

CVS Health

4Q EPS beat w/ miss in Healthcare Benefits; FY24 guide lowered on MBR

Maintain Rating: BUY | PO: 95.00 USD | Price: 73.76 USD

EPS above BofA/ST; MBR miss likely key focus on call

Given the FY23 guidance updates and commentary provided on January 8th, there were no large surprises to CVS' 4Q'23 results. Revenue, adj. EBIT, and adj. EPS came in above consensus and BofA's estimates, although with mixed results on the segment level. Healthcare Benefits EBIT missed consensus/BofA's estimates due to higher medical benefits ratio (MBR) of 88.5% that came in ahead of consensus of 87.5%/BofA's estimate of 87.4%. Outperformance in Pharmacy & Consumer Wellness EBIT partially offset the Healthcare Benefits EBIT miss leading to an overall EBIT beat (while Health Services EBIT was largely in-line). The FY24 EPS guidance reduction from at least \$8.50 to at least \$8.30 highlights elevated medical cost trends in 2024 and we look for additional color on the call. We expect the earnings call to focus on the expected duration of the elevated MBR trends (the earnings deck indicates guidance contemplates elevated cost trends from 4Q persisting into 2024) and drivers of the strength in Pharmacy & Consumer Wellness in the quarter. We maintain our Buy rating ahead of the company's 8AM call.

Revenue, EBIT, and EPS above BofA/ST, MBR above

CVS reported 4Q revenue of \$93.81Bn, above Visible Alpha consensus estimates of \$90.38Bn and BofA's estimate of \$89.02Bn. Total adjusted EBIT of \$4.22Bn was above the Street's estimate of \$4.08Bn and BofA's estimate of \$4.12Bn. EPS of \$2.12 was above the Street's estimate of \$1.98 and BofA's estimate of \$1.98. In Pharmacy & Consumer Wellness, CVS reported same store prescription growth of 4.4% vs. BofA's estimate of 5.8%. Same store front store sales were (3.1)%, below BofA's estimate of 4.0%. In Pharmacy & Consumer Wellness, adjusted EBIT of \$2.02Bn was above the Street's estimate of \$1.84Bn and BofA's estimate of \$1.87Bn. In Health Services, adjusted EBIT of \$1.86Bn was largely in-line with the Street's estimate of \$1.85Bn and above BofA's estimate of \$1.82MM. In Healthcare Benefits, adjusted EBIT of \$676MM was below the Street's estimate of \$795MM and BofA's estimate of \$794MM, MBR of 88.5% was above the Street's estimate of 87.5% and BofA's estimate of 87.4%.

Lowered outlook for FY24 EPS, below BofA/ST

CVS lowered its FY24 EPS guidance from at least \$8.50 to at least \$8.30 and lowered FY24 cash flow from operations from at least \$12.5Bn to at least \$12.0Bn. The guidance compares to Visible Alpha consensus of \$8.47 and BofA's estimate of \$8.55.

Key topics for the call

The most important commentary for the call will be the building blocks to the FY24 guidance reduction. In particular, this includes commentary on the MA cost trends, MA bid strategy and any expected MA coding changes. Aside from that we look for broader updates on Rx trends, the PBM selling season and the ramping of the health exchange business, among other areas.

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Equity

Allen Lutz, CFA
Research Analyst
BofA
+1 646 855 4380
allen.lutz@bofa.com

Hanna Lee
Research Analyst
BofA
+1 646 855 3682
hanna.y.lee@bofa.com

Dev Weerasuriya
Research Analyst
BofA
+1 646 855 5707
dev.weerasuriya@bofa.com

Stock Data

Price	73.76 USD
Price Objective	95.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-1-7
52-Week Range	64.41 USD - 90.62 USD
Mkt Val (mn) / Shares Out (mn)	94,921 USD / 1,286.9
Free Float	99.8%
Average Daily Value (mn)	923.15 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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MA – Medicare Advantage

MBR – medical benefits ratio

PBM – pharmacy benefits manager

Rx - prescription

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).

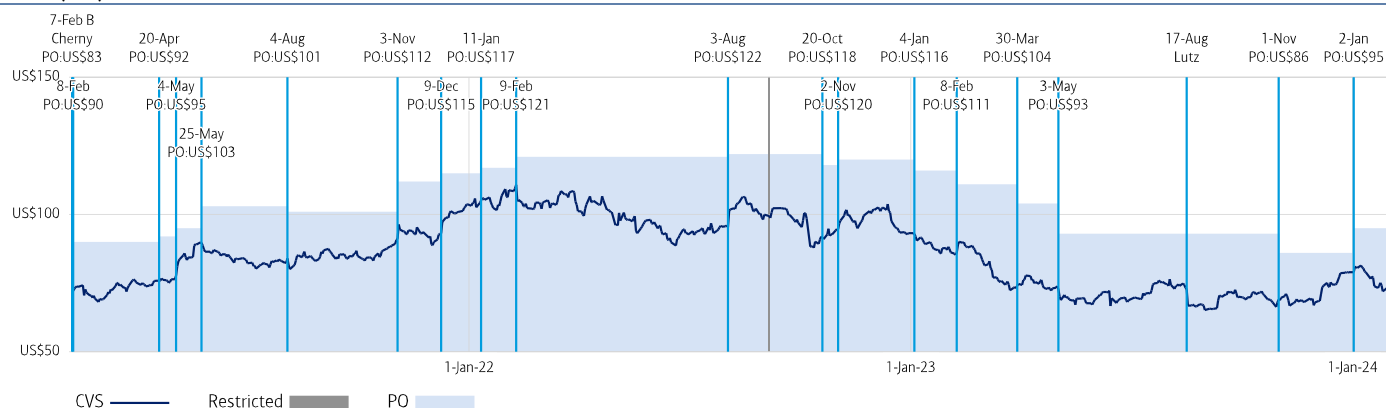
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CVS Health (CVS) Price Chart



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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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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