

CVS Health (CVS)

Overview

Price: \$73.66

52 Week Range: \$52.04 - 77.23

Forward P/E: 9.54

EV/EBITDA: 9.3

Price/Sales: 0.36

Dividend: 2.74%

Background

CVS is a large health services company with three main lines of business. Pharmacy/Retail, Insurance, PBM (Pharmacy Benefits Management). The Pharmacy/Retail segment provides services like filling prescriptions and selling basic health-related items like soap, Tylenol, bandages and other small household items. The insurance arm is the second largest insurer in the nation since the acquisition of Aetna and makes money mostly through premiums. The PBM business negotiates between drug manufacturers and insurers. PBMs determine which drugs insurance companies will pay for and how much they will cost. This creates savings and increases control for the insurance and pharmacy segments of CVS while also generating revenue through rebates and administrative fees charged to drug makers and other insurers.

Thesis

Recommendation: **BUY** ~11.57% upside

CVS is a large and stable company with exciting initiatives to expand their offerings, but is undervalued by the market. This attractive valuation makes for a good entry point into an industry leader and veteran. CVS is an excellent for for our portfolio since it is more than just insurance like UNH and not involved in pet products like ZTS. We don't have a health services company as of yet.

Growth Drivers:

CVS has a new CEO as of last week who is focused on newer initiatives and looking to turn around past underperformance. Lynch is prioritizing HealthHUBs and Minute Clinics to turn CVS into a company that more fully and completely addresses consumer health. The company is rapidly growing these special locations to diversify their offerings and to be a more complete health solutions company. Along these lines, CVS is embedding itself into consumers' lives by increasing digital engagement, and offering more services along with proactively reaching out to patients as opposed to waiting for them to come into stores.

Financial Background

CVS is undervalued right now. The company is a huge player in the industry but has attractive valuation metrics with both an EV/EBITDA a forward P/E under 10 and Price-to-Sales ratio under 0.4. While the company has significant liabilities, the debt schedule is very manageable and strong cash flows diminish this risk.

Risks and Considerations

New entrants, particularly Amazon, could present a threat to CVS. Amazon has announced plans to get into drug delivery and they already deliver some other goods similar to CVS's retail products like bandages. However, CVS is aggressively diversifying their offerings and pushing into other health services to become a more holistic health company. With any healthcare company come regulatory concerns. Part of this is inherent in the healthcare industry but there is also some potential concern over the company's vertical integration and broad reach. However, anti-trust action is not expected to be taken.

Appendix

DCF Model

Discounted Cash Flow (DCF) Analysis: CVS US EQUITY					
(\$ in millions)					
Discounted Cash Flow	Trailing 12M from Last Fiscal Quarterly Report				
	2021	2022	2023	2024	2025
EBIT	\$16,601.0	\$17,265.0	\$17,955.6	\$18,673.8	\$19,420.8
Less: Taxes	4,150.2	4,316.2	4,488.9	4,668.5	4,855.2
Unlevered earnings	12,450.7	12,948.7	13,466.7	14,005.4	14,565.6
Plus: Depreciation and Amortization	2,368.8	2,463.5	2,562.1	2,664.5	2,771.1
Less: Capital Expenditures	2,985.4	3,104.8	3,229.0	3,358.1	3,492.5
Less: Change in Net Working Capital	(15,031.9)	(828.5)	(861.6)	(896.1)	(931.9)
Unlevered Free Cash Flow	26,866.0	13,136.0	13,661.4	14,207.9	14,776.2
Discount Period	1.000	2.000	3.000	4.000	5.000
Discount Factor	1.043	1.0872	1.1336	1.1821	1.2325
Present Value of Unlevered Free Cash Flow	25,765.8	12,082.1	12,050.8	12,019.6	11,988.5
					138,694
					112,527.7
Total Enterprise Value (TEV)	186,434.6		60.36%		
Less: Total Debt	\$89,002.0			price	73.49
Less: Preferred Stock	\$0.0			target price	80.8
Less: Minority Interest	(\$3.0)			return	10.00%
Plus: Cash	\$8,056.0				
Market Value of Equity	105,491.6				
Fully Diluted Shares	1305.0				
Equity Value Per Share	80.8				

Comps Model

Bentley Investment Group - Comparative Valuation

All figures in \$USD millions except for per share amounts

Public Comparables for Relative Valuation

Scenario Inputs

Company Name	CVS US EQUITY
Date	2/9/2021
Current Price	\$73.49
Market Capitalization	95,904.5
Enterprise Value	176,850.5
Financial Data:	
LTM EPS	6.5
LTM EBITDA	19,944.0
LTM EBIT	12,903.0
LTM Sales	256,776.0
Total Debt	89,002.0
Cash	8,056.0
Total Book Equity	64,170.0
Shares Outstanding	1,305.0
Book Value	49.2

Market Multiples

Price/Earnings	11.2x
EV/EBITDA	8.9x
EV/EBIT	13.7x
EV/Sales	0.7x
Price/Book	1.5x

*non us comps are not adjusted

input ticker

US EQUITY	US EQUITY	US EQUITY		
CI	ANTM	CNC	HUM	WBA

Public Comparables

Company Name	CI US EQUITY	ANTM US EQUITY	CNC US EQUITY	HUM US EQUITY	WBA US EQUITY
Current Price	\$210.99	\$298.70	\$60.27	\$382.59	\$50.00
LTM EPS	14.52	21.36	3.99	21.17	2.67
Price/Earnings	14.5x	14.0x	15.1x	18.1x	18.7x
EV/EBITDA	8.5	7.1	8.0	7.5	7.9
EV/EBIT	11.4	8.1	10.8	8.4	13.7
EV/Sales	0.6	0.6	0.4	0.6	0.5
Price/Book	1.5	2.2	1.4	3.6	2.2
book shares	50,321.0	33,199.0	25,773.0	13,728.0	20,638.0
	354.8	248.7	581.5	128.9	864.0

*if foreign

Industry Multiples

Metric	Mean	Median
Price/Earnings	16.1x	15.1x
EV/EBITDA	7.8x	7.9x
EV/EBIT	10.5x	10.8x
EV/Sales	0.5x	0.6x
Price/Book	2.2x	2.2x

Implied Equity Value for CVS US EQUITY

Metric	Mean	Median
Price/Earnings	\$105.26	\$98.83
EV/EBITDA	\$57.29	\$58.42
EV/EBIT	\$41.38	\$44.90
EV/Sales	\$40.07	\$48.67
Price/Book	\$106.50	\$105.89
Mean Price	\$70.10	
Median Price	\$70.94	\$70.52
Current Price	\$73.49	
Mean % Undervaluation	(5%)	-4.04%
Median % Undervaluation	(3%)	

Blended Price Target

Method	Price
Bear Case weight	63.64 10%
Base weight	6.36 75%
Bull Case weight	80.80 15%
Target Price	100.21
Current Price	15.0315
Return	82.00 73.49 11.57%