

Express Scripts Holding Co



EXPRESS SCRIPTS®

Presented to:
CFA Institute Research Challenge
CFA Society of St. Louis

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Express Scripts Has Reached an Inflection Point

SELL

Current Price:
\$85.17

(As of 2/18/2015)

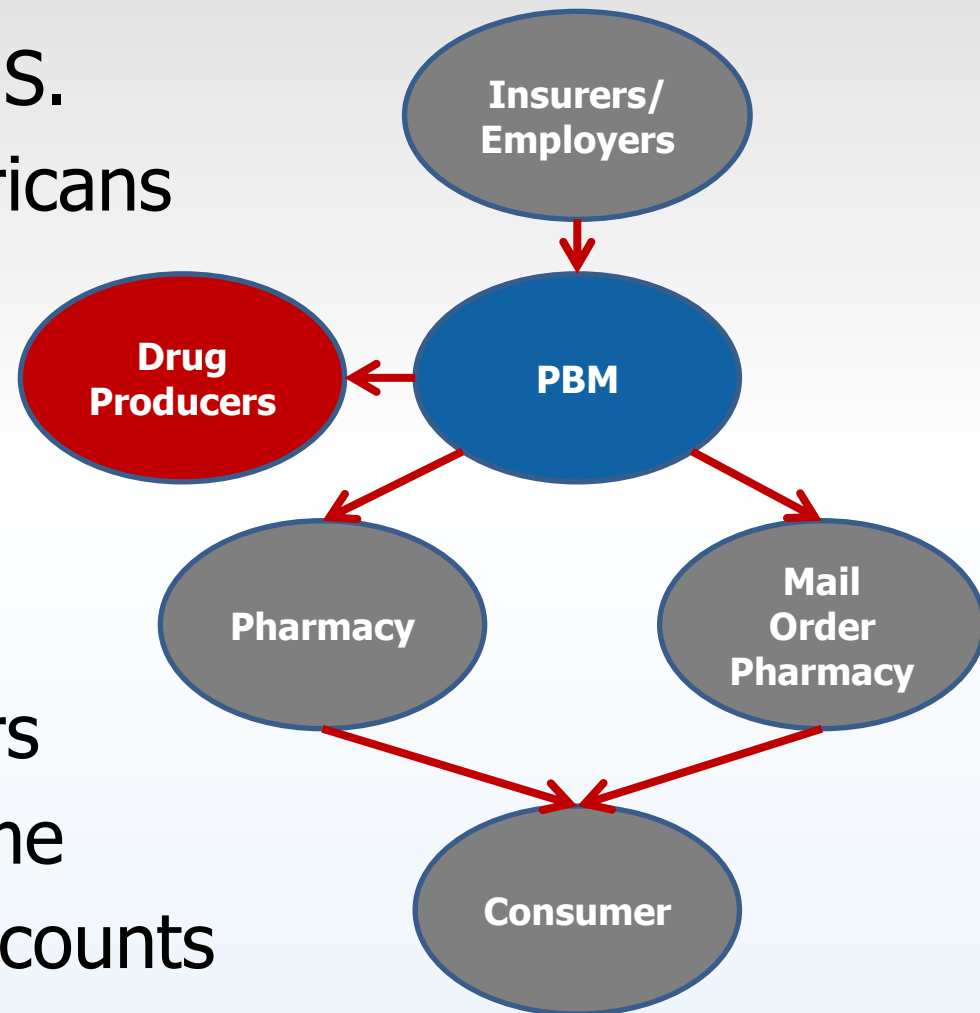
Target Price:
\$83.61

Downside:
-1.83%



Business Description

- Largest PBM in the U.S.
- Serve 87 Million Americans

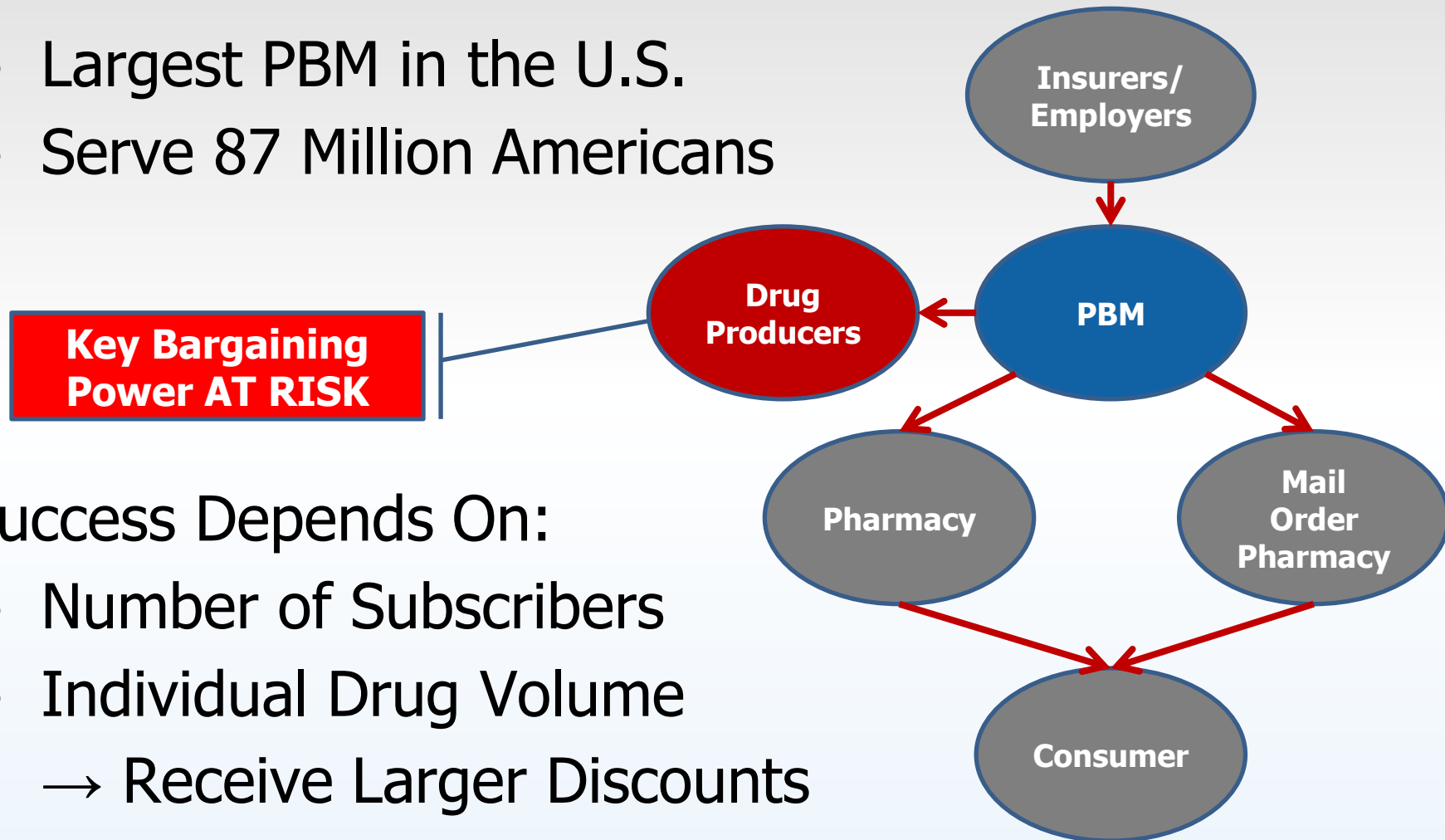


Success Depends On:

- Number of Subscribers
- Individual Drug Volume
→ Receive Larger Discounts

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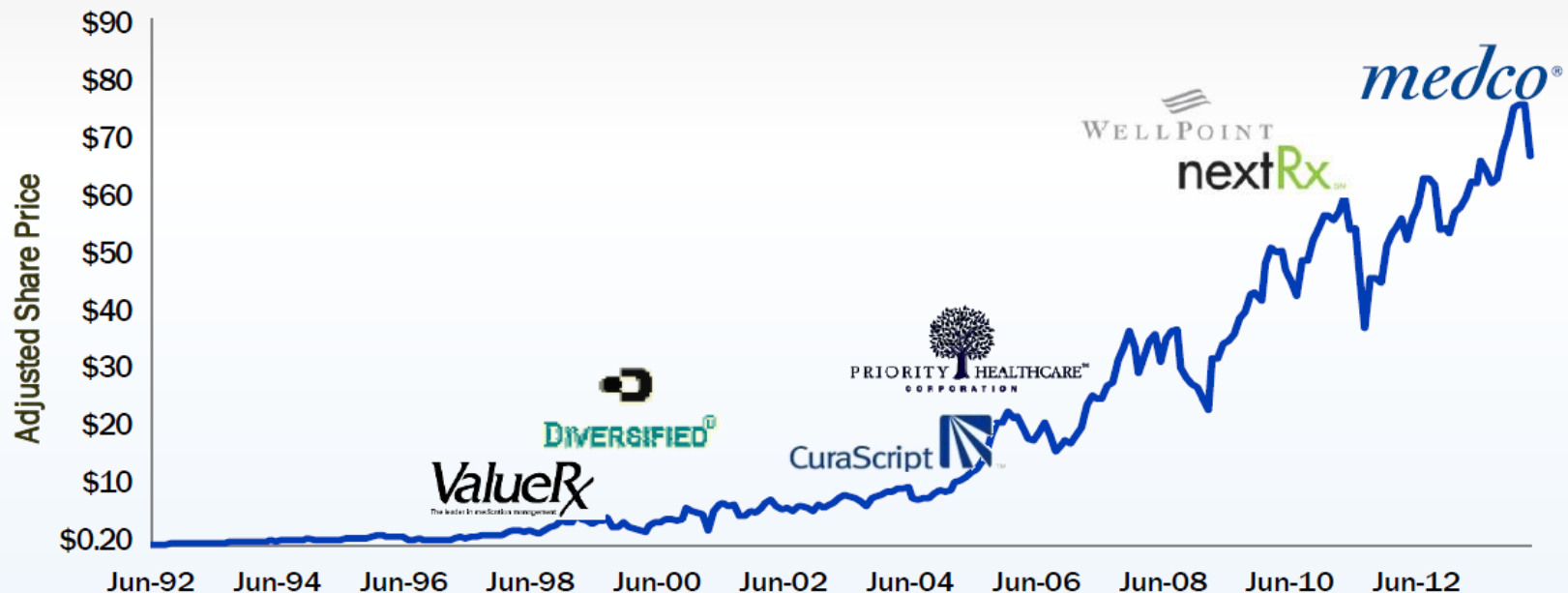
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Express Scripts in the Past



Growth by acquisitions and economies of scale



Source: Express Scripts Investor Relations

Introduction
& Thesis

Company
Headwinds

Threats

Valuation &
Growth

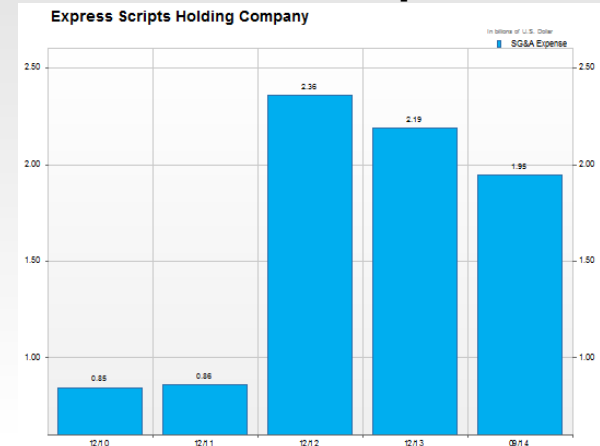
SELL
Summary

Express Scripts Today

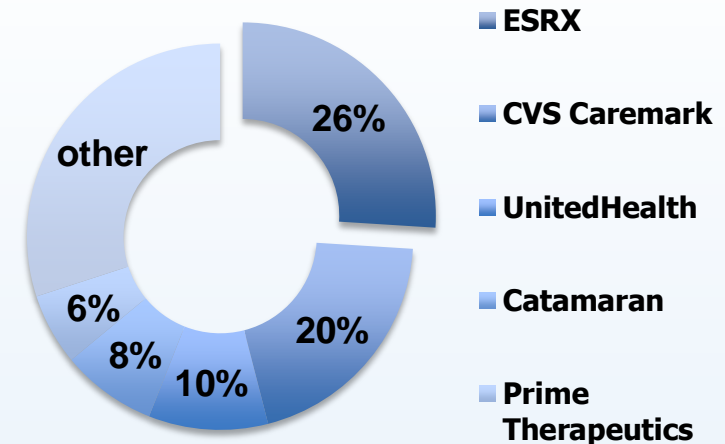


- Medco acquisition
 - Little efficiency gains
 - More liabilities
 - Unnecessary assets
- Market share of 26%
- Inorganic growth is unlikely
 - Antitrust issues
 - Market dominance

Annual SG&A Expenses



Source: FactSet



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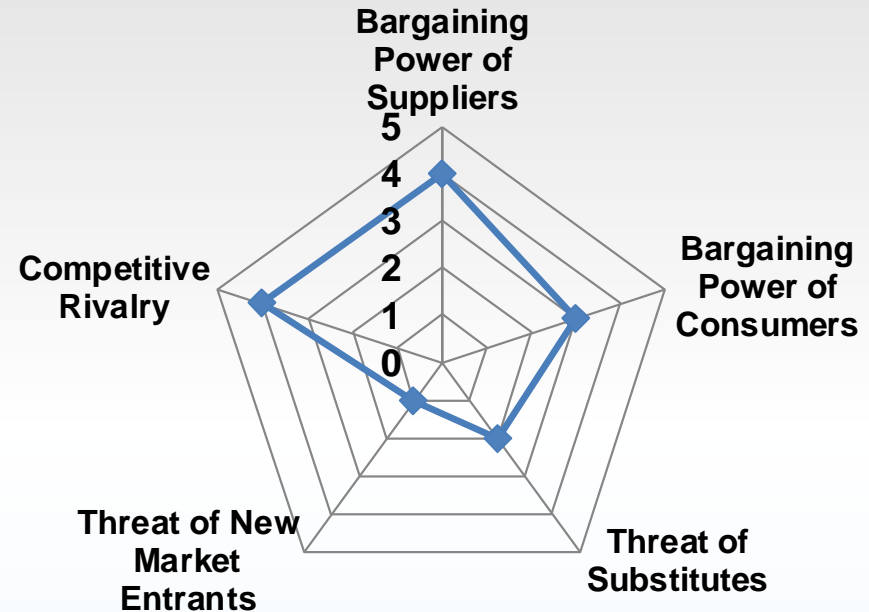
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Maturing Business Model

- Slowing organic growth
 - Efficiency frontier reached
 - Threatens negotiations for superior discounts
- Transitioning phase
 - Initiatives to develop new product lines
 - Extreme cost cutting measures
- Uncertainty



- High R&D Spending for New Drugs
- Less Bargaining Power
- Price Wars (Hep C Drug)
- Upcoming Drugs (Cholesterol Drug)

SANOFI 

REGENERON

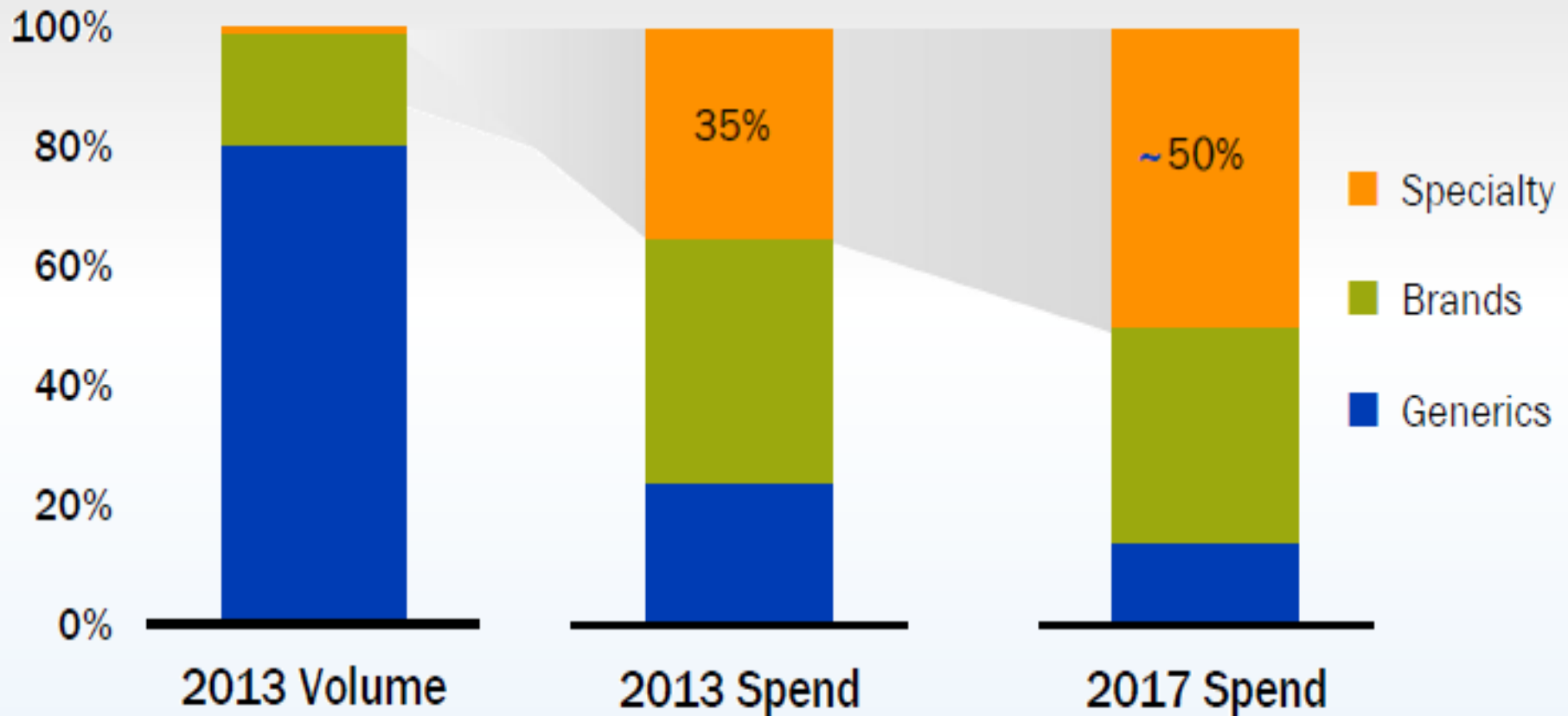


Gilead Sciences
Pipeline Drugs
(Stage 3, Near Release)

- HIV/Aids
- Liver Disease
- Leukemia
- Lymphoma
- Cardiovascular Sodium Inhibitor

Source: Gilead Sciences

Biotech: Specialty Drugs



Source: Express Scripts
Investor Relations

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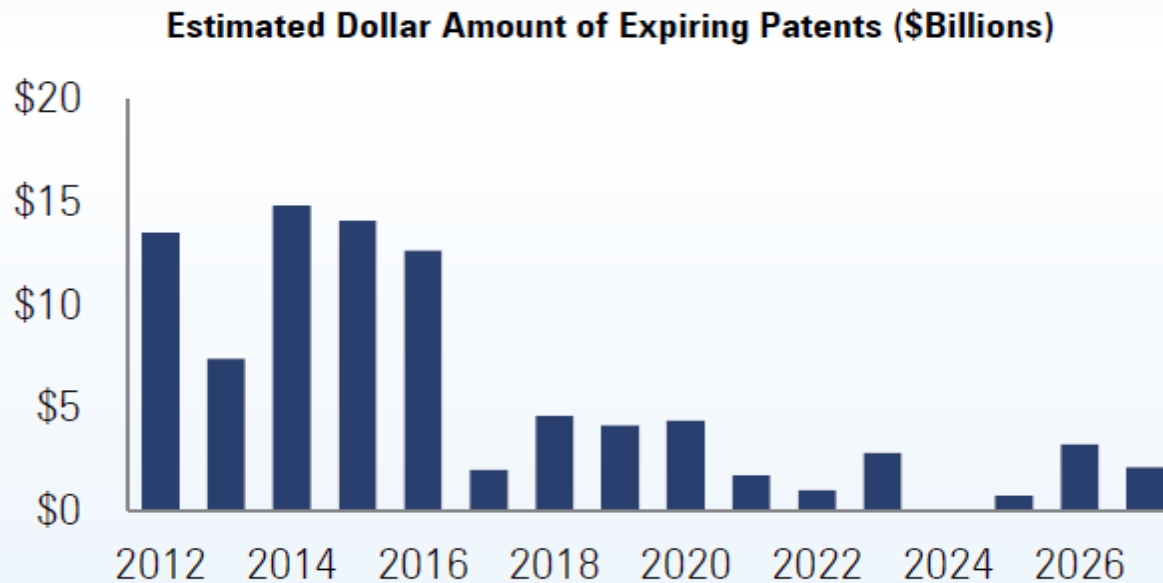
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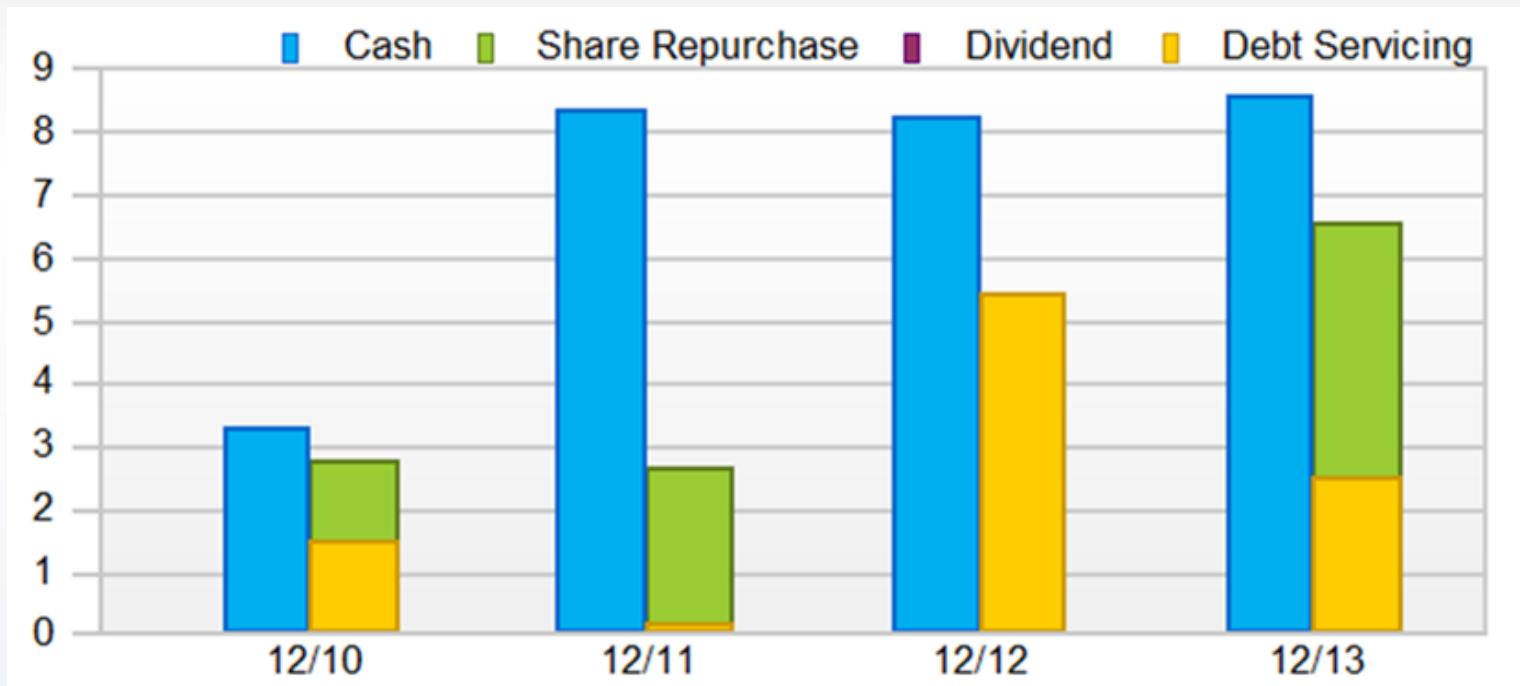
Peak of Generic Drugs

- Dollar value decrease
- Decreasing opportunity for easy generic wave



Source: Morningstar

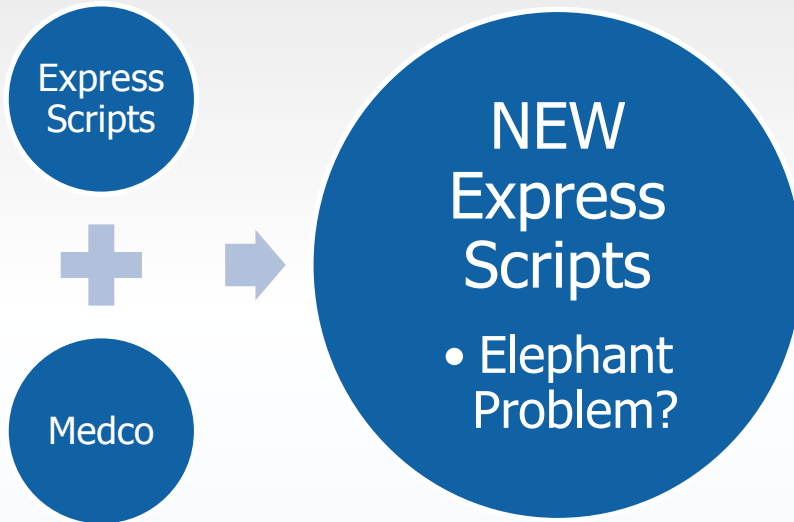
Demanding Use of Cash (47% of Cash in 2013)



Source: FactSet

Where to Find New Growth?

2012



Affordable Care Act ☒

Competitive Acquisitions ☒

Mail & Brick/Mortar ☒

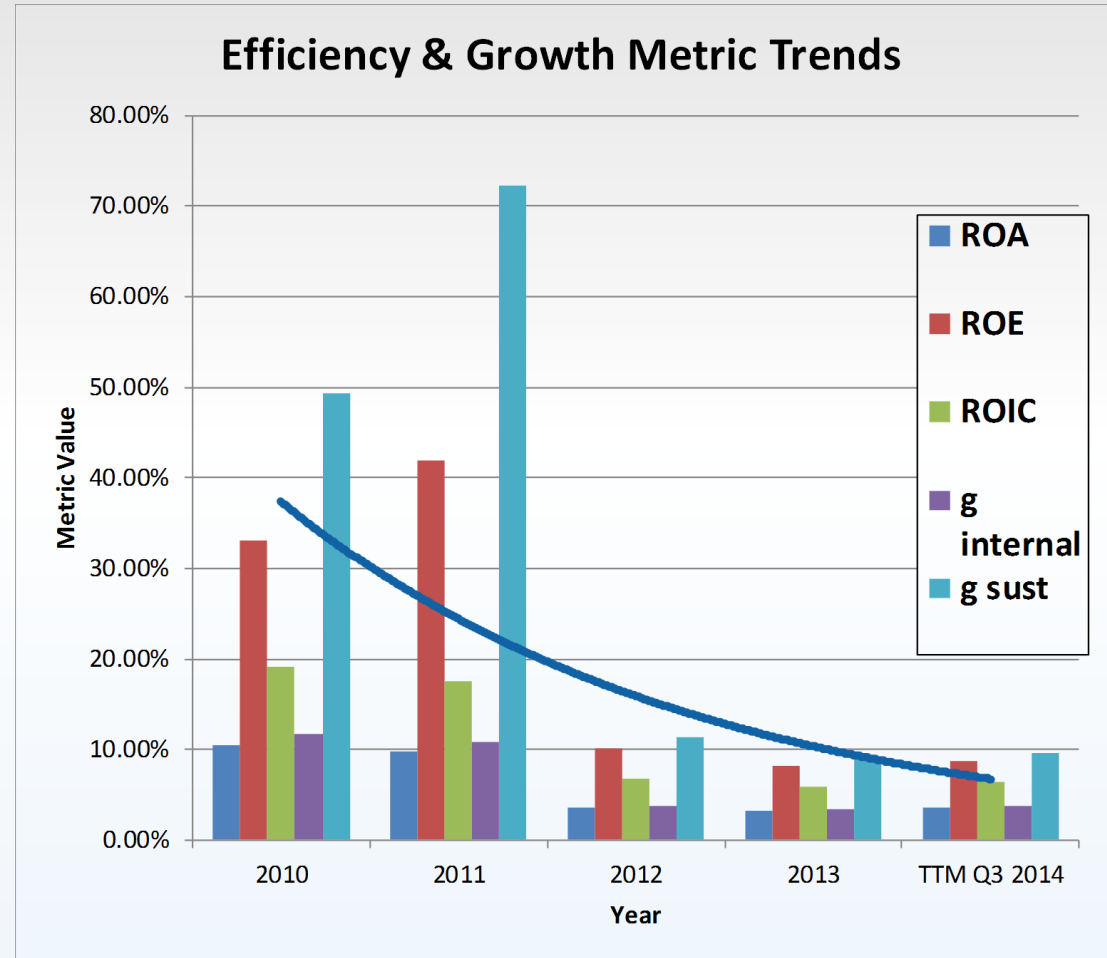
New Organic Growth? ☐

Company Expectations of EPS Growth From 11%-17% in the Near Term Appear at Risk

Growth Capacity

- Analysis Supports Declining Trend Hypothesis
- Derived Growth Rates of >11% Expected By Many Investors is Unreasonable

CAGR of Growth	
Internal Growth	-20.65%
Sustainable Growth	-27.84%



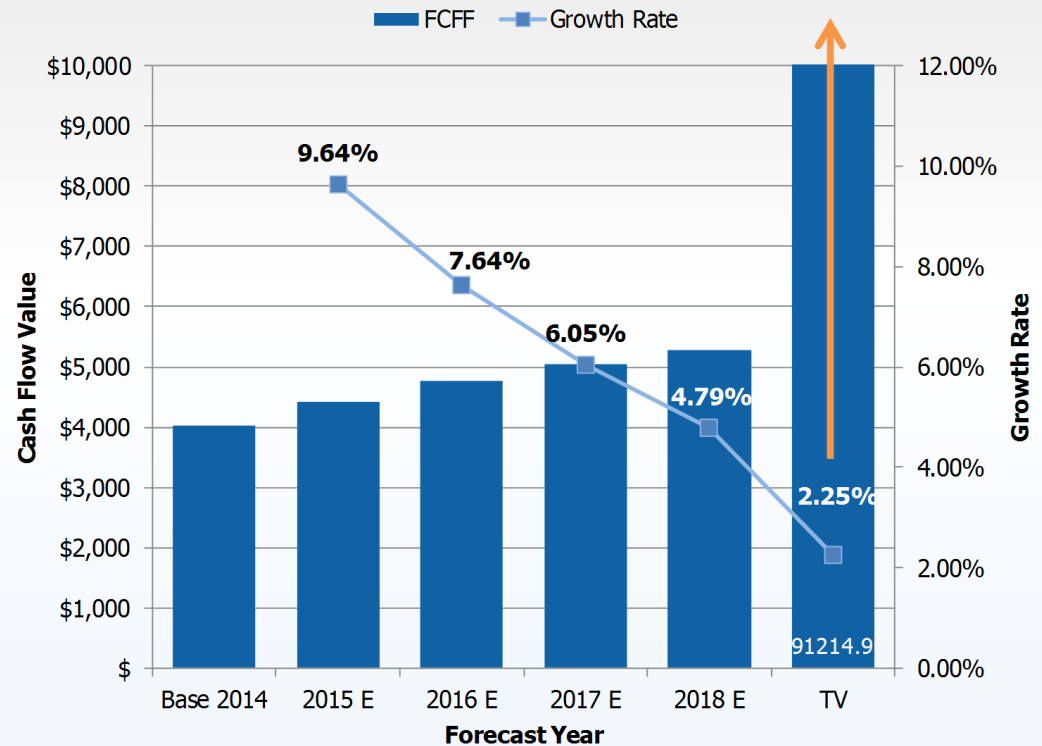
Valuation (Base Case)

Free Cash Flow to the Firm Calculation

	2013A	2014E
CFO	4768.9	4204
Interest Expense	554.2	540
Tax Rate	36.4%	37.8%
CapEx	423.0	507
FCFF	4698.4	4032.9

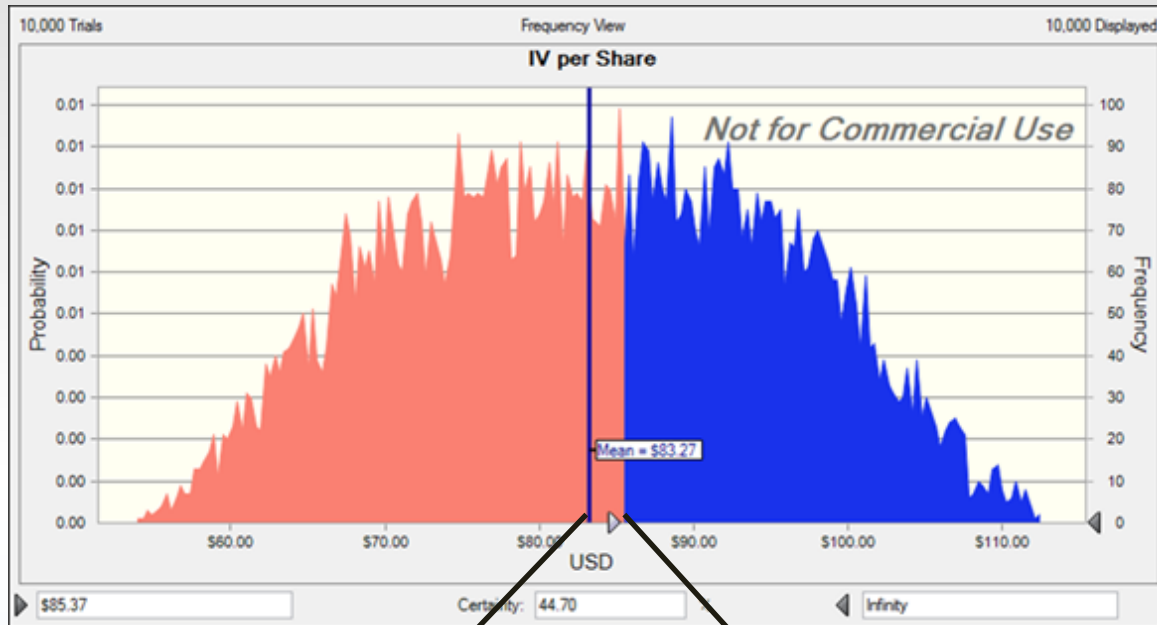
PV FCFF	\$77,570.88
MV of Debt	15,967
Intrinsic Value	\$61,604.12
Shares	733.9
IV per Share	\$83.94

Growth Period Valuation



All Figures Except IV Expressed
in Millions of Dollars

Monte Carlo Analysis



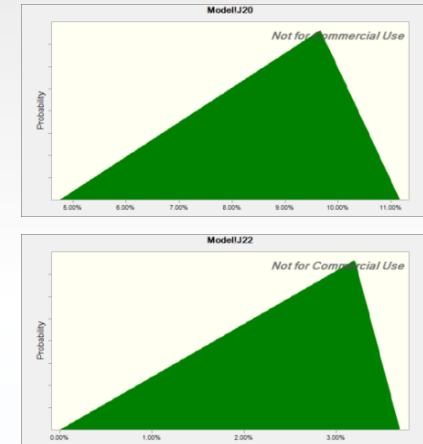
Monte Carlo
IV: \$83.27

Downside:
-2.22%

Current Price:
\$85.17

Growth Assumptions	High	Base	Low
g High for Forecast	11.16%	9.64%	4.76%
g Long term for TV	3.69%	2.25%	0.00%

Triangular Distributions for
gHigh and gLow based on CAGR
Estimates & Historical Results



Valuation Summary

Current Price:	\$85.17
FCFF Price:	\$83.94
Monte Carlo:	\$83.27
Overall Target:	\$83.61

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