Sector Overview

- Biotech correction
  - Patent cliffs
  - M&A
- Biopharma regulation
- Overweight based on opportunity
Company Overview

Products

Pharma

Integration

Services
Investment Thesis

1. Strength of revenues facing uncertainty
2. Value-based strategy
3. Synergistic business focus
4. Diversified revenue streams across healthcare
Revenue Streams have traditional reliance on pharmaceuticals and retail.

Shift towards health care benefits in 2017.

Balance across revenue streams.

Optimistic outlook for growth moving forward.

Revenue Distribution
**Historical Performance**

**Share Price - GFC**

Revenue through GFC (in billions)

**Share Price 2010-2013**

Revenue through 2001 (in billions)

Non cyclical consumer demand through economic uncertainty
CVS - Industry Outlook

Pharmacy
- Largest share of pharmacy revenue in U.S.
- Digitization, convenience and efficiency
- High barrier to entry
- Growth with retirees and Medicare

Managed Care
- Commercial enrollment headwinds inherent with recessionary pressure
- Medical cost trend increases (MBR 83%)
- Healthcare spending trends
  - +5.4% through 2028

Retail
- Partnership with Target to lower footprint
  - Maintain presence
- Synergy with pharmacy & managed care arms
- Move towards in-home care is a growing trend

Graphs:
- Retirees % of Population
- Commercial Enrollment GFC
Mergers & Acquisitions

**Announced**

$8 billion, Cash

Expected: 06/2023

**Completed**

$69 Billion

Completed: 11/29/2018

**Signify Health**

Combines technology, analytics and networks to create value-based payment programs that drive better outcomes

**Aetna**

A network including healthcare professionals, primary care doctors, and specialists in over 5700 hospitals

Leading healthcare analytics and in-home care

Public & Private managed care provider

Revenue chart

CVS FCF chart
Corporate Strategy

Movement from fee-for-service to value based care

Debt Distribution

2022 - 2024

$40-50 Billion FCF

Dividends
$9 Billion

Capex
$3 Billion

Debt
$8.5 Billion

Improve public penetration and 5 star ratings
Inorganic growth with acquisitions
Meeting consumers digitally, at home, and through retail locations
Staying ahead of primary care trends

Returning value to customers & shareholders
## Factor Exposure

<table>
<thead>
<tr>
<th>Sector</th>
<th>View Security</th>
<th>Security</th>
<th>Security 1D Return</th>
<th>Universe 1D Return</th>
<th>Active 1D Return (Security - Universe)</th>
<th>Horizon</th>
<th>1 Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care</td>
<td>CVS US Equity</td>
<td>Return Type</td>
<td>Active</td>
<td>0.88%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Style</th>
<th>Name (15)</th>
<th>Relevant Quintile</th>
<th>Universe Quintile Return (Active)</th>
<th>QSpread (Q1-Q5)%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volatility</td>
<td>3M Volatility</td>
<td>Q5</td>
<td>1.09%</td>
<td>-2.00%</td>
</tr>
<tr>
<td>Dividends</td>
<td>Dividend Yield (Indicated)</td>
<td>Q1</td>
<td>0.93%</td>
<td>0.93%</td>
</tr>
<tr>
<td>Size</td>
<td>Market Capitalization</td>
<td>Q1</td>
<td>0.84%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Revisions</td>
<td>3M Target Price Change %</td>
<td>Q2</td>
<td>0.81%</td>
<td>-0.26%</td>
</tr>
<tr>
<td>Growth</td>
<td>5Y Actual Sales Growth</td>
<td>Q3</td>
<td>0.76%</td>
<td>-1.34%</td>
</tr>
<tr>
<td>Profitability</td>
<td>PORT US Profit</td>
<td>Q3</td>
<td>0.75%</td>
<td>0.94%</td>
</tr>
<tr>
<td>Short Interest</td>
<td>SI Days to Cover</td>
<td>Q4</td>
<td>0.70%</td>
<td>-0.74%</td>
</tr>
<tr>
<td>Value</td>
<td>PORT US Value</td>
<td>Q1</td>
<td>0.64%</td>
<td>0.64%</td>
</tr>
<tr>
<td>Share Buybacks</td>
<td>1Y Share Buyback</td>
<td>Q2</td>
<td>0.56%</td>
<td>1.21%</td>
</tr>
<tr>
<td>Leverage</td>
<td>PORT US Leverage</td>
<td>Q2</td>
<td>0.21%</td>
<td>0.16%</td>
</tr>
<tr>
<td>Dispersion</td>
<td>Rev Est Dispersion (FY1)</td>
<td>Q4</td>
<td>0.21%</td>
<td>-1.48%</td>
</tr>
<tr>
<td>Growth</td>
<td>1Y Fwd EPS Growth (FY) %</td>
<td>Q3</td>
<td>0.17%</td>
<td>0.54%</td>
</tr>
<tr>
<td>Surprises</td>
<td>EPS Surprise % (Last)</td>
<td>Q2</td>
<td>-0.20%</td>
<td>-0.24%</td>
</tr>
<tr>
<td>Momentum</td>
<td>PORT US Momentum</td>
<td>Q1</td>
<td>-0.38%</td>
<td>-0.38%</td>
</tr>
<tr>
<td>Revisions</td>
<td>3M EPS Revision % (FY1)</td>
<td>Q2</td>
<td>-0.42%</td>
<td>-0.59%</td>
</tr>
</tbody>
</table>
Technicals
<table>
<thead>
<tr>
<th></th>
<th>Downside</th>
<th>Base Case</th>
<th>Upside</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DCF</strong></td>
<td>-2.00%</td>
<td>+7.51%</td>
<td>16.56%</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>$98</td>
<td>$107</td>
<td>$116</td>
</tr>
</tbody>
</table>

**Downside**
- Poor sales assumptions representing larger commercial pullback
- Higher COGS impacts from new biosimilars market
- Higher than expected near term margin pressure

**Base Case**
- Reaffirmed guidance factored in
- Continued growth trajectory
- Factored in near term margin pressure from subsidies

**Upside**
- COGS reverts to historical levels
- Sales increases attributable larger pharma and managed care contribution
- D&A at historical levels
- Continued market share gain in Medicare
<table>
<thead>
<tr>
<th></th>
<th>UnitedHealth Group</th>
<th>Walgreens</th>
<th>RITE AID</th>
<th>CVS Health</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Cap</strong></td>
<td>483.972 B</td>
<td>28.724 B</td>
<td>387.163 M</td>
<td>131.572 B</td>
</tr>
<tr>
<td><strong>PE Ratio</strong></td>
<td>27.03</td>
<td>5.64</td>
<td>0</td>
<td>16.32</td>
</tr>
<tr>
<td><strong>5Y Beta</strong></td>
<td>0.77</td>
<td>0.62</td>
<td>1.03</td>
<td>0.72</td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
<td>1.29%</td>
<td>5.74%</td>
<td>NA</td>
<td>2.21%</td>
</tr>
</tbody>
</table>
Final Recommendation

We would love to buy CVS @ ~$90

...and sell Medtronic...
Value-based Healthcare Push
## Correlation

<table>
<thead>
<tr>
<th>Security</th>
<th>HCA</th>
<th>TMO</th>
<th>MDT</th>
<th>CVS</th>
</tr>
</thead>
<tbody>
<tr>
<td>11) HCA</td>
<td>1.000</td>
<td>0.202</td>
<td>0.436</td>
<td>0.410</td>
</tr>
<tr>
<td>12) TMO</td>
<td>0.202</td>
<td>1.000</td>
<td>0.212</td>
<td>0.198</td>
</tr>
<tr>
<td>13) MDT</td>
<td>0.436</td>
<td>0.212</td>
<td>1.000</td>
<td>0.381</td>
</tr>
<tr>
<td>14) CVS</td>
<td>0.410</td>
<td>0.198</td>
<td>0.381</td>
<td>1.000</td>
</tr>
</tbody>
</table>
**SWOT**

**Strengths**
- Extensive network of operations
- Strong loyalty program and synergistic segments
- Wide client base

**Weaknesses**
- Higher leverage ratio than competitors
- Larger players entering the space

**Opportunities**
- Strategic M&A
- Healthcare spending trends
- Merging HC and tech
- Aging US population

**Threats**
- Competitive pressures
- Price war in PBM industry
- Regulatory shifts