

SPOTLIGHT OPTION TRADE



CVS Health Signs of a Bottom, Calls are Cheap

TRADE SNAPSHOT

TICKER	CVS
SECURITY	CVS Health
SECTOR	Healthcare – Managed Care + Retail
CURRENT PRICE	\$71.75B
LONG/SHORT	Long
TARGET	\$63.5
STOP	\$52
TIMEFRAME	2 Months

Trading Strategy: Long the CVS August \$57.50 Calls at \$1.50 or Better

Net Debit/Credit: Debit \$1.50

Profitability Zone: CVS Shares Above \$59 on August OpEx

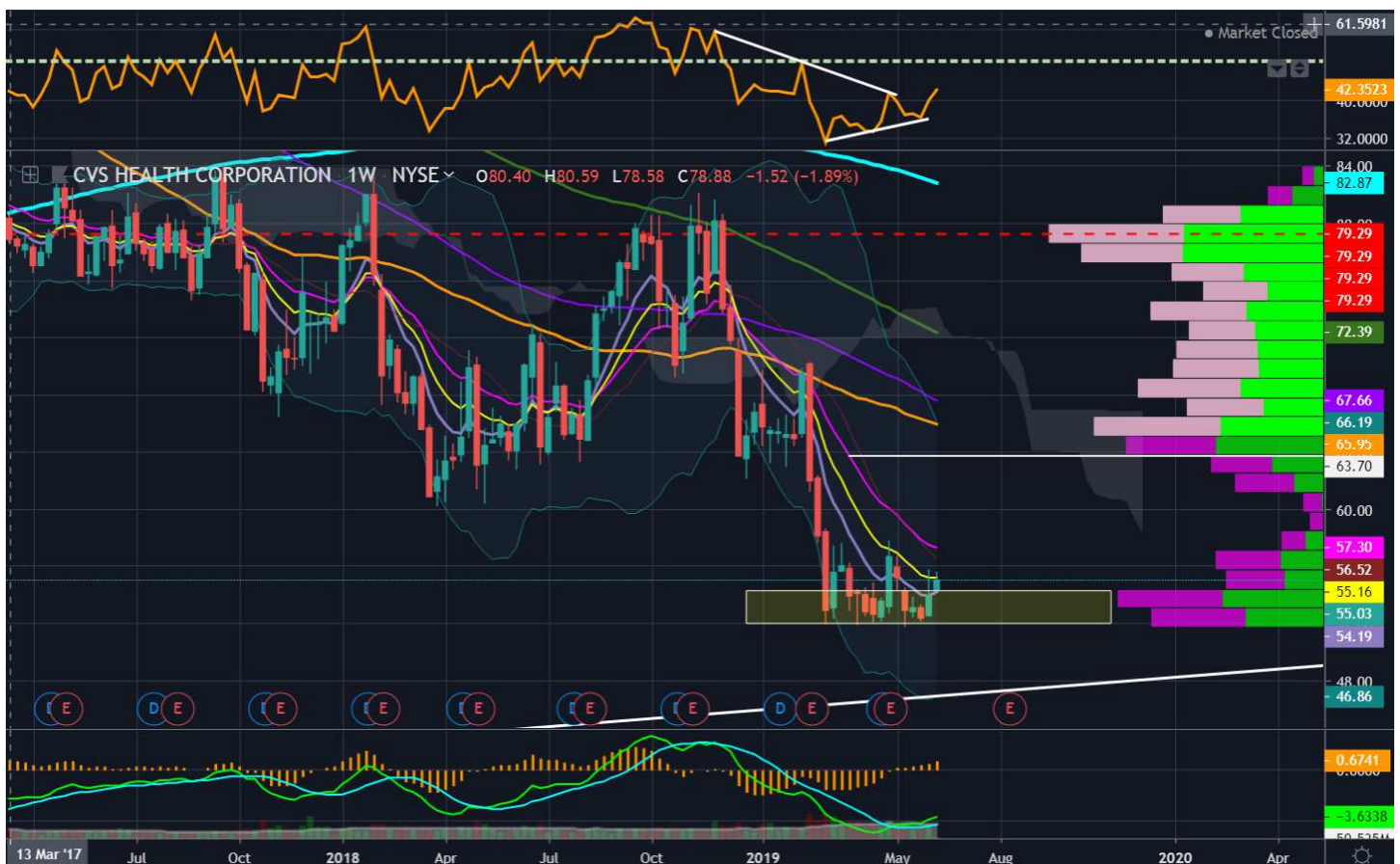
Greeks: Delta 36; Gamma 6; Vega 9; Theta -2

Options Volatility / Trade Simulator View:





Technical Analysis: CVS has been a weak name down 16% YTD but the last few months has been basing and seeing bottoming signs as RSI gains strength and moves out of a downtrend and call accumulation has been enormous. It has a volume pocket to move back to \$63.5/\$65 zone.



Fundamental Analysis: The \$71.75B Co. is undergoing a transformation with its mega-deal for Aetna (AET) and now trades 7.7X Earnings, 17.9X FCF and 7.9X EV/EBITDA with a 3.63% dividend yield. CVS sees EBITDA jumping 35% this year with the deal and recently provided strong guidance for Q2 and FY19 at its Investor Day. CVS sees itself well positioned to address changing trends in healthcare, and is now uniquely positioned among managed care peers. It sees HealthHUBs expanding to 1500 locations by the end of 2021 and is undergoing transformations with new products and services to pursue multiple growth opportunities. Integration and Modernization is seen driving \$1.5B-\$2B in savings in 2022 and beyond. CVS plans to reduce its debt back to 3X by 2022 with its significant cash flow from operations. CVS looks to be a compelling long-term value at these levels as the transformation plays out the next few years. Analysts have an average target of \$68.50 on shares and short interest is low at 2% of the float. Non-Renewals and Centene (CNC) carve-in its PBM has weighed on the PBM business near-term. Standpoint upgraded shares to Buy last week and Bernstein started shares Outperform with a \$76 target a few months back seeing shares undervalued with CVS/Aetna a long-term winner in healthcare. Macro-oriented news around drug pricing, including the pending rebate rule and proposals from Congress, is likely to be a key component of CVS/group sentiment. Hedge Fund ownership fell 25% in Q1 filings, call position disclosures from Armistice Capital and Masters Capital.

Scorecard to evaluate success

	Target ¹	Timing
Adjusted EPS Growth³	\$6.75 - \$6.90	2019
	\$7.00+ (Low single digits%)	2020
	Mid single digits %	2021
	Low double digits %	2022+
Integration synergies	\$300M - \$350M	2019
	~ \$800M	2020
	~ \$900M	2021+
Enterprise modernization	\$1.5B - \$2B	Run Rate 2022
Transformation	~ \$850M	2022
	~ \$2.5B	Long-term
Leverage ratio^{3,7}	Low 3x's	2022
Cash available for enhancing shareholder value⁸	\$10B - \$12B	Annually Long-term
Inventory reduction	~ \$1.5B	2022

Options Activity:

Date	Description	Volume	Open.Int	Price	%Change	Delta	Impl Vol	Prob.ITM	Premium Paid	Symbol
6/7/2019	CVS 100 18 OCT 19 47.5 PUT	1,800	958	\$1.20	4.35%	-0.2	28.54%	25.65%	\$210,600	.CVS191018P47.5
6/6/2019	CVS 100 19 JUL 19 52.5 PUT	11,936	2,388	\$1.14	-29.63%	-0.34	25.79%	37.42%	\$1,420,384	.CVS190719P52.5
6/3/2019	CVS 100 16 AUG 19 57.5 CALL	4,107	9,565	\$1.39	27.52%	0.31	30.27%	26.79%	\$574,980	.CVS190816C57.5
5/31/2019	CVS 100 15 JAN 21 67.5 CALL	3,004	14,200	\$2.99	4.91%	0.28	29.58%	17.63%	\$898,196	.CVS210115C67.5
5/29/2019	CVS 100 19 JUN 20 47.5 CALL	3,007	161	\$3.90	1.30%	-0.32	28.99%	44.83%	\$1,217,835	.CVS200619P47.5
5/28/2019	CVS 100 15 JAN 21 90 CALL	20,079	139,938	\$0.76	8.57%	0.1	29.72%	4.86%	\$1,606,320	.CVS210115C90
5/28/2019	CVS 100 19 JUN 20 50 PUT	1,100	421	\$4.80	-2.04%	-0.37	28.26%	50.47%	\$539,000	.CVS200619P50
5/23/2019	CVS 100 15 JAN 21 47.5 CALL	1,200	1,712	\$10.12	-2.69%	0.65	31.67%	50.10%	\$1,236,000	.CVS210115C47.5
5/22/2019	CVS 100 19 JUL 19 52.5 PUT	1,289	699	\$1.89	8.00%	-0.44	25.60%	48.60%	\$252,644	.CVS190719P52.5
5/15/2019	CVS 100 21 JUN 19 50 PUT	11,206	20,998	\$0.89	14.10%	-0.29	28.26%	32.23%	\$1,053,364	.CVS190621P50
5/15/2019	CVS 100 19 JUN 20 45 PUT	1,500	7	\$3.05	17.31%	-0.26	29.01%	37.57%	\$457,500	.CVS200619P45
5/15/2019	CVS 100 19 JUN 20 65 CALL	1,504	14	\$2.07	-17.86%	0.26	27.94%	18.03%	\$326,368	.CVS200619C65
5/14/2019	CVS 100 19 JUN 20 62.5 CALL	1,362	94	\$3.00	-18.92%	0.33	28.53%	23.80%	\$422,220	.CVS200619C62.5
5/13/2019	CVS 100 15 JAN 21 47.5 CALL	1,300	384	\$10.81	-8.47%	0.66	32.06%	51.02%	\$1,423,500	.CVS210115C47.5
5/10/2019	CVS 100 19 JUN 20 47.5 CALL	289	2	\$10.40	-5.11%	0.7	31.98%	58.08%	\$300,560	.CVS200619C47.5
5/6/2019	CVS 100 16 AUG 19 55 CALL	3,060	7,399	\$4.00	-2.44%	0.58	29.74%	51.96%	\$1,224,000	.CVS190816C55
5/6/2019	CVS 100 16 AUG 19 65 CALL	3,255	6,256	\$0.72	2.86%	0.17	27.60%	14.05%	\$234,360	.CVS190816C65
5/3/2019	CVS 100 21 JUN 19 55 PUT	4,664	2,248	\$1.35	-3.57%	-0.37	23.72%	40.53%	\$629,640	.CVS190621P55
5/2/2019	CVS 100 21 JUN 19 52.5 PUT	20,944	3,312	\$0.79	19.70%	-0.24	26.54%	26.99%	\$1,696,464	.CVS190621P52.5
4/30/2019	CVS 100 21 JUN 19 55 CALL	2,606	3,066	\$2.21	2.31%	0.46	32.66%	41.47%	\$575,926	.CVS190621C55
4/22/2019	CVS 100 15 NOV 19 65 PUT	1,513	109	\$13.50	-5.26%	-0.84	25.20%	89.76%	\$2,050,115	.CVS191115P65
4/5/2019	CVS 100 21 JUN 19 50 PUT	2,164	1,754	\$1.39	-16.27%	-0.272	30.99%	32.42%	\$300,796	.CVS190621P50
3/29/2019	CVS 100 17 JAN 20 47.5 PUT	2,000	3,238	\$3.15	-1.56%	-0.29	30.58%	40.04%	\$640,000	.CVS200117P47.5
3/28/2019	CVS 100 15 JAN 21 90 CALL	21,519	75,340	\$1.18	-5.60%	0.13	30.98%	6.29%	\$2,560,761	.CVS210115C90
3/27/2019	CVS 100 15 JAN 21 90 CALL	20,595	55,226	\$1.14	-15.56%	0.12	30.38%	6.34%	\$2,615,565	.CVS210115C90
3/27/2019	CVS 100 15 JAN 21 67.5 CALL	3,043	9,927	\$4.26	-16.47%	0.34	31.67%	20.97%	\$1,323,705	.CVS210115C67.5
3/27/2019	CVS 100 21 JUN 19 52.5 CALL	1,305	4	\$3.50	-32.95%	0.57	30.87%	51.58%	\$482,850	.CVS190621C52.5
3/25/2019	CVS 100 15 NOV 19 47.5 PUT	2,000	19	\$2.40	13.74%	-0.24	32.38%	33.97%	\$492,000	.CVS191115P47.5
3/21/2019	CVS 100 15 NOV 19 52.5 CALL	721	74	\$7.80	8.40%	0.66	32.12%	57.06%	\$562,380	.CVS191115C52.5
3/19/2019	CVS 100 15 NOV 19 50 PUT	2,101	18	\$2.66	-5.00%	-0.26	30.90%	35.47%	\$558,866	.CVS191115P50
3/13/2019	CVS 100 16 AUG 19 55 PUT	2,085	3,630	\$3.75	-18.48%	-0.41	30.26%	49.12%	\$792,300	.CVS190816P55
3/12/2019	CVS 100 16 AUG 19 55 CALL	2,019	2,491	\$3.80	0.53%	0.49	31.54%	40.98%	\$767,220	.CVS190816C55
3/12/2019	CVS 100 16 AUG 19 47.5 PUT	2,010	1,718	\$2.08	4.52%	-0.25	33.04%	32.73%	\$418,080	.CVS190816P47.5
3/12/2019	CVS 100 17 JAN 20 42.5 PUT	2,059	496	\$1.77	-12.38%	-0.17	33.23%	26.55%	\$374,738	.CVS200117P42.5

Potential Catalysts: Earnings Early August

Disclaimer:

Not Investment Advice or Recommendation

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