

Initiating Coverage:

CVS Health Corp (\$CVS)

A Prescription for Change: Restructuring, Rebounding, and Refocusing

Key Take-aways: CVS is carrying out its long-term plan to integrate their insurance, pharmacy, and care delivery under one roof. Their vertical business model is already paying off as Medicare Advantage members using CVS pharmacies saw 3% lower medical costs. Thus, showing real benefits from coordinated care. Q1 2025 results were strong as CVS reported \$94.6B in revenue (7% YoY growth), \$2.25 EPS (beat by \$0.55), and raised their full-year guidance to \$6.00–\$6.20. At the same time, CVS is in the middle of a \$1.2B restructuring that will close underperforming stores and invest \$20B into tech and operational efficiency. Unlike competitors such as Walgreens, CVS provides value that is more than just a retail business. Aetna and Caremark give CVS pricing power and stability within the healthcare system. Although they are currently dealing with short-term pressures from elevated healthcare utilization levels, the company's scale, new leadership with proven success, diversification, and defensive position make it a solid long-term play.

Defensive Amid Utilization Spikes: In 2025, CVS has faced significant margin pressure due to elevated utilization. Utilization refers to the individuals enrolled in Medicare that use healthcare services offered by companies like CVS. These services include doctor visits, health insurance claims, and related. Utilization is a key metric for healthcare companies as higher utilization ultimately results in higher costs for insurers. CVS has experienced that Medicare utilization and the cost per patient has been much higher than expected. This is in part due to an aging “Boomer” population, delayed care during the COVID-19 Pandemic that is now resurfacing, as well as greater awareness and access to care through the several CVS partnerships.

Retail Reset & Tech Investment: As part of a broader “retail reset,” the company is incurring \$1.2B in pre-tax charges in 2025. \$607M will be tied to closing 271 underperforming stores in 2025 in addition to the ~300 stores already closed since 2022. ~\$205M will be allocated to workforce optimization. CVS is now transitioning away from the typical brick and mortar retail stores and instead towards smaller, pharmacy-focused stores that are designed to maximize the profitability of one of their core businesses, pharmaceuticals.

Continuing, CVS is committing to a \$20B investment over the next decade to drive digital innovation. With investments in data infrastructure, AI-enhanced care delivery, and virtual engagement platforms, these initiatives aim to improve cost efficiency, allow for more personalized care, and support CVS's grand shift toward a leaner and more tech-driven consumer health model. All in all, CVS's turnaround guides them toward more comfortable margins and a more streamlined care experience.

Valuation: We initiate coverage with a \$86.00 PT.



Consortium Research Group
Healthcare | Healthcare Services
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Stock Rating: Overweight

Price Target: \$86.00

Price: \$72.51

Potential Upside/Downside: 19.6%

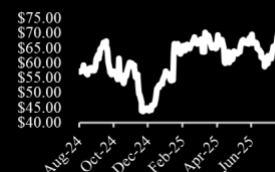
Ticker: SCVS

Market Cap: \$91.1b

Shares Outstanding: 1.27b

Dividend Yield: 3.68%

1 Year History



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Company Overview

Vertically Integrated Health Giant: CVS Health is a comprehensive, leading health solutions company focused on delivering care through various channels, including retail pharmacies, pharmacy benefit management, and health insurance. CVS's business model is built around vertical integration as they combine insurance through Aetna (acquired in 2018 for \$69B), pharmacy benefit management through Caremark, and retail care delivery through over 9,000 pharmacy locations, MinuteClinics, and Oak Street Health.

Data-Driven Patient Engagement: CVS leverages its scale and vertically integrated business model to gather and share patient data throughout their insurance, pharmacy, and direct care segments. This allows for CVS to deliver more personalized care, catch health issues earlier, and improve how well patients stick to their medication. It is especially useful among population groups like Medicare Advantage, where patients are high risk/cost. By using their cohesive patient data to coordinate services across all its segments, CVS improves patient outcomes while building long-term relationships with their patients.

Nationwide Healthcare Access Points: With over 9,000 retail pharmacy locations and expanding clinic offerings like MinuteClinic and Oak Street Health, CVS provides unmatched physical access to healthcare across the U.S. This large footprint positions CVS as a significant provider for everyday healthcare needs, offering services from prescription fulfillment to vaccinations to walk-in care, especially in underserved and less fortunate areas. Their size not only enhances their outreach but also supports their strategic shift toward more affordable, accessible care delivery outside of traditional hospitals.

Industry Overview

Utilization Surge and Margin Pressure: In 2025, healthcare services and care companies have faced pressure as an increased number of individuals have been using medical services. This increase in demand is especially relevant to those under the Medicare Advantage (MA) plan, a private health plan, is noticeable as patients are accessing care earlier and more frequently than anticipated. Usually, it's great to have an increase in demand. However, an extreme number of claims have caused margins to tighten and the Medical Benefit Ratio, a measure of how much insurers spend on care, has been driven up. For CVS, this trend is particularly challenging because its Aetna segment (insurance) has significant exposure to those under the MA plan. At the same time, the company is dealing with rising drug prices, higher labor costs, and inflation across their care delivery services. Their operating costs have been increasing at a level faster than the payments that CVS and other healthcare providers are receiving from their respective insurers, which as a result leads to lower sustained profitability for the time being.

Regulatory Scrutiny of PBMs: Pharmacy Benefit Managers (PBMs), including CVS's Caremark business, are under increasing regulatory and political pressure. Federal and state lawmakers are calling for more transparency in how PBMs negotiate drug pricing and handle manufacturer rebates, which in return raises questions around the role that PBMs actually play in maintaining drug affordability. While PBMs still offer CVS size and leverage in negotiations, these developments bring about the new risks for both the reputation and operations of CVS.

Adjusting to Retail Health Disruptions: The overall healthcare ecosystem is moving towards a recent development, value-based care. Value-based care is a healthcare payment model that pays healthcare providers based on patient health outcomes instead of the number of services they provide. As CVS expands its presence

in primary care through acquisitions like Oak Street Health (senior-focused health) and Signify (home health) while further enhancing their digital capabilities, CVS positions itself to deliver better patient outcomes throughout all channels of their care delivery. At the same time, the traditional retail pharmacy model is being disrupted as CVS is closing its underperforming stores investing in smaller retail formats. With competitors like Amazon, Walmart, and Walgreens adapting as well, strong execution and clear strategy clarity are key in a rapidly changing healthcare ecosystem.

Peer Comparisons

Comparable Companies						
Mmm						
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM	
UnitedHealth Group Incorporated (NYSE:UNH)	\$264,622	\$325,307	10.4x	\$410,057	\$36,238	
The Cigna Group (NYSE:CI)	\$80,795	\$102,370	11.0x	\$255,368	\$11,471	
Humana Inc. (NYSE:HUM)	\$26,782	\$36,334	10.8x	\$120,262	\$4,097	
Elevance Health, Inc. (NYSE:ELV)	\$75,962	\$98,582	9.8x	\$183,124	\$9,835	
CVS Health	\$80,885	\$149,625	10.1x	\$376,741	\$13,947	

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth	Rate LF
UnitedHealth Group Incorporated (NYSE:UNH)	9.0x	22.0%	8.8%	8.2%		8.1%
The Cigna Group (NYSE:CI)	8.9x	10.3%	4.5%	3.8%		24.0%
Humana Inc. (NYSE:HUM)	8.9x	15.1%	3.4%	3.2%		10.1%
Elevance Health, Inc. (NYSE:ELV)	10.0x	27.7%	5.4%	5.0%		6.6%
CVS Health	10.7x	13.5%	3.7%	2.5%		4.8%

High	10.73x	27.7%	8.8%	8.2%		24.0%
75th Percentile	10.02x	22.0%	5.4%	5.0%		10.1%
Average	9.50x	17.7%	5.2%	4.5%		10.7%
Median	8.98x	15.1%	4.5%	3.8%		8.1%
25th Percentile	8.92x	13.5%	3.7%	3.2%		6.6%
Low	8.87x	10.3%	3.4%	2.5%		4.8%

CVS Health Valuation		
Implied Enterprise Value (25th Percentile)	\$	124,466
Implied Enterprise Value (Median)	\$	125,202
Implied Enterprise Value (75th Percentile)	\$	139,798

Implied Share Price (25th Percentile)	\$	42.05
Implied Share Price (Median)	\$	42.63
Implied Share Price (75th Percentile)	\$	54.14

Source: NetAdvantage

Investment Theses

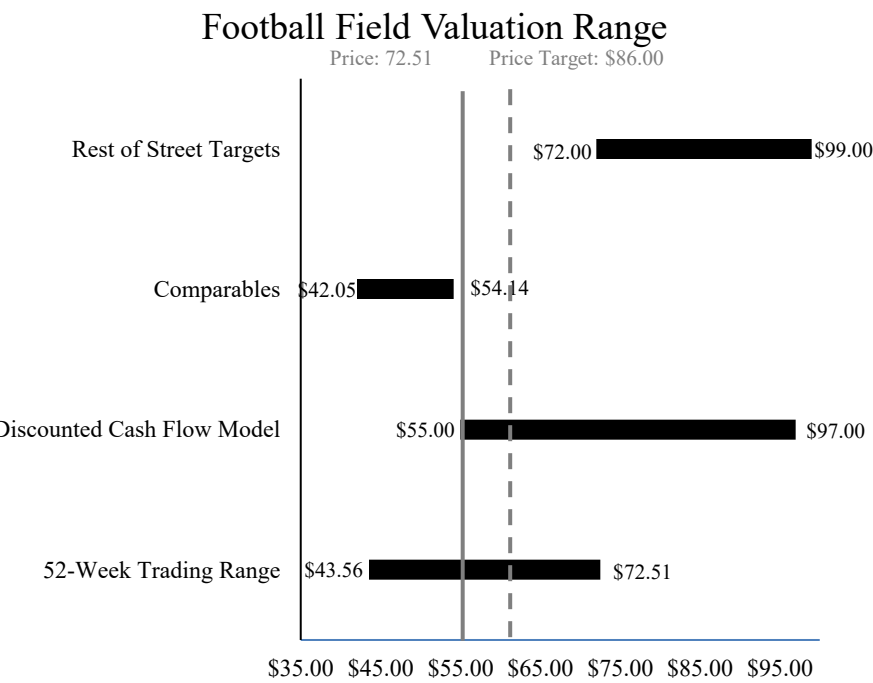
Defensive Positioning in a Demand-Driven Market: CVS is positioned as a defensive healthcare stock with long-term upside, driven by its vertically integrated model. As the aging “Boomer” population continues to increase demand for chronic care and prescriptions, CVS benefits from its ability to deliver reliable healthcare through its insurance (Aetna), pharmacy services (Caremark), and in-person care (MinuteClinic and Oak Street Health). While the elevated utilization has compressed margins as of recent, CVS demonstrates earnings strength under new leadership (CEO David Joyner), beating Q1 EPS estimates by \$0.55 and raising full-year EPS guidance to \$6.00-\$6.20.

Strategic Reset: CVS is amid a \$1.2 billion restructuring plan that includes store closures, workforce optimization, and a long-term \$20 billion tech-driven investment in innovation and operational efficiency. This transition supports a shift to smaller, pharmacy-first retail formats and reflects CVS’s goal of achieving more

comfortable margins over time. CVS’s diversified segments and strategic turnaround differentiate it from retail-first competitors like Walgreens and position it closer to healthcare leaders like UnitedHealth and Eli Lilly.

Price Target & Valuation

Our analysis gives (\$CVS) a price target of \$86.00 and an overweight rating.



Potential Downsides to Our Rating

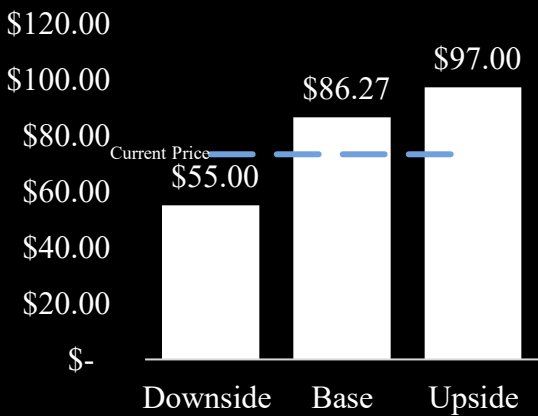
Downside 1: CVS stands in one of the most heavily regulated segments of healthcare. Between Aetna and Caremark, they’re exposed to every headline risk including, PBM reform, drug pricing legislation, and increased Medicare Advantage rates. The PBM model has been very sensitive to changes by lawmakers who want more transparency and pricing control. Any changes to the flow of insurance rebates could impact margins sharply. With an already unpredictable regulatory environment, CVS could be impacted significantly.

Our Price Target: \$86.00
Our PT assumes that CVS will successfully execute their multi-billion dollar restructuring plan while continuing to improve their margins. Various near-term challenges such as elevated utilization rates will need to be managed, but with a new CEO at the helm that is already delivering great results, CVS is in a great position to reach our PT.

Our Upside Case: \$97.00
Our upside case assumes that CVS will execute their restructuring plan ahead of schedule and expand margins faster than projected. With stable utilization rates, CVS will be better positioned to outperform expectations, and additional upside could come from increased profitability of their revenue segments, especially pharmaceuticals.

Our Downside Case: \$55.00
Our downside case assumes that CVS will struggle to mitigate the elevated utilization rates and fail to achieve an adequate ROI. CVS can quickly fall behind their large-sized competitors and given their struggles in the past, they have no room for error.


DCF Case Values



Downside 2: CVS isn't the only competitor focusing in on retail health. UnitedHealth's Optum already runs at higher margins and has more control over care delivery. Meanwhile, Amazon and Walmart don't need healthcare to be profitable. Instead, they're their healthcare segment to build customer loyalty and scale their respective household presences. That gives them pricing and operating flexibility CVS doesn't have. If CVS can't differentiate on either their name or prices, market share is subject to change quickly and drastically.

Downside 3: Boomers aging and filing claims on Medicare might be a long-term benefit, but in the short term it's exponentially raising costs. Higher than expected utilization has inflated MBRs and put pressure on margins in 2025. Factoring in inflated drug prices, higher wages, and rising medical supply costs, CVS now deals with margin compression coming from various points. CVS is investing heavy on tech and operational efficiency to mitigate the negative impact, but if their investment fails, CVS will be struggling.

Projections

Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	428,770	464,000	487,680	515,900	549,313	8.6%
EBITDA	375,381	414,610	18,532	23,731	29,663	-57.1%
EBIT	372,809	412,000	13,655	15,993	18,677	-63.1%
NOPAT	265,573	289,161	318,929	354,295	370,675	11.8%
Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	87.5%	89.4%	3.8%	4.6%	5.4%	38.1%
EBIT Margin	86.9%	88.8%	2.8%	3.1%	3.4%	37.0%
Revenue Growth	4.8%	8.2%	5.1%	5.8%	6.5%	6.1%
EBIT Growth	4.2%	10.5%	-96.7%	17.1%	16.8%	-9.6%
Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	0.2x	0.2x	-0.8x	-0.9x	-1.0x	-0.5x
EV/Sales	0.4x	0.3x	0.3x	0.3x	0.3x	0.3x
EV/EBITDA	0.4x	0.4x	8.2x	6.4x	5.1x	4.1x
FCF Yield	464.5%	513.7%	-121.8%	-112.7%	-102.8% 	#REF!

About \$CVS

CVS Health (\$CVS), founded in **1963**, operates as a **vertically integrated healthcare company**. It combines insurance (Aetna), pharmacy benefit management (Caremark), and nationwide retail and clinic-based care (CVS Pharmacy, MinuteClinic, and Oak Street Health) to deliver end-to-end healthcare services. Headquartered in Rhode Island, CVS stands out from traditional pharmacy chains by managing the full patient journey, from coverage to medication to care delivery. The company's core goal is to become the most trusted partner in health, offering accessible, affordable, and coordinated care at scale.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities.

Overweight means the analyst team believes the stock price will outperform the coverage industry benchmark (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry benchmark. **Underweight** means the team expects underperformance relative to the industry benchmark.

Appendix

Discounted Cash Flow

Active Case: 1 Bear

Current Share Price \$72.24

DCF Analysis (\$mm)

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/2025	12/31/26	12/31/27	12/30/28	12/30/29	12/31/30
Stub						0.66	1.66	2.66	3.66	4.66	5.66
Discount Period						0.17	0.84	1.84	2.84	3.84	4.84
Revenue	323,999	337,631	370,062	409,252	428,770	464,000	487,680	515,900	549,313	588,720	635,100
Revenue Growth	0%	4%	10%	11%	5%	8%	5%	6%	6%	7%	8%
Health Services	106,594	153,892	169,576	186,843	173,605	179,000	182,580	187,145	192,759	199,505	207,486
Pharmacy & Consumer ¹	141,938	101,620	108,956	116,763	124,500	135,000	143,100	152,580	163,642	176,529	191,534
Health Care Benefits	75,467	82,119	91,530	105,646	130,665	150,000	162,000	176,175	192,912	212,685	236,080
EBIT	268,706	292,111	322,467	357,776	372,809	412,000	13,655	15,993	18,677	21,783	25,404
EBIT Margin	83%	87%	87%	87%	87%	89%	3%	3%	3%	4%	4%
Tax Expense	3,133	2,950	3,538	3,481	2,134	2,050	3,427	4,090	4,865	5,778	6,859
Effective Tax Rate	1%	1%	1%	1%	1%	0%	25%	26%	26%	27%	27%
NOPAT	265,573.00	289,161.00	318,929.00	354,295.00	370,675.00	409,950.00	10,227.62	11,902.71	13,811.37	16,004.79	18,544.93
D&A	2,100	2,253	2,439	2,461	2,572	2,610	4,877	7,738	10,986	14,718	19,053
Capex	2,437	2,520	2,727	3,031	2,781	3,050	5,364	5,417	5,493	5,593	5,716
Changes in NWC	(3,744)	(5,049)	(1,582)	(2,018)	(1,390)	(1,750)	107,290	104,470	101,623	98,611	95,265
UFCF	268,980	293,943	320,223	355,743	371,856	411,260	(97,550)	(90,245)	(82,318)	(73,481)	(63,383)
PV of FCF						407,449	(93,183)	(81,644)	(70,532)	(59,628)	(48,712)

Weighted Average Cost of Capital (\$mm)

Market Risk Premium	4.33%
Beta	0.63
Risk Free Rate	4.39%
Cost of Equity	3.75%
Weighted Average Cost of Debt	5.20%
Tax Rate	25.10%
Cost of Debt	1.84%
Total Equity	\$90,749
Total Debt	\$71,137
Equity/Total Capitalization	52.77%
Debt/Total Capitalization	47.23%
WACC	5.59%

Terminal Value	
Perpetuity Growth Method	
2034 FCF	-\$63,383
Growth	1.30%
Terminal Value	-\$1,478,488
PV of Terminal Value	-\$1,136,278
PV of Projection Period	\$53,751
PV of Terminal Value	-\$1,136,278
Implied TEV	-\$1,082,528
(-) Debt	\$81,213
(+) Cash	\$10,076
Implied Equity Value	-\$1,153,665
Basic Shares Outstanding	1268
Implied Share Price	-\$909.60
Upside/Downside	-1359.39%

Implied Exit BF EV/EBIT	-42.6x
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Terminal Value	
Exit Multiple Method	
2034 EBIT	\$25,404
EV/EBIT Exit Multiple	6.5x
Terminal Value	\$165,126
PV of Terminal Value	\$126,906
PV of Projection Period	\$53,751
PV of Terminal Value	\$126,906
Implied TEV	\$180,657
(-) Debt	\$81,213
(+) Cash	\$10,076
Implied Equity Value	\$109,520
Diluted Shares Outstanding	1,268
Implied Share Price	\$86.35
Upside/Downside	19.6%

Implied PGR	110.9%
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Blended Share Price	
Perpetuity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	\$86.35
Upside/Downside	19.56%