.32		92.99	91.47	89.98	88.54	87.13	85.76	84.43	
0.35		95.29	93.74	92.24	90.78	89.36	87.98	86.63	
0.38		97.24	95.69	94.17	92.70	91.27	89.87	88.51	
0.41		99.36	97.79	96.27	94.78	93.33	91.93	90.55	
0.44		101.49	99.90	98.36	96.86	95.40	93.98	92.59	

DCF		Cost of Product Sold % of Product Revenue							
Benefit Costs %		92.77	88.45%	88.55%	88.65%	88.75%	88.85%	88.95%	89.05%
86.65%		101.91	100.76	99.60	98.45	97.29	96.14	94.98	
86.75%		100.02	98.87	97.71	96.55	95.40	94.24	93.09	
86.85%		98.13	96.97	95.82	94.66	93.51	92.35	91.20	
86.95%		96.23	95.08	93.92	92.77	91.61	90.46	89.30	
87.05%		94.34	93.19	92.03	90.88	89.72	88.57	87.41	
87.15%		92.45	91.29	90.14	88.98	87.83	86.67	85.52	
87.25%		90.56	89.40	88.25	87.09	85.94	84.78	83.63	

DCF		Pre-Tax Cost of Debt							
Cost of Equity		92.77	3.90%	4.40%	4.90%	5.40%	5.90%	6.40%	6.90%
8.04%		100.53	97.77	95.18	92.74	90.43	88.26	86.19	
8.14%		100.54	97.79	95.19	92.75	90.45	88.27	86.21	
8.24%		100.56	97.80	95.21	92.77	90.46	88.29	86.22	
8.34%		100.58	97.82	95.22	92.78	90.48	88.30	86.24	
8.44%		100.59	97.83	95.24	92.80	90.49	88.31	86.25	
8.54%		100.61	97.85	95.25	92.81	90.51	88.33	86.26	
8.64%		100.62	97.86	95.27	92.83	90.52	88.34	86.28	

DDM		Dividend Payout Ratio % (2024 - 2033)							
CV EPS Growth		90.78	32.24%	33.24%	34.24%	35.24%	36.24%	37.24%	38.24%
1.70%		88.05	88.72	89.39	90.06	90.73	91.39	92.06	
1.80%		88.26	88.94	89.62	90.29	90.97	91.65	92.32	
1.90%		88.48	89.17	89.85	90.54	91.22	91.91	92.59	
2.00%		88.70	89.40	90.09	90.79	91.48	92.17	92.87	
2.10%		88.94	89.64	90.34	91.04	91.75	92.45	93.15	
2.20%		89.18	89.89	90.60	91.31	92.02	92.74	93.45	
2.30%		89.42	90.14	90.87	91.59	92.31	93.03	93.75	

DCF		Risk-Free Rate							
Equity Risk Premium		92.77	4.15%	4.20%	4.25%	4.30%	4.35%	4.40%	4.45%
4.70%		99.61	98.71	97.82	96.94	96.08	95.22	94.38	
4.80%		98.13	97.25	96.38	95.52	94.67	93.84	93.01	
4.90%		96.68	95.82	94.97	94.13	93.30	92.48	91.68	
5.00%		95.27	94.42	93.59	92.77	91.96	91.16	90.37	
5.10%		93.88	93.06	92.24	91.44	90.64	89.86	89.08	
5.20%		92.53	91.72	90.92	90.13	89.35	88.59	87.83	
5.30%		91.20	90.41	89.63	88.85	88.09	87.34	86.60	

DCF		Pharmacy Claims % (2024 - 2033)							
Benefit Costs %		92.77	7.75%	7.90%	8.05%	8.20%	8.35%	8.50%	8.65%
86.65%		96.05	96.85	97.65	98.45	99.25	100.05	100.84	
86.75%		94.16	94.96	95.76	96.55	97.35	98.15	98.95	
86.85%		92.27	93.06	93.86	94.66	95.46	96.26	97.06	
86.95%		90.37	91.17	91.97	92.77	93.57	94.37	95.17	
87.05%		88.48	89.28	90.08	90.88	91.68	92.47	93.27	
87.15%		86.59	87.39	88.19	88.98	89.78	90.58	91.38	
87.25%		84.70	85.49	86.29	87.09	87.89	88.69	89.49	