

CVS Caremark - CVS



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Investment Thesis

CVS Caremark is the largest pharmacy health provider in the United States, with over 7,400 CVS/Pharmacy stores, 800 MinuteClinic locations and 60 million CVS Caremark plan members. CVS has displayed a commitment towards continuing to expand and grow as a company with impressive continued financial growth, and operating in alignment with changing healthcare government policies. Matching the aging American population, CVS is committing to becoming a primary healthcare provider in the near future. CVS is a company that is displaying growth at an opportune time in the healthcare services industry, with 47% of revenues coming from the retail pharmacy sector, and 53% coming from the pharmacy benefits management side, and an overall 70% of revenues coming from drugs. The pharmacy services side of the company has seen 5.2% increase in revenues in the past year, as managers predict a continuation of the trend of pharmacy sales rapidly outpacing front-end retail sales.

Thesis Highlights

▪ Decreasing Medical Costs

A large number of major medications will lose patent protection soon. In response, CVS has inked a deal with Cardinal Health Inc to increase their generic drug production capabilities. In addition, the medicare expansion and the Affordable Care Act will increase drug demand dramatically. CVS is well positioned to capitalize on this developing situation compared to its competitors.

▪ Expansion into specialty market

In late 2013, CVS agreed to purchase Coram LLC from Apria Healthcare Group for \$2.1 billion. The infusion service is one of the fastest growing specialty markets in the pharmacy industry. Historically, this has been a service only available at hospitals, but Coram offered home infusion for much cheaper. The pharmacy specialty sector is set to grow at 20% above the overall pharmaceutical market.

• Growth as a Primary Care Provider

Ford CVS is accelerating its development into a primary health care provider. They have created goodwill towards their brand by ceasing tobacco sales later this year. In addition, they are rapidly expanding their 800 location strong MinuteClinic operation by adding 150 clinics across the US.

Thesis Risks

▪ Medicaid Rollback

With elections upcoming and indicators pointing toward a strong republican showing it is increasingly likely that the Medicaid expansion will be rolled back in more states. This would limit the number of people with access to insurance and decrease the demand for pharmaceuticals.

Historical Prices and Volume (2/13—2/14)



Recommendation:

Buy

Price Target \$83.00

Current Price \$71.20

Analyst Team

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Company Information

Sector	Services
Industry	Drug Stores
Market Cap	\$ 83.94 B
Sales	\$126.76 B
Beta	.82

Price-Based Multiples

	CVS	Ind
P/E	18.96	19.09
P/FCF	13.01	10.43
P/Book	2.23	3.08

Relevant Information

EV/TTM EBITDA	4.61
EPS	3.74
Dividend Yield	1.10%
Shares Short	
52-Week Range	\$50.21-71.99
50-Day Moving	
Debt Rating	BBB+