CVS

Investment Research Summary

Priced December 14, 2011

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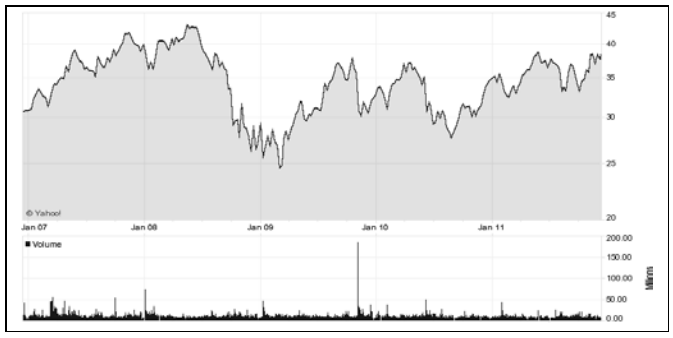
INVESTMENT RESEARCH SUMMARY
PRICED DECEMBER 14, 2011

CVS Caremark Corporation

Symbol:	**CVS**
Exchange:	**NYSE**
Current Price:	**$37.04**
Current Yield:	**1.30%**
Current Dividend:	**$0.50**
Shares Outstanding (MM):	**1,301.6**
Major Shareholders:	**Insiders < 1.0%**
Average Daily Trading Volume (MM):	**10.8**
52-Week Price Range:	**$39.50-$30.98**
Price/Earnings Ratio:	**14.8x**
Stated Book Value Per Share:	**$28.80**



Balance Sheet Data

(in millions)	**9/30/11**	**2010**	**2009**
Cash	$ 1,707	$ 1,427	$ 1,086
Current Assets	18,938	17,706	17,537
TOTAL ASSETS	$ 65,251	$ 62,169	$ 61,641
Current Liabilities	$ 12,350	$ 11,070	$ 12,300
Long Term Debt	10,768	10,057	11,175
Shareholders Equity	37,487	37,700	35,768
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 65,251	$ 62,169	$ 61,641

Catalysts/Highlights

- The PBM business returned to revenue growth in 2011, and we would expect profits to grow in 2012
- CVS should be a primary beneficiary from several industry trends including the aging of the baby boomers and the upcoming largest-ever wave of branded drugs coming off patent protection
- Management has been aggressive in returning cash to shareholders

P&L Analysis
($ in millions except per share items)

Fiscal Year Ending December 31	**2010**	**2009**	**2008**	**2007**
Revenues	96,413	98,729	87,472	76,330
Net Income	3,439	3,708	3,344	2,637
Earnings Per Share	2.50	2.56	2.27	1.92
Dividends Per Share	0.35	0.305	0.258	0.229
Price Range	30.47-23.74	34.22-27.08	37.75-30.58	38.27-27.38

INVESTMENT RATIONALE

CVS Caremark Corporation ("CVS", "Caremark", or the "Company") is the second largest U.S. pharmacy by stores and sales, and the second largest pharmacy benefit manager (PBM) by annual prescription volume. The Company manages or dispenses close to 20% (about 800 million) of the country's total annual prescriptions through its own CVS/Pharmacy stores, its network of pharmacies and mail order distribution centers.

Four years after the CVS/Caremark merger, the true benefits of the combination are starting to materialize. At the onset of the merger, the combined Company increased its purchasing scale relative to its suppliers. This is evident in the Retail Pharmacy segment as its operating profit margin now stands at an industry leading 7%, up 200 bps from pre-merger levels. Meanwhile the PBM business, after stumbling out of the gate following the combination, is beginning to experience early signs of a multi-year turnaround. Under the leadership of new President Per Lofberg (who has more than 30 years experience in health care and the PBM industry and is former Chairman of Merck-Medco Managed Care (which later became Medco Health Solutions)), Caremark has refocused the business and is poised for growth and improved profitability. Notably, Caremark recently emerged as the winner for the Aetna business in 2010 securing a 12-year contract. The PBM business returned to revenue growth in 2011, and we would expect profits to grow in 2012 aided, in part, by a recent restructuring initiative that is expected to generate $1.0 billion in cumulative cost savings by 2015. Differentiated offerings such as Maintenance Choice (which allows a patient to pick up a 90 day supply of prescription drugs at either a CVS/Pharmacy store or receive it in the mail for the same price) and Pharmacy Advisor (which provides PBM clients face-to-face counseling with a pharmacist at a CVS retail store) are unique products and are helping the Company regain market share lost over the years.

CVS should be a primary beneficiary from several industry trends, including the aging of the baby boomers and the upcoming largest-ever wave of branded drugs coming off patent protection. As people age, the number of prescription drugs used increases. For example, someone over 65 years old consumes, on average, 30 prescriptions per year, compared to 12 for people between the ages of 19 and 64. In addition, as the boomers reach retirement age, more of them will receive their prescription drug coverage under Medicare plans, making this the fastest growing segment of the PBM industry. In April 2011, Caremark acquired United American's Part D business and now owns the second largest Medicare Part D business by enrollment. Going forward, industry profitability will be driven by the biggest generic wave in history as an estimated $95 billion of branded drugs will lose their patent protection between 2010 and 2015 including Lipitor on 11/30/2011. Since generic drug prices are typically 30%-50% less than branded drugs, this wave will depress industry sales. It is estimated that a 1% increase in the generic dispense rate results in a 1% decrease in pharmacy spending. However, generic drugs are four to five times more profitable than branded drugs so this will be a huge boon for CVS's profitability. Finally, CVS should benefit from Walgreen's contract dispute with Express Scripts. If unresolved by year-end 2011, Walgreen pharmacies will likely leave Express Scripts' network and millions of patients covered by Express Scripts will need to fill their prescriptions at other drugstores.

Combining Caremark's PBM business with CVS' retailing operations has enabled the Company to generate robust free cash flow. Since the merger in 2007, CVS has cumulatively generated over $10.0 billion in free cash flow and returned nearly $11.0 billion to shareholders through share repurchases and dividends. Over the next five years, we expect the Company to generate $20 billion of cumulative free cash flow, representing over 40% of the Company's current market capitalization. Recently, management has been aggressive in returning cash to shareholders. CVS increased its quarterly dividend 43% in January 2011 and the payout ratio now stands at ~20%. The Company is targeting a payout ratio of 25% to 30% by 2015, implying a 25% CAGR in its dividend. Through the first 9 months of 2011, CVS had repurchased 69.5 million shares at an average cost ~$36 per share. CVS still has ~$3.5 billion remaining on its share repurchase authorizations at the end of 3Q 2011. With the Company's shares trading at just 7.2x TTM EBITDA (and well below our estimate of the Company's intrinsic value), we view these share repurchases as an excellent outlet for excess capital. Using a sum of the parts analysis, our estimate of CVS Caremark's intrinsic value is ~$52 per share, representing 40% upside from current levels.