

CVS Health

CVS reiterates guide with FY23 EPS toward high end and appoints interim CFO

Maintain Rating: BUY | PO: 95.00 USD | Price: 80.51 USD

The News: Reaffirms guide, \$3Bn buyback, appoints CFO

This morning, CVS published an 8-K reaffirming the FY23/24 guide, noting a \$3Bn accelerated share repurchase transaction and announcing the appointment of the interim CFO Thomas Cowhey to the formal CFO role. The company expects to reaffirm FY23 and FY24 guidance at a competitor conference next week. It expects FY23 GAAP EPS of \$6.37 to \$6.61, adj. EPS to be in the upper half of the guidance range of \$8.50 to \$8.70, and FY23 cash flow from operations at the upper end of the \$12.5Bn to \$13.5Bn guidance range. CVS also plans to reaffirm FY24 guidance for GAAP EPS of at least \$7.26, adj. EPS of at least \$8.50, and cash flow from operations of at least \$12.5 billion. The company expects total Medicare Advantage memberships to grow by at least 800,000 in 2024. In addition, in 4Q'23, the company entered into a \$3.0Bn fixed dollar accelerated share repurchase transaction, which became effective on January 3, 2024. Last, the board appointed Thomas Cowhey to serve as CVS Health's Executive Vice President and CFO, effective January 5, 2024. Mr. Cowhey has been serving as CVS Health's interim CFO since October 13, 2023.

Why It Matters: FY23 EPS toward high end a positive

CVS is pointing to the high end of its FY23 adj. EPS guidance and reiterating its FY24 guidance. We view this as a positive following its December 5th Investor Day (see our [note for takeaways](#)) where expectations had been reset. The appointment of Tom Cowhey, who had stepped in as interim CFO and has served in various roles at Aetna since February 2022 (see our [16 October 2023 note](#)), should alleviate investor questions on the future of the CFO position. Additionally, the \$3Bn accelerated share repurchase should help support FY24 numbers and speaks to how the company views the valuation of its shares at current levels. We expect the upcoming presentation to focus on the company's conviction around its growth strategy and guidance, commentary on its new pharmacy reimbursement model, capital deployment priorities, and CFO transition. We maintain our Buy rating on what we believe remains a valuation disconnect from the company's current and long-term growth potential.

05 January 2024

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Stock Data

Price	80.51 USD
Price Objective	95.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-1-7
52-Week Range	64.41 USD - 93.25 USD
Mrkt Val (mn) / Shares Out (mn)	103,608 USD / 1,286.9
Free Float	99.8%
Average Daily Value (mn)	646.42 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: 05 January 2024 08:27AM 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).

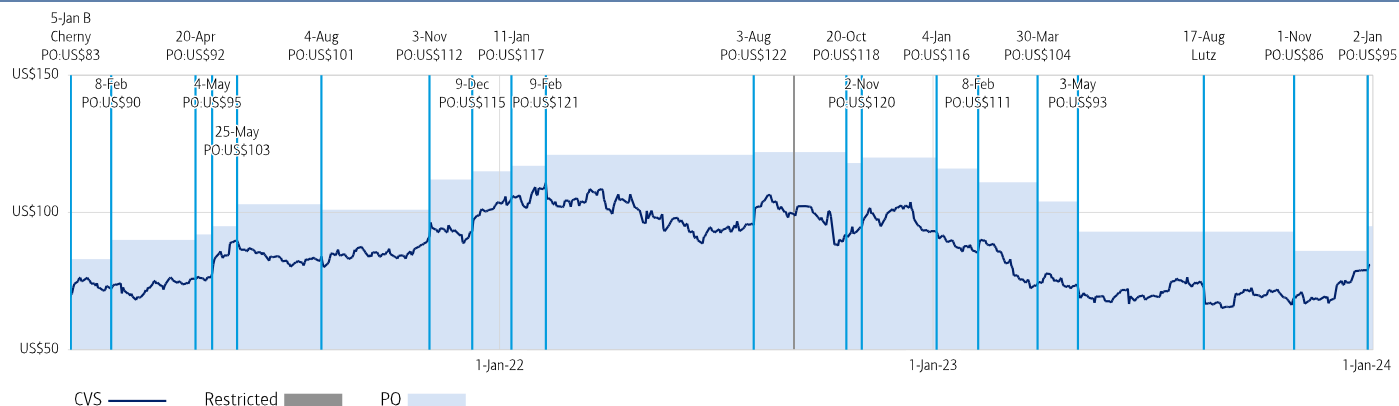
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CVS Health (CVS) Price Chart



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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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