The company shaking up the U.S. healthcare system (NYSE: CVS)

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- CVS Health is an American retail pharmacy, healthcare company and insurer.
- They are able to leverage their size to negotiate discounts on drug prices, which benefits their customers.
- Their business directly benefits from reducing US healthcare costs whilst delivering better outcomes.
- They currently have an historically cheap valuation of 9x PE and 8x EV/Ebitda compared with their five year average of 15x and 9x.
- They have an experienced management team that understands the strategic change in the industry.

The American healthcare system is one of the world's largest markets, nearly 18% of the U.S. GDP is spent on healthcare compared with Australia's 9.6%, however their average life expectancy is 78.8 years vs. 80.7 – 83.9 years for other OECD (organisation for economic cooperation and development) countries. This is largely due to the U.S. healthcare system being one of the least efficient systems in the world.

CVS Health is an American retail pharmacy and healthcare company which, due to recently acquiring Aetna, also provides health insurance. The company has over 9,800 retail locations throughout the U.S. and in a number of South American countries including Columbia and Brazil. The scale of its pharmacy network enables CVS to negotiate discounts on drug prices on behalf of their subscribers, a scheme known as Pharmacy Benefit Management. Their company structure makes them one of only a few businesses that are fully aligned in trying to reduce healthcare costs, in line with the wants of both patients and regulators.

We're attracted to this stock for two main reasons, the first being its vested interest in containing and reducing the cost of healthcare in the U.S. Due to the company's insurance branch they are incentivised to ensure their clients stay in good health. This in turn benefits their customers who, not only remain healthy but also receive the pharmaceutical price reductions that CVS is able to pass on. The second reason is their historically cheap valuation of 9x PE and 8x EV/Ebitda compared with their five year average of 15x and 9x.

They are not the only company operating with this structure, United Health does something quite similar. These are really the only two vertically integrated healthcare businesses that have the insights and business model that benefit from successful population health management, saving cost in the healthcare system by delivering better healthcare outcomes.

We are therefore invested in this company for the following main reasons:

1. **Demand** – there is high demand for their services of delivering better health outcomes at lower costs.
2. **Business model** – their vertically integrated business model creates value by delivering superior health outcomes at a lower cost.
3. **Management** – they have a strong and experienced management team that understand the strategic change in the US market and that has the capability to leverage the company's assets to deliver value through responsibly run operations.

4. **Valuation** – In our view, they are extremely attractively valued for this market position and quality of business.