



# Celani Fund Proposal

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# Agenda

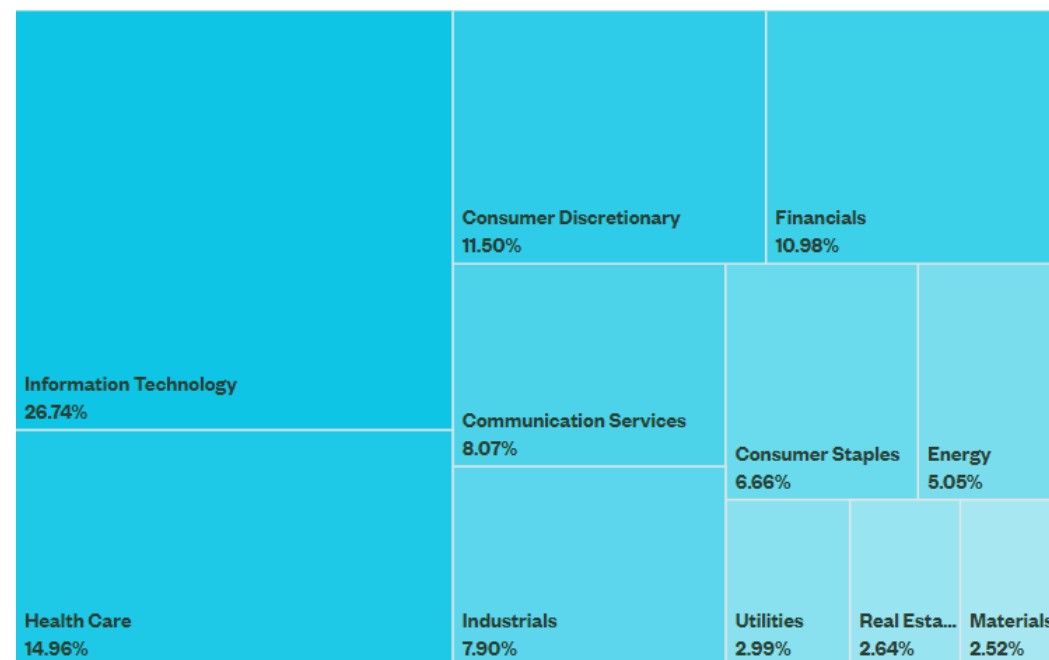
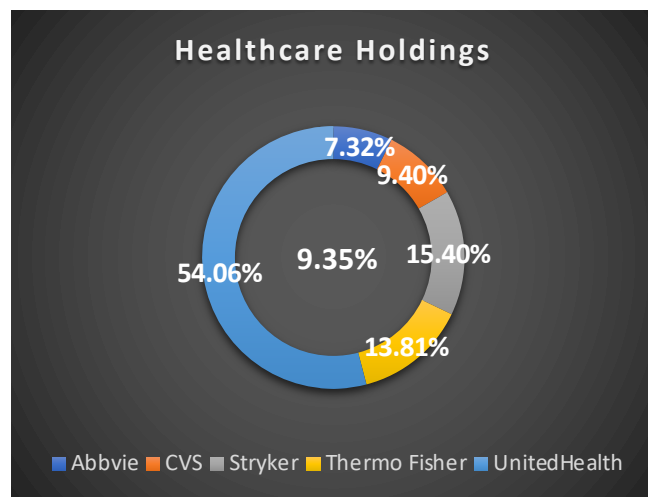
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1	PORTFOLIO AND ALLOCATION OVERVIEW
2	COMPANY AND INDUSTRY ANALYSIS
3	COMPETITOR AND RATIO ANALYSIS
4	DISCOUNTED CASH FLOW ANALYSIS
5	FINAL RECOMMENDATION AND INVESTMENT RISKS

# Portfolio Overview – Healthcare Sector

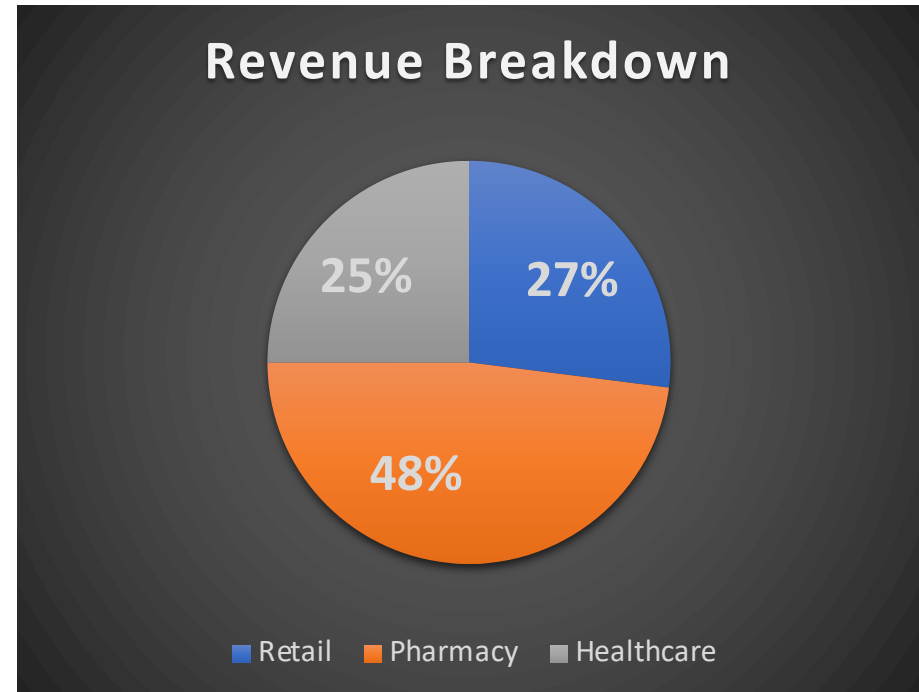
- Healthcare makes up 14.96% of S&P 500
- Portfolio healthcare weighting is 9.35%
- The Fund is underweight healthcare by \$113,000

S&P 500 Sector Breakdown (as of 10/6/22)



# Company Analysis

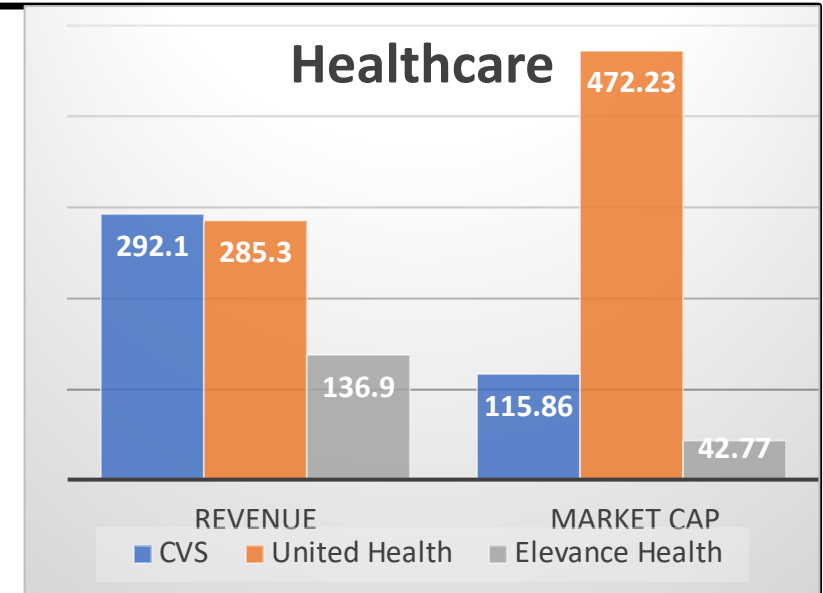
- Diversified healthcare company
- Three main sections
- \$70B acquisition of Aetna in 2018
- Pharmacy network provides cost advantages
- Not recession proof, but stable business model



## Industry Drivers

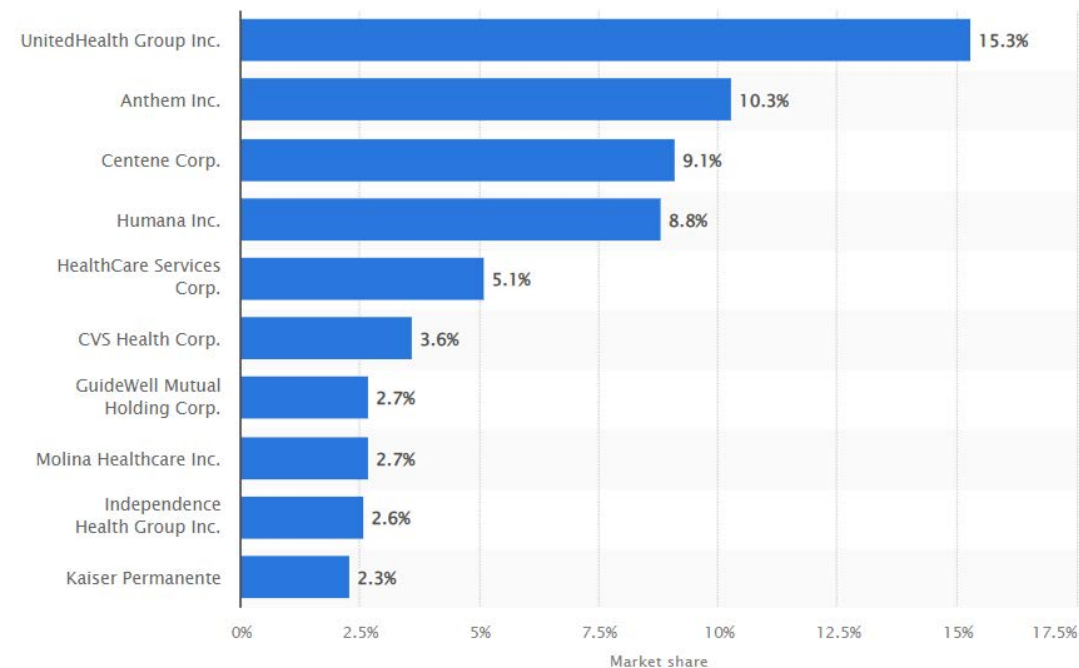
## Risks

- Healthcare sector is one of the largest and most complex in the U.S Economy accounting for close to 20% in the GDP
- Benefits from a strong system of medical research and development in cooperation with higher education systems and advancements in Technology.
- The ongoing Baby Boomer generation is helping drive the strong demand
- Obviously a big headwind to the sector is the regulatory risk, which relates to drug-pricing and cost control.



# Health Insurance Industry Market Share and Competitors

- Diversified industry
- High level of competition
- CVS more diversified than peers
- UNH highest by gross premiums
- Acquisition of Aetna expanded Medicare and Medicaid positions



# Competitor Ratio Analysis

Company	Market Cap (Billions)	2021 Market Share	Price to Sales FWD	FWD P/E	Debt/Equity
CVS Health	115.86	3.6%	.37	10.33	.726
UnitedHealth	472.23	15.3%	1.47	23.10	.564
Elevance Health	112.09	10.3%	.72	16.20	.653
Centene Corp.	42.77	9.1%	.30	13.06	.690
Industry Average	6858.39B	N/A	1.87	14.76	.690

# Financial Overview

- Last quarter revenue increases from \$72,616 in Q2/21 to 80,636 in Q2/22 with a 11.0% y/y growth.
- Operating costs also increased 11.4% y/y (inflation having an impact), but operating income also increased from 4.326 billion Q2/21 to 4.569 billion Q2/22 which is an 5.6% y/y growth.
- Not to mention diluted EPS also increased from \$2.10 to \$2.23 with an 6.2% y/y growth rate.
- Another huge thing I noticed was that CVS generates a huge amount of FCF. With their management expecting cash from operations between \$40-50 billion in the next three fiscal years.
- Having all the cash can help allow the company to repay a lot of outstanding debt and much faster. If it has no signs for major acquisitions, it could have close to \$15-20 billion to help pay back debt (help improve the balance sheet as well as the income statement with interest expense)
- With a P/E of 11.72 we are getting a quality company that earns a lot in revenue and FCF for a price that is a bargain.



PORTFOLIO  
OVERVIEW

INDUSTRY  
ANALYSIS

COMPETITOR AND  
RATIO ANALYSIS

DCF ANALYSIS

RECOMMENDATION  
AND RISKS



# Discounted Cash Flow Analysis – Assumptions

- Slowing revenue growth
- Investment grade credit rating
- Retail stagnation leads to low Capex
- Majority of debt fixed rate



CVS					
Income Statement					
	2022	2023	2024	2025	2026
Revenue growth	5.00%	4.00%	1.00%	1.00%	1.00%
Cost of revenues	4.80%	3.80%	0.80%	0.80%	0.80%
Selling, General, and Administrative	4.30%	3.30%	0.30%	0.30%	0.30%
Income tax rate	25.40%	25.40%	25.40%	25.40%	25.40%
Interest Rate	4.82%	4.82%	4.82%	4.82%	4.82%
Balance Sheet					
	2022	2023	2024	2025	2026
Current assets	4.80%	3.80%	1.80%	1.80%	1.80%
PP&E capex	10.00%	10.00%	10.00%	10.00%	10.00%
Depreciation expense	10.00%	10.00%	10.00%	10.00%	10.00%
Non-current assets	2.80%	1.80%	1.80%	1.80%	1.80%
Current liabilities	2.80%	1.80%	0.80%	0.80%	0.80%
Non-current liabilities	2.80%	1.80%	0.80%	0.80%	0.80%
Additional Assumptions					
Share price (As of December 31, 2021)	\$103.14				
Market capitalization	\$136,041,660,000				
Weighted average number of shares outstanding	1,319,000,000				
10 Year risk free rate (as of 10/10/22)	3.89%				
Market risk premium	5%				
Weighted average interest rate on LTD	4.82%				

# Discounted Cash Flow Analysis – Equity Value

- WACC of 6.25% with MRP of 5%
- Fair value per share of **\$143.24**
- Equity value of \$189.0 billion
- Beta of 0.68
- **62.31% Undervalued**

Net Reinvestment Rate					
Net capital expenditures	0	0	0	0	0
Net working capital changes	(443,840,000)	(678,062,800)	(483,554,549)	(498,566,774)	(513,899,684)
Reinvestment	443,840,000	678,062,800	483,554,549	498,566,774	513,899,684
NOPAT	10,754,317,962	12,318,088,154	13,554,955,995	14,813,597,906	15,584,382,127
<b>Net reinvestment rate</b>	<b>3.30%</b>				
Long Term Growth Rate					
NOPAT	10,754,317,962	12,318,088,154	13,554,955,995	14,813,597,906	15,584,382,127
Invested Capital	232,350,073,062	232,284,015,043	232,410,324,468	233,502,116,719	249,260,024,913
Return on invested capital	6.25%				
<b>Long term growth rate</b>	<b>0.21%</b>				
Terminal Value					
Numerator	15,101,553,275				
Denominator	6.04%				
Terminal value	249,853,591,829				
Present value of terminal value	184,516,044,935				
Add first five years	53,274,246,680				
Enterprise value	237,790,291,615				
Less: Net debt	48,854,000,000				
<b>Equity value</b>	<b>188,936,291,615</b>				
Value per share	143.24				
Share price as of 10/9/22	88.25				
<b>% Undervalued</b>	<b>62.31%</b>				



## Investment Risks

- Amazon 3.9B acquisition of One Medical in July
- More M&A and increased competition from Amazon likely
- Competition will raise M&A multiples, a key to CVS's growth strategy
- Renewed regulatory focus on health insurance industry
- Valuation, recession and market risks (.68 Beta, CVS outperforms)
- Execution of CVS pharmacy DTC fails or loses market share



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## Final Recommendation and Exit Strategy

- Average analyst price target of \$122.92 in line with valuation
- FWD P/E of 10.33 is below competitors and leads to significant FCF generation
- Recession resistant business models, outperformed in both 2008 and 2020 recessions
- **Recommendation: Buy 88K in CVS shares, Buy 25K in UNH Shares**
- Brings portfolio healthcare allocation in line with S&P 500 at 14.96%
- Exit Plan: Sell if P/E reaches 20 or if price falls below historical \$50 support level



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