



## **CVS Stock Pitch**

## Firm Summary

<u>Key figures</u>  Market cap: \$95.56B  Revenue 2023 TTM: \$355.8B  DIVIDEND : 2.8% (5Y average)  EMPLOYEES: 300,000+	<u>Global Presence</u>  CVS has a significant presence in the United States and focuses primarily on this market
<u>Products and Services</u>  Their Health Care Benefits services offer a range of health insurances  They offer a range of pharmacy services with physical retail locations  Offer virtual and physical minute clinic visits	<u>Purpose and Sustainability</u>  Included in the Dow Jones Sustainability Index for 10 straight years  \$260 million+ in philanthropic investments

## CVS Story



Founded in 1963, CVS has morphed into a healthcare giant in the US. With services ranging from pharmacies, insurance and virtual Healthcare services. They are aiming to build a world of health around every customer and lower the cost of care.

CVS use acquisitions of other Healthcare businesses as a catalyst to boost growth and serve over 100 million customers in diverse ways.

### ‘CVS Profits Eclipse \$2.2 Billion As Company Integrates New Healthcare Businesses’



Large spending on acquisitions such as Oak Street Health and Signify Health. Resulting in increases in revenue and operating profit

### ‘Eli Lilly obesity drug now available in US pharmacies’



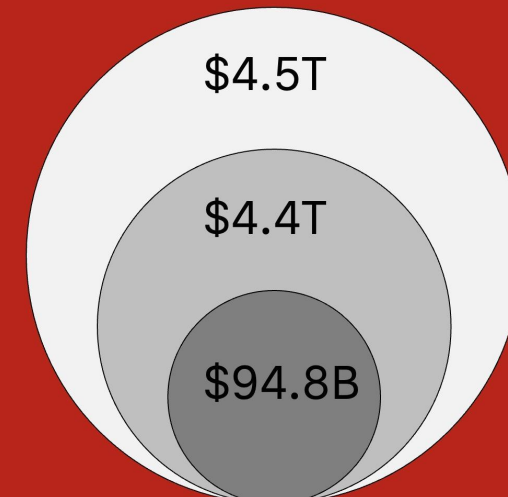
The current development in pharmaceuticals directly benefits CVS, for example, weight loss drug Zepbound is now available in U.S pharmacies and could cost \$550 a month for individuals.

### Business direction

- Driving business growth through digital transformation. Some of these include same-day convenience, virtual appointments
- As mentioned, CVS are consistently active in the M&A market. As the economy restrengthens, they will be looking for beneficial deals
- Their ESG strategy (Healthy 2030)



- \$ US Healthcare Spending in 2022
- \$ Top 10 Pharma and Healthcare combined Market cap
- \$ CVS Market cap





# ESG – 22 rating (Top 15% of its peers)




Environmental	Sustainable Packaging Goals: Targeting 100% reusable, recyclable, or compostable store brand packaging by 2030 with significant progress made in 2022.	Waste Reduction Efforts: Over 5 million pounds of prescription medication safely disposed of through safe disposal initiatives.
Social	Healthcare Accessibility and Equity: Health Zones and Project Health initiatives providing free health screenings and nutrition programs in underserved communities.	Mental Health Focus: Support for Mental Health America and investment in behavioral health clinicians in free clinics to ensure equitable access to mental health services.
Governance	Ethical Operations and Transparency: Adherence to global standards such as the GRI and SASB, with a commitment to transparent reporting.	Diversity and Inclusion: Diverse workforce and leadership training programs promoting an equitable workplace.

SWOT analysis

Strengths	<ul style="list-style-type: none"><li>- Comprehensive Health Services</li><li>- Extensive Network</li><li>- Brand Reputation</li></ul>
Weaknesses	<ul style="list-style-type: none"><li>- Dependency on US Market</li><li>- Complex Regulatory Environment</li><li>- Competitive Market</li></ul>
Opportunities	<ul style="list-style-type: none"><li>- Demand for Telehealth</li><li>- Expansion into Emerging Markets</li><li>- Strategic Partnerships and Acquisitions</li></ul>
Threats	<ul style="list-style-type: none"><li>- Healthcare Policy Changes</li><li>- Data Security Concerns</li><li>- Economic Downturns</li></ul>

Financials



			
P/E	9.03	12.90	12.27
Dividend	2.8%	0.5%	0.87%
P/B	1.24	1.91	2.21
FCF	11.08B	310.27M	8.25B
Debt to equity	103.59%	86.53%	68.80%
Quarterly Revenue Growth	12.00%	7.40%	11.60%

Technical analysis and price forecast



UHS



CI



Technical analysis and price forecast



CVS



Stock intrinsic value is the real worth of a company's stock, based on its financial health and performance. Instead of looking at the stock's current market price, which can change due to people's opinions and emotions, intrinsic value helps us understand if a stock is truly a good deal or not.

Worst Case	Base Case	Best Case
<ul style="list-style-type: none"><li>• 143.25 USD</li><li>• 47% Undervaluation</li></ul>	<ul style="list-style-type: none"><li>• 170.55 USD</li><li>• Undervaluation 55%</li></ul>	<ul style="list-style-type: none"><li>• 223.58 USD</li><li>• Undervaluation 66%</li></ul>

### Key Points

- The DCF model was created by using Alpha Spread. Great tool that everyone should know about!
- Possible Value Trap?
- CVS has upside potential of 17% compared to the average analyst price target.

## Back testing using alphaspread™

Back testing is a tool that simulates how a particular strategy or model would have performed on historical data

Buy when undervalued by more than 20% sell when overvalued by more than 0%

Profit 52%

AVG Valuation 50%

Correlation 49%

For CVS stock, a strategy of buying when undervalued by more than 20% and selling when overvalued would have resulted in a potential **profit of 52%** over the past 5 years. There were a total of 2 transactions, with the last one on Mar 14, 2024.



Potential risk factors and mitigants

Debt Level

Risks

- CVS Health has total debt of \$60.2B & a debt-to-equity ratio of 78.6%
- CVS has a net D/E of 63.6% which is considered high

Mitigants

- However, CVS's debt to equity ratio has reduced from 124.3% to 78.6% over the past 5 years
- CVS's debt is well covered by operating cash flow (22.3%)

Insider Transactions

Risks

- Significant insider selling over the past 3 months which may suggest executives have a lack of confidence/believe stock is currently overvalued

Mitigants

- However, with a current share price of \$75.22 CVS is trading significantly below its intrinsic value which negates concerns about the stock being overvalued

Reduction in Adjusted profit forecast

Risks

- CVS Health lowered its adjusted profit forecast for 2024 due to a late-year rise in medical care which drove up 4th quarter costs at Aetna (CVS' insurance business)

Mitigants

- CVS' has a “diversified business model” and so has natural hedges built in via the pharmacy and consumer wellness business segments that can help to offset the headwinds in the insurance business in 2024

Conclusion and recommendation

**Conclusion- Acquisitions**

Acquiring healthcare companies to provide different services

01

**Conclusion- ESG**

They currently have good initiatives that will support their healthy 2030 goal

02

**Conclusion- Financials**

Healthy financials that compete well against others, strong PE and FCF

03

**Conclusion- Risks**

Debt is a clear risk-factor, free cash flow and revenue growth can be a mitigant

04

**Recommendation**

Buy- £1,500 Investment (DCA)

Target price - \$100

Timeframe – 6 months-2 years

Potential earnings – 10%-35%

# “Thank you”

