

CVS Health

CVS updates formulary to drive greater biosimilar adoption

Maintain Rating: BUY | PO: 95.00 USD | Price: 80.88 USD

The news: CVS formulary to prefer Humira biosimilars

After market close, CVS announced the removal of Humira from its major national commercial template formularies and Humira biosimilars will be covered. The commercial formulary change will be effective April 1, 2024 and Humira will continue to be an option for customers with the Choice and Standard Opt Out commercial formularies. Additionally, CVS announced that AbbVie has entered into an agreement to supply Cordavis, CVS' subsidiary for biosimilar products, with a committed volume of co-branded Humira. The agreement allows CVS to provide another treatment option for adalimumab patients and will be available in 2Q'24. For members transitioning to a biosimilar, CVS Caremark plans to provide members and prescribers notification of the change 60 days in advance, follow-up text message reminders, and online education. Given current Humira authorizations will be transitioned to the preferred biosimilar products, members/prescribers will not need to obtain new prior authorizations with the product transition. CVS estimates the biosimilar opportunity could potentially save clients more than 50% on adalimumab in 2024 vs. 2022 when Humira was the sole option.

Why it matters: CVS positioned to capitalize on biosimilars

We view today's news positively as biosimilars represent a clear way for CVS to leverage its size and scale to both drive down drug prices and capture incremental economics versus traditional specialty drug spend. CVS estimates the biosimilar market will increase tenfold through 2029, and while we don't have a view on those projections, biosimilars certainly represent a strong growth opportunity for the company. For reference, CVS announced the creation of the Cordavis subsidiary in 3Q, and through Cordavis CVS is working directly with manufacturers to bring biosimilar products to the market ([link to takeaways here](#)). CVS expects Cordavis will be a tailwind to earnings in 2024. Today's news follows previous announcements from CVS to launch its first product with Sandoz to co-manufacture and commercialize Hyrimoz and its biosimilar product for Humira in 1Q'24. The list price of Cordavis Hyrimoz will launch at a list price that is more than 80% lower than the current list price of Humira. With the AbbVie co-branded Humira product expected to launch in 2Q'24, we expect CVS to continue making progress on expanding its portfolio of products and capturing incremental biosimilar volumes over time. We view CVS as well positioned to capture improved economics per script for its role in driving greater biosimilar adoption and driving greater savings to Caremark clients.

03 January 2024

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Stock Data

Price	80.88 USD
Price Objective	95.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-1-7
52-Week Range	64.41 USD - 93.41 USD
Mrkt Val (mn) / Shares Out (mn)	104,084 USD / 1,286.9
Free Float	99.8%
Average Daily Value (mn)	648.35 USD
BofA Ticker / Exchange	CVS / NYS
Bloomberg / Reuters	CVS US / CVS.N
ROE (2023E)	15.0%
Net Dbt to Eqty (Dec-2022A)	55.1%
ESGMeter™	High

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Timestamp: 03 January 2024 06:43PM EST

Price objective basis & risk

CVS Health (CVS)

Our \$95 price objective is based on about 11x our CY24 EPS estimate. This multiple is below the five-year average on an absolute basis and near the lower end of the historical range of 10.0x-17.5x. This also represents a bigger discount to the S&P500 vs. the last five years. The discount reflects margin pressure across CVS's core Pharmacy Services and Retail Pharmacy segments and uncertainty around drug prices.

Downside risks to our PO are failure to generate expected benefits from the Aetna combination (or have any regulatory issues in a highly regulated business), growing competitive risks in the pharmacy benefit market (including competitive pricing around rebates), business disruption tied to Covid any potential impact from ongoing opioid-related investigations, any issues with the closing and integration of the pending Signify Health/Oak Street transactions, costs and mitigation efforts needed to address the lost Stars ratings for CVS' MA plans, potential regulatory risk across the HCB and Pharmacy Services businesses, a slowdown in 340B, and slowing prescription/insurance trends. Upside risks to our PO are any potential prescription volume pickup, faster and stronger than expected synergies from Aetna, biosimilar contributions, and improving front-end performance (including better attach rates post-Covid).

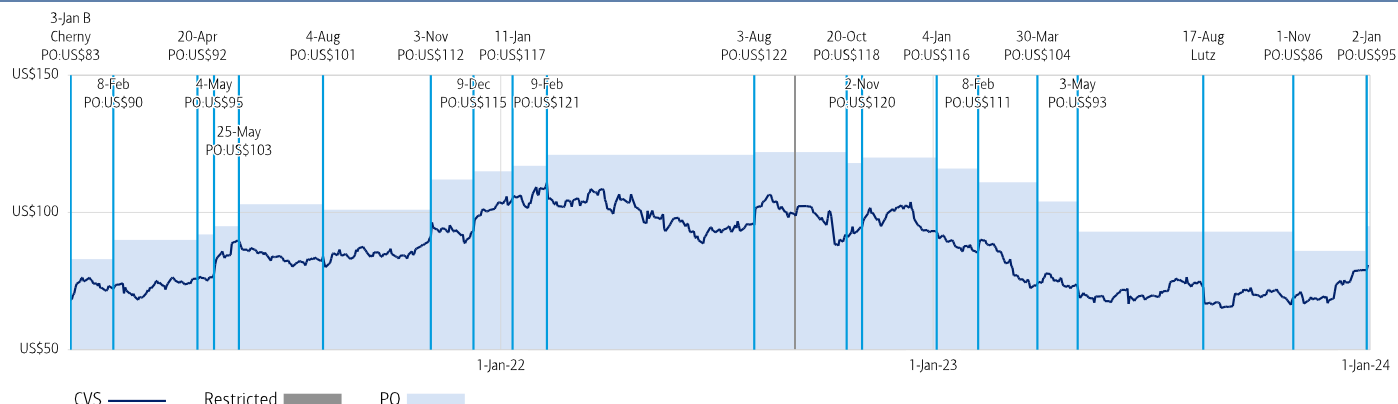
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CVS Health (CVS) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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