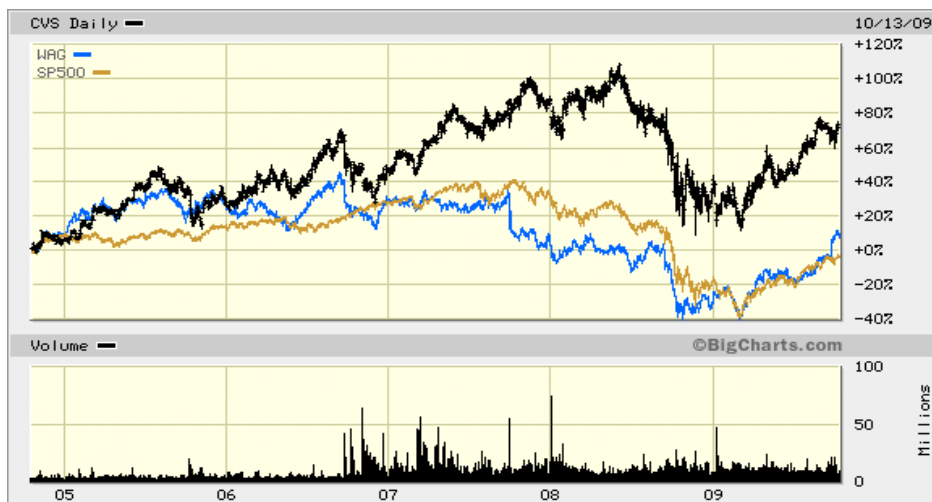


## CVS Caremark Corporation (CVS) 10/13/09

CVS operates as a pharmaceutical and retail store, with 6,900 locations nationwide. The company operates in two segments; Retail Pharmacy which had 53% of 2008 revenue, and Pharmacy Services with 47%. CVS has recently been involved in several acquisitions to increase its geographic presence in certain parts of the US. CVS was founded in 1892 and headquartered in Woonsocket, Rhode Island.

Current Price	\$36.72
52 Week High	\$37.75
52 Week Low	\$23.19
One Yr Target	\$40.00
Market Cap (in billions)	\$53.00
P/E (Trailing)	15.85
P/E(1 Yr Forward)	12.12
P/E/G	1.06
ROA	5.90%
ROE	9.85%
EPS	\$2.32
Beta	0.37
Annualized Dividend	\$0.31
Dividend Yield	0.83%
Analyst Consensus	1.60
Debt to Equity	0.68



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**Annual EPS**

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2005	\$1.45	
2006	\$1.60	10.34%
2007	\$1.92	20.00%
2008	\$2.27	18.23%
2009E	\$2.32	2.06%

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**Annual Revenue (in millions)**

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2005	\$37,006.70	
2006	\$43,821.40	18.41%
2007	\$76,329.50	74.18%
2008	\$87,471.90	14.60%

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**Annual Net Income (in millions)**

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2005	\$1,224.70	
2006	\$1,368.90	11.77%
2007	\$2,637.00	92.64%
2008	\$3,212.10	21.81%

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**Free Cash Flows (in millions)**

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2005	\$116.70	
2006	-\$26.50	-122.71%
2007	\$1,424.40	5475.09%
2008	\$1,767.20	24.07%

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**Required Rate of Return**

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6.41%

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**Dividend Growth Model**

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Present Value of 2014 Price	n/a
Holding Period Return (5 years)	n/a

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**Expected Annualized Return Model**

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Present Value of 2014 Price	\$63.09
Holding Period Return (5 years)	13.70%

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**Residual Income Model**

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Intrinsic Stock Price	\$11.46
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# Analysis

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## Positives

Low Beta coupled with a low PEG ratio is nice

Current stock price is significantly undervalued according to the EAR valuation model

## Negatives

Stock price is overvalued according to the RI valuation model

## Financial Statements

Very strong Balance Sheet, increasing Equity over the past four years

Nice Income Statement, increasing Revenues and Income with increasing Dividends

Cash Flows are somewhat volatile but have been positive for the past four years

## Industry Analysis

Industry leader in a small industry, which is a big plus

Most financial ratios are good to average compared with the industry

## Summary

CVS is a good company in a growing industry, with good financial numbers to match. Its financial ratios are solid; a low Beta, low PEG ratio, low Debt/Equity, and favored by analysts. Financial Statements are good to great, with growing Assets from acquisitions which also explains some of the negative Free Cash Flows. The applicable valuation models are split on the current stock price, but the DG model is not applicable because of such a high growth rate in dividends which is nice. The retail/pharmacy industry is one that is experiencing growth due to several factors including; aging baby-boomers, increasing prescription drug coverage, increasing health care spending from governments, and a shift towards generic drugs. CVS seems to be doing better than some of its competitors and is active in acquisitions to expand its operations in underrepresented areas. CVS is not without faults though, as the store has been engaged in legal problems in the past for prescription errors and customer information problems. Still though, CVS is a strong and growing company that earns a **buy** rating