CVS Health Corporation (NYSE: CVS)

Health Care · Managed Care & Health Services · United States | Report Date: 11 August 2026 · Analyst: Debjit Mukherjee, Student Equity Research Analyst | Vireo Capital Research

RATING	PRICE TARGET	CURRENT PRICE	UPSIDE / DOWNSIDE
HOLD	USD 91.00	USD 96.22	−5.5% price / −2.7% total

MARKET CAP	52-WEEK HIGH	52-WEEK LOW	NEXT EARNINGS
~USD 123B	USD 110.68	USD 62.55	Unannounced (Q3-25: 29 Oct)

P/E (TTM)	EV/EBITDA (TTM)	REVENUE (TTM)	EBITDA MARGIN (TTM)
25.1x	10.0x	USD 413B	4.5%

EV/EBITDA and EBITDA margin are stated ex the $5,725m Q3-2025 goodwill impairment on Health Care Delivery; as reported they are 14.4x and 3.1%. Two enterprise value bases appear in this report and are used deliberately. This banner and the comparable company table in Section 3 use the vendor basis of $184.8bn, which grosses up operating lease liabilities, because that is the basis on which the peer multiples are computed and comparability matters more than precision there. The sum-of-the-parts in Section 5 uses the balance-sheet basis of $170.4bn — total debt $61.4bn less cash and short-term investments $14.0bn — because that is the claim on equity holders. The $14.4bn difference is operating leases and does not affect the price target.

1. INVESTMENT THESIS

The recovery is real, and specifically it is real in that Aetna has added roughly $4.8bn of adjusted operating income on a last-twelve-months basis since the FY2024 trough of $307m, with Q2 revenue up 7.3% to $106.1bn and adjusted EPS up 42.5% to $2.58. Management has lifted full-year adjusted EPS guidance three times — $7.00–7.20 in February, $7.30–7.50 in May, then $7.90–8.10 in August — and the shares have rebounded about 54% from the 52-week low. What we are objecting to is not the recovery but the durability and quality of the earnings beat: a large slice of the Q2 margin improvement came from one-off prior-year reserve releases rather than sustainable underwriting gains, while commercial membership is shrinking and Medicare Advantage star ratings have slipped. So the rating is HOLD, because at roughly $96 the stock already prices in a clean recovery, but the path to a decisive re-rating requires proof that current-year loss ratios stabilise without further reserve help and that membership trends stop deteriorating.

Everything in this report turns on the normalised earnings power we assign to Aetna. We have used $6.2bn. Guidance implies roughly $5.03–5.37bn for 2026 and the 2023 actual was $5,577m, so we are sitting modestly above both the guided run-rate and the last clean year, but well below the roughly $7.6bn you get by mechanically re-applying the 2023 margin to today's larger revenue base. If we are wrong on the high side, the arithmetic says the stock is fairly valued: at 11.0x, $6.2bn maps to about $91 a share, close to the current price. If we are wrong on the low side and Aetna can sustainably earn above roughly $8.6bn, the same multiple implies the low $100s and a clear BUY. A SELL case only opens if normalised Aetna earnings fall back beneath both guidance and the 2023 actual, a level Section 5 puts at roughly $4.8bn of segment income — not to be confused with the $4.8bn of recovery already delivered. We are 21% below the Street mean of $115.80 across 27 analysts, and no covering analyst is below $103.

The first thing nobody has put on paper is how much of the guided $8.00 EPS is being carried by prior-year development: roughly $0.54, leaving CVS's own ex-development base at about $7.46. The second is that, despite seven analysts asking questions on the Q2 call, none pressed management on the sustainability of reserves or on the risk that current-year loss ratios remain elevated once those one-offs lapse. The third, and the one that surprised us most, is that no covering house has published a dollar estimate for the two looming policy shocks — Part D delinking in 2028 and the commercial rebate pass-through in 2029, both now enacted law — nor a sum-of-the-parts that isolates Aetna from the retail and pharmacy benefit businesses. The Street is still valuing CVS on a consolidated forward P/E. That leaves a gap between the narrative of recovery and a disciplined, segment-level view of where the earnings actually come from.

The rating is a considered HOLD rather than an absence of conviction, and Section 5 sets out why: we run normalised Aetna from the guidance midpoint through to a full recovery to management's 3–5% Medicare Advantage margin target, and the blend returns the same rating at every point inside that range. The thresholds that would move us, and the evidence we would need to see, are in the conclusion.

BULL CASE vs. BEAR CASE

KEY BULL CASE	KEY BEAR CASE
Aetna mid-cycle earnings power is $7–9bn, not $6.2bn. The 2023 margin of 5.3% on the FY2026 revenue base of ≥$144bn implies ~$7.6bn.	Prior-year development is running at a $2.4bn annualised rate and contributes ~$0.54 of guided EPS. Reversion to the FY2023–24 level of $675–885m removes ~$0.90–1.00 pre-tax per share.
Management publishes the conversion arithmetic: ~$0.75 of adjusted EPS per point of HCB margin, ~$800m of segment income per point of trend. MA margins ended 2024 at −4.5% to −5.0% against a 3–5% target.	H2 2026 Health Care Benefits is guided to between −$97m and −$437m against $5,467m banked in H1, implying an H2 medical benefit ratio near 93.6% against 86.0%. There is little room beneath that.
Execution is running ahead: $2.6bn of improvement in 2025, $2.0bn more in H1 2026, 75% of the group MA book renewed for 2027, and Medicare described as ahead of expectations.	Star ratings have already fallen from 88% to just over 81% of MA members in 4.0+ plans for the 2027 payment year. The October 2026 release sets 2028.
The Investor Day framework of a mid-teens adjusted EPS CAGR from 2025 to 2028 implies roughly $10.00–10.30 of adjusted EPS in 2028, reiterated three times on the Q2 call.	Part D delinking (2028) and commercial rebate pass-through (2029) are enacted law that nobody has costed, while Health Services guidance was reaffirmed rather than raised and Caremark membership is guided down in 2027.

2. COMPANY OVERVIEW

CVS runs three businesses that do not deserve the same multiple, and the case for valuing it sum-of-the-parts begins there.

Health Care Benefits is Aetna, the insurer. It earns premiums and pays medical claims, and its profitability turns on the medical benefit ratio — claims as a percentage of premium revenue. FY2026E revenue is guided at least $144.0bn with adjusted operating income of $5.03–5.37bn, a 3.6% margin. Medical membership was 26.0m at 30 June 2026, of which 9,829k insured and 16,194k administrative-services-only. Health Services is Caremark, the specialty pharmacy and the Health Care Delivery assets including Oak Street. It earns fees for negotiating drug prices, managing formularies and running clinics, serves approximately 87m PBM plan members, and is guided to revenue of at least $203.6bn and adjusted operating income of at least $7.25bn, a 3.6% margin. This is the segment carrying the direct regulatory risk. Pharmacy & Consumer Wellness is the retail estate, roughly 9,000 pharmacies and more than 1,000 clinics, dispensing prescriptions and selling front-of-store merchandise, guided to revenue of at least $137.5bn and adjusted operating income of at least $6.40bn, a 4.7% margin.

Unallocated corporate cost runs at roughly $2.1bn a year, the difference between the sum of the segment guides of $18.85bn and the consolidated guide of $16.58–16.92bn. The segments are heavily interlinked: intersegment eliminations were $33.1bn in H1 2026, principally Caremark directing volume to CVS pharmacies and Aetna members using both.

The balance sheet constrains what management can do. Net debt is $47.5bn against total debt of $61.4bn, leverage is approximately 3.5 times, and management disclosed only $2.7bn of cash at the parent and unrestricted subsidiaries at 30 June. The $33.2bn long-term investment portfolio sits at the regulated insurance subsidiaries backing policy reserves and statutory capital, and is not available to the holding company. No shares have been repurchased since FY2024, when $3.0bn was returned, and only dilution-offsetting buyback is assumed for 2027. The dividend of $2.66, a 2.76% yield, has been unchanged for two years.

3. INDUSTRY AND COMPETITIVE LANDSCAPE

CVS competes in an industry that has consolidated into three vertically integrated payer-PBM groups. CVS pairs Aetna with Caremark, UnitedHealth pairs UnitedHealthcare with Optum Rx, and Cigna pairs its health plan with Evernorth and

Express Scripts. Those three process roughly 80% of US prescription claims between them, a share that has been stable for several years, and the same three plus Elevance, Humana and Centene account for the overwhelming majority of commercial and government medical lives. Vertical integration was the strategic logic of the Aetna acquisition: capture the member, the prescription and the dispensing margin in one system. It is also precisely the structure that the Consolidated Appropriations Act 2026 and the FTC consent order are now unpicking, which is the tension running through this report.

CVS is losing share where it earns fees and gaining it where it dispenses. Caremark processed 26% of equivalent prescription claims in 2025 against Express Scripts at 31% and Optum Rx at 23%, and its volumes fell 0.9% — a second consecutive annual decline from a 2.3bn peak in 2023, after Centene moved its business to Express Scripts. Management has guided Caremark membership down again in 2027 on deliberate discipline during the lowest-net-cost transition. Retail runs the other way. CVS dispensed $119.0bn of prescription revenue in 2025, roughly 15.8% of the $751bn US market and comfortably the largest single dispenser, ahead of Walgreens at $90.8bn. The competitive landscape there has simplified sharply: Rite Aid liquidated and CVS bought its prescription files in the third quarter of 2025, and Walgreens was taken private by Sycamore in August 2025 and broken into five businesses. Prescriptions filled rose 4.3% in Q2 as a result. The pharmacy segment is winning a consolidating market while the PBM segment defends a contested one.

Medicare Advantage is where the valuation is decided, and on share the position is weak. Total enrolment reached 35.2m in 2026, or 55% of eligible beneficiaries. UnitedHealth holds 26%, down from 29%, and Humana 20%, up from 17% on 1.3m of net additions. CVS holds 12% and lost 29,000 members. That matters for the recovery because UnitedHealth and Humana together control at least three-quarters of enrolment in 889 counties, which gives them scale advantages in provider contracting, care management and star-rated performance that CVS cannot easily match while its own membership shrinks. It is the structural reason we normalise Aetna below what management's own conversion arithmetic implies: even if revenue grows, a smaller and lower-star Medicare Advantage book in a market this concentrated makes it harder to regain 2023-level margins without taking on more underwriting risk — which is precisely what the reserve volatility suggests is already happening.

Against the peer set, CVS is the cheapest large managed-care name on every multiple in the table below and the only one with a retail dispensing business attached. Cigna is the closest read for Health Services and trades at 7.8x EV/EBITDA against a peer median of 15.7x, which is why we do not treat CVS's own discount as evidence of mispricing on its own. The question this report answers is not whether CVS trades below its peers — it plainly does — but whether the gap is wider than leverage, business mix, litigation history and earnings volatility justify.

MARKET STRUCTURE — reference data

- US medical membership, most recent reported: UnitedHealthcare 48.5m · Elevance 44.9m · CVS/Aetna 26.0m · Centene 25.9m · Cigna 18.4m · Humana 17.9m · Kaiser ~12.5m. Bases are not strictly comparable across companies.
- Medicare Advantage 2026 (KFF, March 2026 CMS data): total enrolment 35.2m, 55% penetration of 64.2m eligible. UnitedHealth 26% (from 29%, −647k) · Humana 20% (from 17%, +1.3m) · CVS Health 12% (−29k) · Kaiser 6% · Elevance 5%. UnitedHealth and Humana together hold 46%.
- PBM equivalent claims, 2025 (Drug Channels Institute, March 2026): Express Scripts 31% · CVS Caremark 26% · Optum Rx 23% — 80% of claims between three firms. Caremark volumes fell 0.9% in 2025, a second consecutive decline, from a 2.3bn peak in 2023 after Centene moved to Express Scripts.
- US prescription dispensing revenue, 2025: $751bn total, +10%. CVS $119.0bn and about 15.8% share, the largest single dispenser, ahead of Walgreens at $90.8bn. Rite Aid exited entirely after liquidation, and CVS acquired prescription files in Q3 2025. Walgreens was taken private by Sycamore in August 2025 and split into five businesses.
- US national health expenditure reached approximately $5.7trn in 2025, +7.3% (CMS Office of the Actuary, June 2026).

COMPARABLE COMPANY ANALYSIS

Company	Ticker	Mkt Cap ($B)	EV ($B)	Rev ($B)	EV/Rev	EV/EBITDA	P/E (Fwd)	Rev Growth
CVS Health	**CVS**	**122.4**	**184.8**	**412.7**	**0.45x**	**10.0x**	**11.8x**	**+7.3%**
UnitedHealth	UNH	372.2	417.0	450.1	0.92x	16.0x	19.1x	+0.4%

Company	Ticker	Mkt Cap ($B)	EV ($B)	Rev ($B)	EV/Rev	EV/EBITDA	P/E (Fwd)	Rev Growth
Cigna	CI	74.7	99.3	282.4	0.35x	7.8x	8.9x	+7.0%
Elevance	ELV	85.5	106.3	201.1	0.53x	16.1x	14.6x	+0.8%
Humana	HUM	46.2	54.1	145.7	0.37x	15.5x	31.2x	+26.2%
Centene	CNC	32.5	24.4	180.3	0.14x	n/m	14.2x	+10.0%
McKesson	MCK	101.4	108.0	411.0	0.26x	14.9x	18.8x	+8.0%
Cencora	COR	61.2	72.8	332.8	0.22x	17.7x	16.6x	+5.1%
Peer median (ex-CVS)					**0.35x**	**15.7x**	**16.6x**	**+7.0%**

Prices at 7 August 2026 close. Source: S&P Global Market Intelligence; revenue growth from each company's own latest quarterly release. CVS EV/EBITDA stated ex the Q3-2025 goodwill impairment; 14.4x as reported. Centene EV/EBITDA not meaningful — trailing EBITDA is negative and enterprise value sits below market capitalisation on $10.9bn of net cash. Humana's forward P/E reflects a depressed trailing earnings base during Medicare Advantage margin repair, not a growth premium. McKesson and Cencora are drug distributors, included as adjacent reads on pharmacy economics rather than as direct comparables.

4. FINANCIAL ANALYSIS

The reported numbers do not describe the business, and the gap has to be dealt with before anything else. Revenue grew from $357.8bn in FY2023 to $402.1bn in FY2025, while GAAP operating income fell from $13.7bn to $4.7bn and net income from $8.3bn to $1.8bn. Read literally, that is a company whose earnings collapsed as it grew. Adjusted operating income tells a different story — $17.5bn, $12.0bn, then $14.4bn, a 20.6% recovery in FY2025 — and the difference is largely one item: a $5,725m goodwill impairment on the Health Care Delivery reporting unit taken in the third quarter of 2025, the writedown of Oak Street. Strip it out and FY2025 EBITDA is $15.0bn rather than $9.3bn, a 3.7% margin rather than 2.3%. The GAAP figures are correct and the impairment was real cash spent in 2023; they are simply not the right series for judging what the operating businesses earn now.

What broke in 2024 was Aetna, not the group. Health Care Benefits adjusted operating income fell from $5,577m in FY2023 to $307m in FY2024, a 94% decline, as the medical benefit ratio moved from 86.2% to 92.5% on elevated utilisation, the 2024 star-ratings reduction and Medicaid acuity. Health Services and Pharmacy were broadly stable across the same period. The recovery since has been correspondingly concentrated: Health Care Benefits earned $5,467m in H1 2026 alone against $2,939m for the whole of FY2025, and the medical benefit ratio improved to 86.0% in the first half from 88.6% a year earlier.

That half-year figure cannot be annualised. The second half is structurally loss-making under the Part D redesign — H2 2025 was an operating loss of $362m, with Q4 alone at −$676m — and management's own FY2026 segment guidance of $5.03–5.37bn implies H2 of between −$97m and −$437m against the $5,467m already banked. Full-year medical benefit ratio guidance of 89.75% ±25bp against 86.0% in H1 implies a second-half ratio near 93.6%.

The reserve balance itself does not support a depletion story, and we should say so plainly: days claims payable rose year on year, from 40.9 days in June 2025 to 41.7 in June 2026, an increase of 0.8 days, and December is a structural trough rather than a trend endpoint. Management says it remains "confident in the adequacy of our reserves." What the reserve balance does not tell you is the scale of prior-year favourable development flowing through the income statement: $675m in FY2023, $885m in FY2024, $2.0bn in FY2025 and $1.2bn in H1 2026 alone, with Q2 2026 contributing about $500m, or 140 basis points of the medical benefit ratio, on management's own disclosure. Development running at that level means one of two things. Either reserves were previously set conservatively and are now being corrected through large favourable revisions, or current-year underwriting is still weak and management is leaning on old reserves to mask it. We lean towards the first reading, because management has explicitly tied much of the Q2 improvement to prior-year items and because the days-claims-payable trend shows no sharp drawdown. But that still leaves earnings flattered in the sense that matters: a meaningful portion of the beat is non-recurring and cannot be assumed to repeat in the second half or in 2027. CVS says development "does not directly correspond to an increase in operating results," which is the company making the point for us. No analyst asked about any of this on the Q2 call.

The other two segments are moving in opposite directions. Health Services adjusted operating income has declined for two years, from $7,312m in FY2023 to $7,151m in FY2025, with the margin compressing from 3.9% to 3.2% in H1 2026; guidance was reaffirmed at at least $7.25bn rather than raised, and Q2 carried 340B pressure and a pull-forward of value from the second half. Pharmacy & Consumer Wellness is the quiet performer, guided up to at least $6.40bn from $6.18bn, with prescriptions filled rising 4.3% on Rite Aid file acquisitions. Cash generation is strong but flattered: H1 2026 operating cash flow of $10,594m included a $2.2bn working-capital inflow, against full-year guidance of at least $11.5bn.

FINANCIAL SUMMARY

Metric	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E
Revenue (USD B)	357.8	372.8	402.1	≥414.0	429.2	n/a
YoY Growth %	—	+4.2%	+7.8%	+4.3%	+2.9%	n/a
Gross Profit (USD B)	54.4	51.4	55.4	59.2	n/a	n/a
Gross Margin %	15.2%	13.8%	13.8%	14.2%	n/a	n/a
EBITDA (USD B)	18.1	13.1	9.3	n/a	n/a	n/a
EBITDA Margin %	5.1%	3.5%	2.3%	n/a	n/a	n/a
EBIT — GAAP (USD B)	13.7	8.5	4.7	n/a	n/a	n/a
Adj. Operating Income (USD B)	**17.5**	**12.0**	**14.4**	**16.58–16.92**	**n/a**	**n/a**
Net Income (USD B)	8.3	4.6	1.8	8.8–9.1	n/a	n/a
GAAP Diluted EPS (USD)	6.47	3.66	1.39	6.84–7.04	n/a	n/a
Adjusted EPS (USD)	**8.74**	**5.42**	**6.75**	**7.90–8.10**	**8.48**	**n/a**
Cash Flow from Ops (USD B)	13.4	9.1	10.6	≥11.5	n/a	n/a

FY2023–FY2025 are reported actuals. FY2026E is company guidance as raised on 5 August 2026, except gross profit and the gross margin, which are S&P Global consensus and computed on consensus revenue of $417.1bn rather than the guidance floor shown in the revenue row. FY2027E revenue and adjusted EPS are S&P Global consensus; management has guided to an adjusted EPS floor of at least $8.44 for 2027. FY2028E consensus is not published on a verifiable basis and is left blank rather than estimated; management's Investor Day framework of a mid-teens adjusted EPS CAGR from 2025 to 2028 would imply roughly $10.00–10.30. FY2025 EBITDA and EBIT include the $5,725m goodwill impairment; ex-impairment FY2025 EBITDA is $15.0bn, a 3.7% margin. EBITDA is computed as GAAP operating income plus depreciation and amortisation.

5. VALUATION

We value CVS sum-of-the-parts because the three segments have different margins, different growth and, decisively, different regulatory exposure. Health Services faces enacted statutory change that the other two do not. We could find no published sell-side sum-of-the-parts for CVS; the covering universe values the company on a forward P/E of consensus adjusted EPS, which is why the segment-level question is open.

Health Services and Pharmacy & Consumer Wellness are held at FY2026 company guidance, $7.25bn and $6.40bn. Health Care Benefits is normalised at $6.2bn, above the guidance midpoint, for the reasons set out in Section 4. Corporate overhead is capitalised at the blended segment multiple rather than deducted as a single year, which is standard sum-of-the-parts practice; deducting one year would treat a permanent cost as a one-off.

We set Aetna at $6.2bn rather than the $7.6bn the 2023 margin implies because the business mix and risk profile have deteriorated since 2023. Commercial insured membership fell from 3,447k in December 2025 to 2,487k in June 2026 as CVS exited the individual exchange, total insured membership is down 9.6% in six months, and star ratings have slipped from 88% to just over 81% of members in 4.0+ plans for 2027. The mix argument specifically is that Government

premiums grew 10.7% in the first half while commercial premiums fell 21.8%, shifting the book towards lower-margin, higher-regulatory-risk Medicare Advantage business in which CVS is losing share to UnitedHealth and Humana. On the multiple, 11x rather than the roughly 14x the peer payers trade at, the separate reason is execution and policy risk: 2028 Part D delinking and the 2029 rebate pass-through create cash-flow uncertainty the market has not priced at segment level. These are different risks rather than the same one counted twice. The earnings discount captures the lower sustainable margin from mix and membership loss; the multiple discount captures the additional valuation penalty for regulatory and execution uncertainty around future Medicare Advantage profitability.

Capitalising overhead rather than deducting a single year is standard practice because it treats a recurring corporate cost as a perpetual claim on cash flows. But it is not where our discount comes from, and the way to see that is the arithmetic: removing $2.1bn at the blended 9.26x trims about $19.4bn of enterprise value, roughly $15 a share, while the market's own forward P/E on consolidated adjusted EPS already embeds a similar or higher effective multiple on the same overhead — about 12x at the current price and about 13.7x at the Street mean. The real disagreement between us and the Street is not the overhead treatment but the sustainable earnings power of Aetna and the likelihood that current-year underwriting improves without further reserve support.

SUM-OF-THE-PARTS BUILD

Segment	Adj. Op. Income	Basis	Multiple	Value	Rationale
Health Care Benefits	$6.20bn	Normalised; guidance $5.03–5.37bn	11.0x	$68.2bn	Discount to managed-care median for star-ratings trajectory and development dependence
Health Services	$7.25bn	FY2026 guidance	8.0x	$58.0bn	Cigna/Evernorth read 9.0x; discount for enacted PBM reform and 340B
Pharmacy & Consumer Wellness	$6.40bn	FY2026 guidance	9.0x	$57.6bn	No listed comparator post-Walgreens; WBA take-out ~5.6–6.5x EV/EBITDA
Health Care Delivery / Oak Street	—	Inside Health Services	—	$0.0bn	Unprofitable; no separate value ascribed by us or by any published research
Segment enterprise value			**9.26x blended**	**$183.8bn**	
Less: capitalised corporate overhead	$(2.10)bn	Guidance-implied	9.26x	$(19.4)bn	Segment guides $18.85bn less consolidated guide $16.75bn
Enterprise Value				**$164.4bn**	
Less: net debt (30 Jun 2026)				$(47.5)bn	Debt $61.4bn less cash and short-term investments $14.0bn
Equity Value				**$116.9bn**	
Shares outstanding				1,278m	
SOTP value per share				**$91.48**	

PRICE TARGET DERIVATION

Methodology	Weight	Implied Price	Key Assumptions
Sum-of-the-parts	60%	USD 91.48	HCB $6.20bn at 11.0x, HS $7.25bn at 8.0x, PCW $6.40bn at 9.0x; corporate $2.10bn capitalised at 9.26x; net debt $47.5bn
P/E Comps	20%	USD 96.00	12.0x on FY2026E adjusted EPS of $8.00. This is CVS's own current multiple, so the leg is neutral by construction; peer median would imply ~$114
DCF (5-Year)	20%	USD 84.37	WACC 7.5%, terminal growth 2.0%; FY2026 CFO at guidance of $11.5bn, capex $2.8bn, free cash flow held flat in FY2029 for commercial rebate pass-through
BLENDED PRICE TARGET	**100%**	**USD 90.96**	**−5.5% price, −2.7% total return including the 2.76% dividend**

Weights follow the Vireo house standard for segment-valued businesses, as settled for Microsoft: sum-of-the-parts 60%, relative multiple 20%, DCF 20%.

SENSITIVITY — normalised Health Care Benefits earnings

Normalised HCB	at 10.0x	at 11.0x	at 12.0x	Total return at 11.0x	Reference
$5.20bn	$83.72	$85.89	$88.06	−8.0%	FY2026 guidance midpoint
$5.58bn	$85.48	$87.81	$90.15	−6.0%	FY2023 actual, in dollars
$6.20bn	**$88.36**	**$90.96**	**$93.56**	**−2.7%**	**Base case**
$7.00bn	$92.07	$95.02	$97.98	+1.5%	Lower end of the bull range
$8.00bn	$96.72	$100.11	$103.50	+6.8%	2023-style margin on the 2026 revenue base
$9.00bn	$101.37	$105.21	$109.04	+12.1%	Full recovery to the 3–5% MA target

Read across the table rather than down it. At our 11.0x multiple the stock is a SELL only if normalised Aetna is below about $4.8bn, which is below both guidance and the 2023 actual and we do not think defensible. It becomes a BUY above roughly $8.6bn. Between those two the rating is HOLD, and that band covers every reasonable view of Aetna's earnings power.

WHAT THE MARKET AND THE STREET ARE ASSUMING

Implied by	Blended segment EBIT multiple
Our fair value, $90.96	9.22x
Current price, $96.22	9.60x
Street median, $113.00	10.81x
Street mean, $115.80	11.01x

On a like-for-like basis — enterprise value to trailing operating income, which is the only measure that puts CVS and the payers on the same footing — CVS trades at 10.2x against a peer range of 7.3x at Centene to 19.1x at UnitedHealth, with Humana at 16.1x, Elevance at 14.0x and Cigna at 9.0x. The discount is real, but it is explained by higher leverage at 3.5x, a thin parent cash balance of $2.7bn, and the fact that roughly a third of segment operating income comes from the lower-multiple retail pharmacy business, which drags the consolidated figure down. The comparison also flatters CVS in one direction and hurts it in another: Humana appears expensive largely on depressed earnings rather than superior quality, while CVS's own earnings have been unusually volatile — $5.6bn of Aetna operating income in 2023, a loss warning in 2024, $5.2bn guided for 2026 — alongside $833m of legacy litigation charges in Q2 2025 alone. The cheap multiple reflects both structural mix and a credible risk of further earnings instability. We use trailing operating income here rather than the EV/EBITDA in the comparables table because CVS carries a goodwill impairment its peers do not, and because segment operating income is the base our sum-of-the-parts capitalises.

6. CATALYSTS

Catalyst	Timing	What to Watch	Why it Matters
2027 Medicare star ratings	October 2026 (CMS)	Share of MA members in 4.0+ star plans, against just over 81% for 2027	Sets 2028 revenue. UBS calls this the binary risk in the name
Q3 2026 results	Unannounced; Q3 2025 was 29 Oct	MBR against the 89.75% ±25bp full-year guide, and prior-year development	H2 is guided to roughly 93.6% MBR; any overshoot pressures the 2027 base
FTC consent order finalised	H2 2026, post comment period	Final terms on Caremark delinking and GPO transparency	First hard read on how much Caremark economics is repriced
FY2027 guidance	February 2027	Whether the $8.44 adjusted EPS floor holds; Caremark membership	Management pre-committed to the floor off a $7.46 ex-development base
Capital return decision	FY2027 guidance	Buyback beyond dilution offset	Only dilution-offsetting repurchase is currently assumed for 2027
PBM reform milestones	CMS RFI Apr 2027; contract standards Apr 2028	Any published quantification, by anyone	No dollar estimate exists; the first credible one will move the stock

The October star ratings are the single dated event that can change the rating in either direction, and it is worth being specific about why. Medicare Advantage payments run on a two-year lag: the ratings CMS publishes in October 2026 set 2028 revenue. The 2027 payment year is already fixed at just over 81% of Aetna members in 4.0+ star plans, down from 88% for 2026, so one year of deterioration is already banked. A recovery in the October release would support the $7bn-plus Aetna normalisation that our fair value currently declines to underwrite and would take the blend towards $95. A second consecutive decline compounds into 2028, and we would move our normalised segment income below the guidance midpoint, which on the sensitivity table is a fair value in the mid-eighties.

The near-term test is Q3. Management has guided the full-year medical benefit ratio to 89.75% with a 25 basis point band against 86.0% in the first half, which implies a second-half ratio near 93.6%, and has told the Street to expect the first-quarter to fourth-quarter step-up to exceed 950 basis points. That is a demanding path and it leaves little room for a negative surprise on utilisation. What we will be reading in the release is not the headline ratio but the size of prior-year development inside it: a third consecutive quarter of $500m-plus would tell us the run-rate is materially below the reported figure, while a clean quarter at or near the guided ratio without development support would be the strongest evidence yet that the recovery is structural and would move us up the sensitivity table.

The two regulatory catalysts work on longer fuses but neither is priced. The FTC consent order finalising in the second half of 2026 gives the first hard read on how much Caremark economics gets repriced ahead of the statutory 2028 deadline, and February 2027 guidance will show whether the $8.44 adjusted EPS floor survives contact with Caremark membership losses. Beyond that, the CMS request for information due April 2027 and contract standards in April 2028 are the points at which someone finally has to put a number on delinking.

7. RISKS TO OUR THESIS

The rating is a HOLD, so the risks run in both directions and we set them out that way.

Upside 1 — Aetna normalises above $7bn. This is the largest single risk to the rating and management has published the arithmetic supporting it: roughly $0.75 of adjusted EPS per point of Health Care Benefits margin, a 3–5% Medicare Advantage target against −4.5% to −5.0% in 2024, and a mid-teens EPS CAGR to 2028. At $8bn of normalised segment income our fair value is $100 and the stock is a BUY, a $9 per share swing from our base case.

Upside 2 — PBM reform proves immaterial. If Caremark reprices into service fees without margin loss, Health Services deserves the 9.0x Cigna read rather than our 8.0x. That is $5.48 per share and takes the blend to roughly $96.

Downside 1 — prior-year development normalises. Development is running at roughly a $2.4bn annualised rate and contributes about $0.54 to the $8.00 guided EPS. Reversion to the $675–885m booked in FY2023–24 removes approximately $0.90–1.00 of pre-tax earnings per share from the run-rate, and the 2027 floor of $8.44 becomes demanding rather than conservative.

Downside 2 — H2 2026 disappoints against an already weak guide. Health Care Benefits is guided to between −$97m and −$437m in the second half against $5,467m banked in the first, with an implied H2 medical benefit ratio near 93.6% against 86.0% in H1. A 100bp miss on the full-year ratio against roughly $138bn of premium revenue is $1.38bn, or about $1.08 per share pre-tax.

Downside 3 — star ratings fall again in October, compounding into 2028 payments and directly undermining the Aetna normalisation case above.

Downside 4 — leverage constrains the response. Net debt is $47.5bn, leverage 3.5x, and only $2.7bn of cash sits at the parent and unrestricted subsidiaries. The $33.2bn long-term investment portfolio backs policy reserves and statutory capital at the regulated insurance subsidiaries; it is not available to the holding company and we have not netted it against debt.

Finally, a risk to the method rather than the model, and we should be straight that the base rate runs against us. The Street has underestimated CVS twice in a row: consensus entered 2025 near $70 and the stock delivered roughly +63%, then 2026 targets clustered at $90–95 and were run through by July. Our fair value sits below every published target on the name. A HOLD does not need them to be wrong, only to be right about the recovery and too optimistic about its durability and quality once the reserve-driven boost fades. The one piece of evidence that this time is different is the explicit disclosure that roughly 140 basis points of the Q2 medical benefit ratio improvement came from prior-year development and related items, combined with deteriorating membership and star ratings — facts that were not central to the prior two cycles and that directly challenge the assumption that high-sevens to low-eights of adjusted EPS can be sustained without further one-offs. The tape has started to agree: CVS closed at $104.27 on 4 August, beat by about 40% on adjusted EPS and raised guidance by $0.60 on the 5th, then traded to $95.70 by the 7th — about −8% in three sessions on a beat and raise, with coverage falling from 28 analysts to 27.

8. ESG NOTE

The most financially material ESG factor for CVS is governance of the pharmacy benefit business. The FTC settlement of July 2026 resolves all outstanding FTC investigations into the PBM and affiliated pharmacy operations and imposes ten obligations on Caremark, including delinking fees from list prices and group purchasing organisation transparency; non-compliance carries fines, reputational cost and accelerated margin compression, and the settlement arrives alongside statutory delinking in 2028. Opioid liabilities are the second item and are largely provided for: CVS agreed approximately $5.0bn under the December 2022 national settlement, payable over ten years from the second half of 2023, with the balance-sheet accrual falling from $4.0bn at December 2025 to $3.4bn at June 2026. Pharmacy access is the third. CVS operated approximately 9,000 retail locations at 30 June 2026, broadly flat year on year, but that figure nets 271 closures announced for 2025 against prescription files acquired from Rite Aid in the third quarter of 2025 and the deconsolidation of Omnicare in September 2025. A flat store count is not a stable store base, and further rationalisation in low-density markets remains likely.

9. MANAGEMENT AND OWNERSHIP

MANAGEMENT TEAM

Name	Role	Background
David Joyner	Chairman and Chief Executive Officer	President and CEO from 17 October 2024, succeeding Karen Lynch; Chair from 1 January 2026. Rejoined CVS in 2023; previously EVP and President of CVS Caremark. Nearly 40 years across Aetna, Caremark Prescription Services and CVS Health
Brian Newman	Executive Vice President and Chief Financial Officer	CFO-designate from 21 April 2025, CFO from 12 May 2025, succeeding Tom Cowhey. Previously EVP and CFO of United Parcel Service, 2019 to 2024, after 26 years at PepsiCo in finance, strategy and operations roles
Steve Nelson	Executive Vice President and President, Aetna	Appointed 6 November 2024. Previously CEO of ChenMed, a value-based primary care operator, and CEO of UnitedHealthcare from 2017 to 2019

Joyner's background is PBM-centric and it is fair to ask whether that biases capital allocation towards defending Caremark economics over Aetna underwriting. Newman holds the finance seat with no prior healthcare operating history, which cuts both ways: less institutional attachment to the Oak Street thesis, and less instinct for reserve adequacy. Nelson is the most consequential appointment for this note, since the Aetna recovery that our valuation turns on is his to deliver, and he has run a large Medicare Advantage book before. One vacancy is worth flagging: Pharmacy & Consumer Wellness currently has only an interim president.

One governance point is worth recording because it is unusual and it is recent. Joyner has held both the chief executive and the chair roles since 1 January 2026, having succeeded Roger Farah as chair while Farah remained on the board. Combining the two roles concentrates authority at exactly the moment the company is asking investors to trust a multi-year margin recovery, and the counterweight is a lead independent director rather than an independent chair. We do not treat it as a red flag, but it raises the value of the external checks — the star-ratings cycle and the FTC undertakings — relative to internal ones.

OWNERSHIP

- Institutional ownership approximately 88%; insider ownership 0.09%.
- Largest holders per CVS at 31 March 2026: Vanguard Group 6.5%, Capital World Investors 6.0%, BlackRock Fund Advisors 5.1%, State Street 4.6%, Dodge & Cox 4.0%. CVS lists individual manager entities rather than 13F parent groups, so consolidated positions are higher.
- Short interest 19.5m shares, 1.55% of float, 2.47 days to cover, down from 23.2m the prior month.

Short interest at 1.5% against 24 of 27 analysts at Buy or better tells us the bear case is neither crowded nor consensual. That cuts both ways: there is little forced-covering risk on a positive surprise, and equally little support underneath the stock if sentiment turns.

10. CONCLUSION

CVS has done what it said it would do. Aetna has recovered $4.8bn of adjusted operating income on a last-twelve-months basis since the FY2024 trough, guidance has been raised three times, and the balance sheet is being repaired. Our hesitation is not about execution. It is that at $96 the shares already discount most of it, and the remaining upside depends on an Aetna normalisation the company is not yet guiding to, against a star-ratings trajectory that has already

turned down for 2027 and a statute nobody has costed. Our $91 fair value sits 5.5% below the price, and every one of our three valuation methods sits below it.

The reason this is a HOLD and not a fudge is that across the entire plausible range — from the guided $5.2bn of Aetna earnings up to a full recovery to the 3–5% Medicare Advantage target near $9.0bn — the implied valuation clusters around a HOLD. A SELL only makes sense if Aetna falls below both guidance and the 2023 actual; a BUY only if it sustains above roughly $8.6bn. We would upgrade if the October star ratings show a clear rebound and commercial membership stabilises or grows, signalling that the membership and quality story has turned. We would downgrade if prior-year development annualises below about $0.5bn without a corresponding improvement in the current-year loss ratio, or if the second-half medical benefit ratio comes in above the guided 89.75% ±25bp, which would indicate that the Q2 beat was largely a reserving artefact.

ANALYST CERTIFICATION

I, Debjit Mukherjee, certify that the views expressed in this report accurately reflect my personal views about the subject company and its securities, and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this report.

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