## CVS HEALTH CORPORATION · VIREO CAPITAL RESEARCH

NYSE: CVS · Health Care · Valuation model · Analyst: Debjit Mukherjee · Price as at 6 Aug 2026

### SNAPSHOT

| RATING | PRICE TARGET | CURRENT PRICE | UPSIDE (PRICE) | TOTAL RETURN | MARKET CAP ($m) | NET DEBT ($m) | ENTERPRISE VALUE | FWD P/E |
|---|---|---|---|---|---|---|---|---|
| HOLD | $91 | $96.22 | -5.5% | -2.7% | 122,969 | 47,452 | 170,421 | 12.0x |
| **FY2025 REVENUE** | **FY2025 ADJ EPS** | **FY2026E ADJ EPS (guide)** | **52-WK RANGE** | **DIVIDEND / SHARE** | **DIV YIELD** | **SHARES OUT (m)** | **FY25 CFO ($m)** | **FY25 GAAP EPS** |
| 402,067 | $6.75 | $8.00 | $62.55 – $110.68 | $2.66 | 2.76% | 1,278 | 10,639 | $1.39 |

| | | |
|---|---|---|
| Shares outstanding (m) | 1,278 | |
| Dividend yield | 2.76% | |
| FY2026E adj EPS (guidance mid) | $8.00 | Guidance $7.90-8.10 (Q2 2026, 5 Aug). Feb was $7.00-7.20; May $7.30-7.50. Three raises this year. |

### INVESTMENT SUMMARY

HOLD. Fair value $91 against $96.22 — minus 5.5% on price, minus 2.7% with the 2.76% dividend.

The operating recovery is real: FY2026 guidance raised three times to $7.90–8.10, Aetna has added back $4.6bn of adjusted operating income since 2024, and the shares are up 54% from the low. Most of that is now in the price.

The note turns on one number — normalised Aetna. We use $6.2bn against FY2026 guidance of $5.03–5.37bn and a FY2023 actual of $5,577m. At $7bn fair value is $95; at $8bn, $100; at $9bn, $105 and a BUY. Below $4.8bn it is a SELL.

Earnings quality is the open question. Prior-year development and risk adjustment contribute roughly $0.54 of the $8.00 guided EPS and CVS's own ex-development base is $7.46. Days claims payable do not support a depletion argument — 41.7 days at Jun-26 against 40.9 a year earlier — but the run-rate is flattered.

Part D delinking (2028) and commercial rebate pass-through (2029) are enacted law that no covering house has costed, while Caremark membership is already guided down in 2027.

We are 21% below the Street mean of $115.80 across 27 analysts, and no covering analyst is below $103. Consensus has been too conservative on CVS for two years; the counter is the tape — down 8% in three sessions on a beat and raise.

### KEY CATALYSTS

· 2027 Medicare star ratings — CMS, October 2026. The binary risk: 88% of MA members in 4.0+ plans for 2026, just over 81% for 2027.
· Q3 2026 results — unannounced; Q3 2025 was 29 Oct. Watch MBR against the 89.75% ±25bp full-year guide.
· FTC consent order finalised — H2 2026, post comment period. First hard read on Caremark repricing.
· FY2027 guidance — February 2027. Whether the $8.44 adjusted EPS floor holds, and Caremark membership.
· Capital return — buyback beyond dilution offset. None since FY2024; only dilution offset assumed for 2027.

### KEY RISKS

· Aetna normalises above $7bn — fair value $95–100 and the rating is wrong. The largest single risk to the call.
· Prior-year development normalises to $0.5–0.7bn — removes roughly $0.90–1.00 pre-tax per share from the run-rate.
· H2 2026 guided to −$97m to −$437m in Health Care Benefits; implied H2 MBR near 93.6% against 86.0% in H1.
· Star ratings fall again in October 2026, compounding into 2028 payments.
· Leverage 3.5x with only $2.7bn of cash at the parent; the $33.2bn portfolio backs statutory reserves and cannot be netted.

### PRICE TARGET SUMMARY — segment-valued blend

| Methodology | Weight | Implied Price | Commentary |
|---|---|---|---|
| Sum-of-the-parts | 60% | $91.47 | Three segments valued separately on FY2026E run-rate adjusted operating income |
| Relative multiple | 20% | $96.00 | Applied forward P/E on FY2026E adjusted EPS of $8.00 |
| Discounted cash flow | 20% | $84.37 | Supporting analysis and floor, not a driver of the call |
| **BLENDED PRICE TARG** | **100%** | **$90.96** | **$90.96 · -5.5% price, -2.7% total return** |

SOTP 60% / relative 20% / DCF 20%, the Vireo standard for segment-valued businesses. Health Services and Pharmacy are held at FY2026 company guidance; Health Care Benefits is normalised above guidance. Corporate/Other is guidance-implied and capitalised at the blended segment multiple — note a forward P/E on consolidated adjusted EPS already capitalises the same overhead at the P/E (~12

YELLOW cells are analyst inputs and are deliberately unset or placeholder. The segment multiples, the applied P/E, WACC and terminal growth are Debjit's judgment, not the model's.

## SUM-OF-THE-PARTS — primary method, 60% of target

$m. Segment adjusted operating income as reported by CVS. Corporate/Other carried as a cost centre.

### A. SEGMENT BUILD

| Segment | FY2025 revenue | FY2025 adj. OI | H1 2026 adj. OI | FY2026E adj. OI | Multiple (x OI) | Value ($m) | Basis / note |
|---|---|---|---|---|---|---|---|
| Health Care Benefits (Aetna) | 143,354 | 2,939 | 5,467 | 6,200 | 11.0x | 68,200 | Normalised. FY2026 guidance $5.03-5.37bn (Q2 deck); FY2023 actual $5,577m. 11x = discount to managed-care median 14.0x for star-ratings trajectory (88%->81% of members in 4.0+ plans for 2027) and development dependence. |
| Health Services (Caremark, Oak Street) | 190,425 | 7,151 | 3,222 | 7,250 | 8.0x | 58,000 | FY2026 guidance at least $7.25bn — REAFFIRMED, not raised, while revenue guidance rose. 340B pressure and H2 pull-forward in Q2. 8x vs Cigna/Evernorth 9.0x for enacted PBM reform. |
| Pharmacy & Consumer Wellness | 139,367 | 6,040 | 2,672 | 6,400 | 9.0x | 57,600 | FY2026 guidance at least $6.40bn, raised from $6.18bn. No listed comparator post-Walgreens. |
| Corporate / Other | | -1,687 | -1,054 | -2,100 | 9.26x | -19,445 | Guidance-implied: segment guides 5.20+7.25+6.40 = $18.85bn less consolidated guide $16.75bn = $2.10bn. Capitalised at the blended segment multiple (cell G11). |
| Memo: blended segment multiple | | | | | | 9.26x | Used to capitalise Corporate/Other. |
| **Enterprise value** | | | | | | **164,355** | |
| Less: net debt | | | | | | -47,452 | Total debt $61,410m less cash $11,329m and short-term investments $2,629m, at 30 Jun 2026 |
| **Equity value** | | | | | | **116,903** | |
| Diluted shares (m) | | | | | | 1,278 | |

### B. REFERENCE — segment adjusted operating margin

| Segment | FY2023 | FY2024 | FY2025 | H1 2026 | | | |
|---|---|---|---|---|---|---|---|
| Health Care Benefits | 5.3% | 0.2% | 2.1% | 7.4% | | | |
| Health Services | 3.9% | 4.2% | 3.8% | 3.2% | | | |
| Pharmacy & Consumer Wellness | 5.1% | 4.6% | 4.3% | 4.1% | | | |
| **SOTP VALUE PER SHARE** | | | | | | **$91.47** | Primary method. 60% of the blended target. |

### C. SENSITIVITY — normalised HCB earnings vs applied multiple (HS and PCW held at guidance)

| Normalised HCB ($m) | SOTP $/sh | Blended target $/ | Total return | |
|---|---|---|---|---|
| 5,200 | $83.02 | $85.89 | -8.0% | FY2026 guidance midpoint |
| 5,580 | $86.23 | $87.81 | -6.0% | FY2023 actual, in dollars |
| 6,200 | $91.47 | $90.96 | -2.7% | BASE CASE |
| 7,000 | $98.25 | $95.02 | +1.5% | Lower end of bull range |
| 8,000 | $106.73 | $100.11 | +6.8% | 2023-style margin on 2026 revenue |
| 9,000 | $115.22 | $105.21 | +12.1% | Full recovery to 3-5% MA target |

## DISCOUNTED CASH FLOW — supporting analysis and floor, 20% of target

$m. All forecast inputs are analyst-set.

| $m | FY2026E | FY2027E | FY2028E | FY2029E | FY2030E |
|---|---|---|---|---|---|
| Cash flow from operations | 11,500 | 11,800 | 12,000 | 11,800 | 12,000 |
| Capital expenditure | -2,800 | -2,800 | -2,800 | -2,800 | -2,800 |
| **Free cash flow** | **8,700** | **9,000** | **9,200** | **9,000** | **9,200** |
| Discount period | 1 | 2 | 3 | 4 | 5 |
| Discount factor | 0.930 | 0.865 | 0.805 | 0.749 | 0.697 |
| PV of free cash flow | 8,093 | 7,788 | 7,406 | 6,739 | 6,408 |

*CFO. FY2026 anchored on guidance of at least $11.5bn; modest growth thereafter, FY2029 flat on commercial rebate pass-through.*

*Capex. FY2025 was $2,832m; held broadly flat.*

### ASSUMPTIONS

| | | |
|---|---|---|
| WACC | 7.5% | Analyst input. Note leverage: net debt $47.5bn on $123bn of equity. |
| Terminal growth | 2.0% | Terminal growth. Below nominal GDP, reflecting PBM reform from 2028-29 and structural retail pharmacy pressure. |
| Net debt ($m) | 47,452 | |
| Diluted shares (m) | 1,278 | |

### OUTPUT

| | |
|---|---|
| Sum of PV, explicit period | 36,434 |
| Terminal value (Gordon) | 170,618 |
| PV of terminal value | 118,846 |
| Enterprise value | 155,280 |
| Less: net debt | -47,452 |
| **Equity value** | **107,828** |

| | |
|---|---|
| Reference | FY2025 CFO $10,639 m, capex $2,832m, FCF $7,807m. H1 2026 CFO $10,594 m, capex $1,540m. FY2026 CFO guidance at least $11.5bn. |

| | |
|---|---|
| **DCF VALUE PER SHARE** | **$84.37** |

## COMPARABLE COMPANIES — relative multiple, 20% of target

Peer set as at 7 August 2026. Source: S&P Global Market Intelligence. Peers are not covered by this desk.

| Company | Ticker | Fwd P/E | EV/EBITDA | Mkt cap ($bn) | EV ($bn) | TTM rev ($bn) | EV/Rev | Rev growth | This desk | Fair value |
|---|---|---|---|---|---|---|---|---|---|---|
| **CVS Health** | **CVS** | **11.84x** | **9.97x** | **122.4** | **184.8** | **412.7** | **0.45x** | **+7.3%** | **HOLD** | **$91.00** |
| UnitedHealth | UNH | 19.13x | 15.96x | 372.2 | 417.0 | 450.1 | 0.92x | +0.4% | Not covered | n/a |
| Cigna | CI | 8.91x | 7.83x | 74.7 | 99.3 | 282.4 | 0.35x | +7.0% | Not covered | n/a |
| Elevance | ELV | 14.55x | 16.06x | 85.5 | 106.3 | 201.1 | 0.53x | +0.8% | Not covered | n/a |
| Humana | HUM | 31.22x | 15.51x | 46.2 | 54.1 | 145.7 | 0.37x | +26.2% | Not covered | n/a |
| Centene | CNC | 14.23x | n/m | 32.5 | 24.4 | 180.3 | 0.14x | +10.0% | Not covered | n/a |
| McKesson | MCK | 18.79x | 14.87x | 101.4 | 108.0 | 411.0 | 0.26x | +8.0% | Not covered | n/a |
| Cencora | COR | 16.59x | 17.71x | 61.2 | 72.8 | 332.8 | 0.22x | +5.1% | Not covered | n/a |
| **Peer median (ex-CVS)** | | 16.59x | 15.74x | | | | | | | |

*CVS EV/EBITDA of 9.97x is stated ex the $5,725m Q3-2025 goodwill impairment on Health Care Delivery; as reported it is 14.42x. No peer except Centene carries a comparable charge in its trailing twelve months. Centene EV/EBITDA is not meaningful — TTM EBITDA is negative and EV sits below market cap on $10.9bn of net cash.*

| | |
|---|---|
| **RELATIVE VALUATION** | |
| Applied forward multiple | 12.00x |
| **RELATIVE VALUE PER SHARE** | **$96.00** |

**Reference — EV / TTM operating income (consistent basis, computed)**

*CVS's own current multiple, so this leg is neutral by construction and pulls the blend towards the market. Applying the peer median would imply roughly $114, which we do not regard as supportable given the four risks in the note.*

*Vendor "EV/EBIT" fields are built from pre-tax income plus interest and carry below-the-line items; they are NOT on the same basis as segment adjusted operating income. Do not anchor the SOTP on them.*

## HISTORICAL FINANCIALS

$m unless stated. Source: CVS Health 8-K earnings releases and Form 10-Q.

### CONSOLIDATED

| $m | FY2023 | FY2024 | FY2025 | H1 2026 |
|---|---|---|---|---|
| Total revenues | 357,776 | 372,809 | 402,067 | 206,522 |
| Operating income (GAAP) | 13,743 | 8,516 | 4,660 | 9,383 |
| Adjusted operating income | 17,534 | 11,976 | 14,443 | 10,307 |
| Net income attrib. to CVS Health | 8,344 | 4,614 | 1,768 | 5,922 |
| GAAP diluted EPS ($) | 6.47 | 3.66 | 1.39 | 4.61 |
| Adjusted EPS ($) | 8.74 | 5.42 | 6.75 | 5.16 |
| Diluted wtd-avg shares (m) | 1,290 | 1,262 | 1,271 | 1,283 |
| Cash flow from operations | 13,426 | 9,107 | 10,639 | 10,594 |
| Capital expenditure | 3,031 | 2,781 | 2,832 | 1,540 |

FY2025 GAAP includes a $5,725m goodwill impairment on the Health Care Delivery reporting unit (Oak Street).

### HEALTH CARE BENEFITS — operating metrics

| Metric | FY2023 | FY2024 | FY2025 | H1 2026 | |
|---|---|---|---|---|---|
| Medical benefit ratio | 86.2% | 92.5% | 91.2% | 86.0% | |
| Days claims payable (period end) | 45.9 | 44.0 | 38.9 | 41.7 | *40.9 at Jun-25; 42.9 at Mar-26* |
| Prior-year favourable development ($m) | 675 | 885 | 2,000 | 1,200 | |
| Medical membership (000s) | 25,659 | 27,095 | 26,591 | 26,023 | |

Star ratings: 88% of MA members in 4.0+ star plans for the 2026 payment year, falling to just over 81% for 2027.

### GUIDANCE PROGRESSION — FY2026

| Item | Feb 2026 | May 2026 | Aug 2026 |
|---|---|---|---|
| Adjusted EPS ($) | 7.00 - 7.20 | 7.30 - 7.50 | 7.90 - 8.10 |
| GAAP diluted EPS ($) | 5.94 - 6.14 | 6.24 - 6.44 | 6.84 - 7.04 |
| Total revenue | at least $400bn | at least $405bn | at least $414bn |
| Cash flow from operations | at least $9.0bn | at least $9.5bn | at least $11.5bn |

*FY2026 segment guidance, raised 5 Aug 2026 (published in the earnings presentation, not the press release): Health Care Benefits $5.03-5.37bn adjusted operating income on revenue of at least $144.0bn, MBR 89.75% +/-25bp; Health Services at least $7.25bn on at least $203.6bn (reaffirmed, not raised); Pharmacy & Consumer Wellness at least $6.40bn on at least $137.5bn. Consolidated adjusted operating income $16.58-16.92bn. Implied Corporate/Other drag ~$2.10bn.*

### SEGMENT DETAIL — adjusted operating income ($m)

| Segment | FY2023 | FY2024 | FY2025 | H1 2026 | FY2026 guidance |
|---|---|---|---|---|---|
| Health Care Benefits | 5,577 | 307 | 2,939 | 5,467 | 5,030 - 5,370 |

| | | | | | |
|---|---|---|---|---|---|
| Health Services | 7,312 | 7,243 | 7,151 | 3,222 | at least 7,250 |
| Pharmacy & Consumer Wellness | 5,963 | 5,774 | 6,040 | 2,672 | at least 6,400 |
| Corporate / Other | -1,318 | -1,348 | -1,687 | -1,054 | ~(2,100) implied |
| **Consolidated adjusted operating income** | **17,534** | **11,976** | **14,443** | **10,307** | **16,580 - 16,920** |

*Segment adjusted operating income is the base the sum-of-the-parts capitalises. FY2023 HCB of $5,577m is the reference "clean year"; H1 2026 is not annualised because H2 is seasonally loss-making under the Part D redesign (H2 2025 was a $362m operating loss).*