



CVS is an Unappreciated Growth and Income Stock

Price \$82.41

Core Holding

August 3, 2021

- A steady, modest grower with compelling low valuation.
- A diverse range of segments from retail to pharmacy to health insurance.
- Top provider of COVID-19 services.
- Ambitious "Transform Health 2030" program to increase outreach and impact.
- 97 straight quarters of dividends.
- New HealthHub locations to drive local engagement.

Investment Thesis

CVS Health (CVS) is a health services and retail company with more than 9,900 retail locations and 1,100 clinics. Since its inception in 1964, CVS has adapted to consumer needs and acquired many other successful firms, including Aetna insurance providers.

With 97 straight quarters of dividends paid and 85% of the US population living within 10 miles of a CVS, we believe that CVS will remain a top medical services company and a consistent dividend payor.

Operations and Management

CVS has several strategic imperatives, including increased local engagement, streamlining healthcare, and reducing healthcare costs. CVS calls this their "Transform Health 2030 Goal". By 2030 they have committed to a wide range of environmental, social, and governance goals, which include \$85 billion in investment in wellness, economic development, and advancement opportunities. On top of this internal investment, they have pledged \$1.5 billion to "build healthier communities" and reduce their environmental impact by 50%.

CVS opened 600 HealthHub locations in 2020 and plans to have 1,500 open by the end of 2021. HealthHub is an expansion of the existing MinuteClinic model to include more personalization and services. For example, the

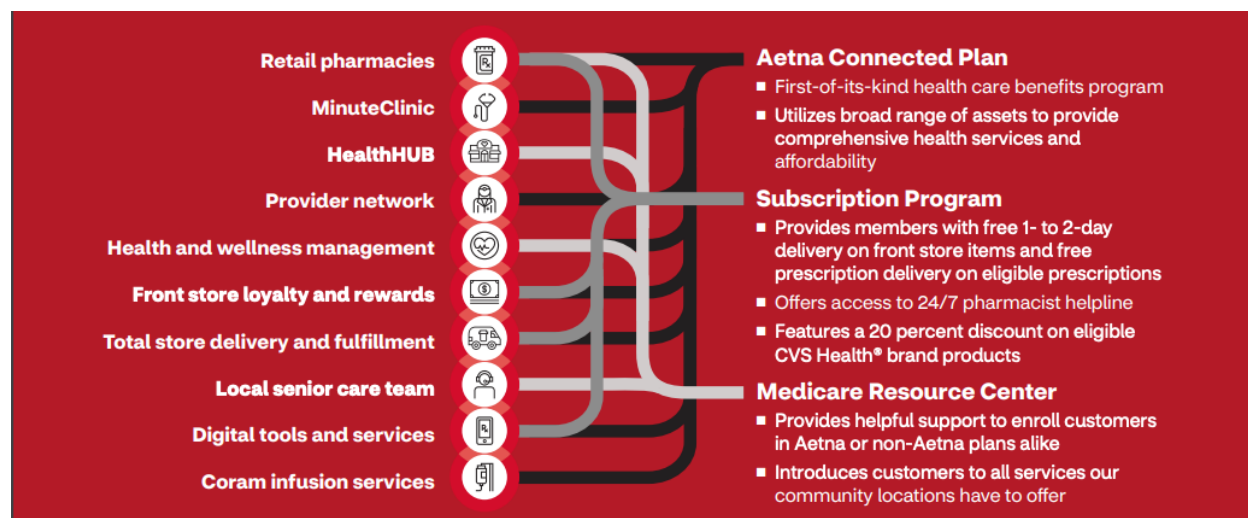


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traditional MinuteClinic locations are traditionally for short-term illnesses such as the cold or flu. HealthHub expands the same ease of access to include chronic disease management, lab services, and nutrition.

CVS offers various insurance-related services, from Medicare and Medicaid to specialty plans. Operating as a subsidiary under the name [Aetna](#), CVS provides over 20 million people with insurance primarily through employer-paid plans and Medicare plans. This is one of the fastest-growing revenue segments for CVS, with a 19.5% increase to its segmental operating income in Q1 2021.

Of course, CVS also offers traditional retail services in the form of the products provided through their pharmacy locations and has recently begun offering delivery services for prescriptions for a subscription fee. So far, this has gained 4 million customers, who, on average, spend 25% more at CVS locations than traditional customers. In addition, as a result of COVID 19 services, an extra 8 million customers shopped at CVS during 2020, with 9% remaining with CVS for prescriptions.



CVS 2020 Annual Report

COVID-19

CVS has played a critical role in the rollout of COVID-19 (and other) vaccinations across the United States. By the end of 2020, they had administered over 10 million COVID-19 tests, implemented 4,000 drive-in testing sites, and had the capacity for over 25m COVID-19 shots per month, with over 17m delivered by the end of Q1. A plus side to this is that around 9% of those using CVS for COVID-19 services return to fill a prescription.



Image: CVS

CVS' COVID-19 testing arm included partnerships with over 165,000 community sites to expand access to COVID-19 testing and vaccination to underserved and vulnerable communities, including nursing homes, universities, and marginalized neighborhoods. CVS now allows anyone to walk in and receive the COVID-19 vaccine free of charge across all its locations in the United States.

Risk

CVS is a company that operates across a broad range of sectors, including insurance, retail, and pharmacy services. Some of these risks include brand damage related to errors at the pharmacy, customer preferences shifting away from the traditional retail experience, and overutilization of insured services.

Metrics

Individual segments all experienced a single-digit increase in revenues, with pharmacy seeing 7.2%, healthcare seeing 6.7%, retail seeing 2.3%: this averages out to a 3.5% increase in total revenue across all segments.

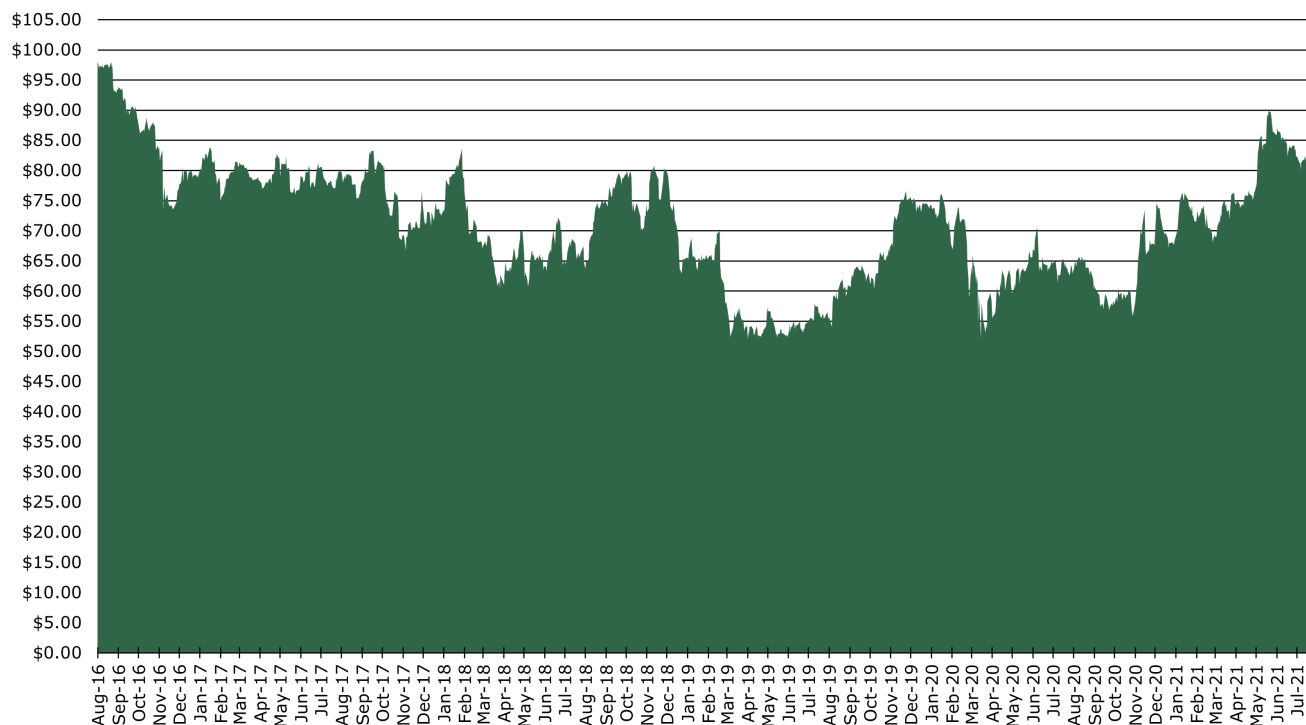
This is supported by increased free cash flow and a more disciplined approach to capital expenditures. This conservatism is expected to net \$900m to \$1.1b in savings for this year.

CVS Health	E2021	E2022	E2023
Price-to-Sales	0.39	0.37	0.35
Price-to-Earnings	10.8	9.9	9.1
EV/EBITDA	8.9	8.4	8.0

CVS paid a little under \$700m in dividends during Q1, amounting to the standard \$0.50 a share or \$2.00 annualized for a 2.4% yield.

2021 Estimated	CVS Health (CVS)	Walgreens (WBA)	Centene (CNC)	Humana (HUM)	RiteAid (RAD)
Price-to-Earnings	10.8	9.4	12.5	18.1	Neg
Price-to-Sales	0.39	0.30	0.31	0.61	0.03
Dividend Yield	2.5%	4.2%	0%	0.7%	0%

CVS Health (CVS)



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