

# CVS Health's Acquisition of Signify Health for \$8bn

---

SORTINOMAGROUP.COM

**Division:**

Healthcare

**M&A Analysts:**

Kamer Yildizli

Luce Biscardi

**Market Analysts:**

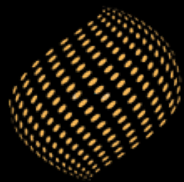
Ben Read

Luca Salvatori

Monishka Aswani

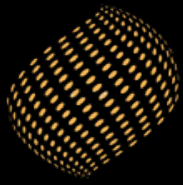


Source: Dallas Morning News



# TABLE OF CONTENTS

1	Deal Introduction
2	Industry Overview
3	Acquirer Overview
5	Target Overview
7	Deal Analysis
9	Valuation Analysis
11	Conclusion
12	Glossary



# DEAL INTRODUCTION

---

## DETAILS ABOUT THE DEAL

It was announced on 5th of September 2022 that CVS Health is in agreement of acquiring Signify Health for a total transaction value of 8 billion.

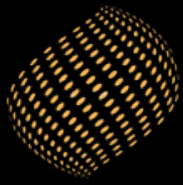
The deal is yet to be completed awaiting approval of the majority of Signify Health's stakeholders and regulatory approval. Private Equity funds affiliated with New Mountain Capital own approximately 60% of common stock and have as of now voted for the acquisition to go through.

If the deal goes through, CVS Health is expected to pay a price of \$30.50 per share, a 6% premium on the stock price on September 2nd.

## REASONS FOR M&A DEAL

CVS Health aims to expand into homes by acquiring Signify Health, a company specialising in home health care services, where physicians utilise home-based visits to identify medical and social needs and connect them to the relevant care afterwards. This would mean an additional 2.5 million unique clients could be added to CVS health's client base.

This increase in client base would add to the 44 million client base CVS Health already has, thus potentially increasing the number of unique customers by 5.7%. This would not only mean an increase in revenue, but also reflect CVS Health's willingness to develop and extend their business despite its already huge size and market cap. This was positively reflected in share price, as it increased around 5.5% within 3 days of the public announcement of the M&A deal.



# **INDUSTRY OVERVIEW - HOME HEALTHCARE**

---

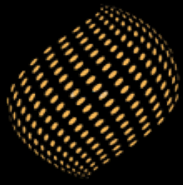
## **WHAT IS HOME HEALTHCARE?**

Home healthcare refers to a subset of clinical services in which health assessment or care is provided by a professional within the home of the client, rather than within accommodations such as clinics and hospitals. Home healthcare treatments are typically more tailored towards the specific needs of clients, and are generally associated with higher levels of consumer satisfaction, as they are administered in the comfort of a client's own home. Furthermore, when addressing more elderly patients, home healthcare offers treatments of equal quality to those offered in nursing homes or assisted living facilities, while not compromising on the independence and privacy of patients.

## **RECENT M&A ACTIVITY AND TRENDS**

Coming off of the pandemic-induced growth in M&A deals in the healthcare sector, the American home healthcare industry - valued at \$55 billion as of September 2022 - has managed to maintain a steady growth pattern of 4%-5%. Recent M&A deals in the home healthcare sector worthy of note include UnitedHealth's \$5.4 billion acquisition of home healthcare provider LHC Group in March 2022, and, earlier still, Humana's \$8.3 billion acquisition of home healthcare provider Kindred at Home in August 2021.

Despite the gloomy forecast on the valuation multiples of publicly traded home healthcare providers in the last six months (with average EBITDA falling from the low-20s to mid-teens since the start of 2022), M&A activity within the sector is expected to remain lively, particularly as private equity continues to invest capital into the home health industry. Taking into account demographic trends and developments (such as, particularly in the US, citizens aged above 65 have increasingly few family members to take care of them), the future of the home health industry appears bright in spite of the recent downturn in crucial valuation metrics.



# ACQUIRER OVERVIEW

---



TICKER: CVS

## CVS HEALTH

CVS Health is an American pharmacy company that offers traditional, voluntary and consumer-directed health insurance products and related services, with headquarters in Woonsocket, Rhode island.

In 2021, CVS Health made \$292.111 billion in revenue, placing it 4th on the Fortune 500 list.

Currently the company has 9600 stores in all of the 50 American states, with around 300,000 employees.

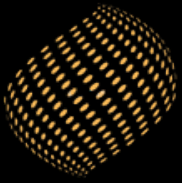
## BUSINESS MODEL

One of the most significant actors in the industry, CVS Health manages a vast and highly diversified portfolio of commercial activities within the healthcare sector.

Foremost among these is CVS Pharmacy Inc., a pharmaceutical retail corporation that ranks as the largest in the US both in terms of number of locations (9,932 as of 2021) and total prescription revenue.

Beyond this, CVS Health owns CVS Caremark, a pharmacy benefits manager (which manages the third-party distribution of pharmaceuticals as a component of commercial health plans and federal health benefits programs), Aetna, a health insurance provider, and a variety of other branches.

As a consequence of this highly diversified set of commercial activities, CVS currently stands as one of the most dominant presences within the American health market, constantly seeking further opportunities for expansion and diversification; the acquisition of Signify Health could mark an expansion into the home healthcare sector, a market with robust expectations for future growth.

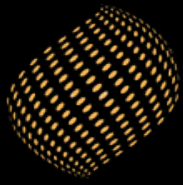


## **ESG PRACTICES**

- **CVS Health's ESG practices focus mostly on four key areas: Healthy People, Healthy Business, Healthy Community and Healthy Planet.**
- **Environmental: 33,500 MWh of energy saved by increasing efficiency through - goal is to reach net zero emissions by 2050. Paper use has been reduced by 70% through digitalisation of offerings. And lastly, recycling and reuse has been increased as 50% of waste has been diverted from being thrown to being recycled.**
- **Social: Philanthropic support has increased substantially, by helping to fill America's food pantries. Over 140 million meals have been provided to people with food insecurities, and medical services worth around 5 million have been provided with no charge through Project Health. Overall, around 250 million in philanthropic support.**
- **Governance: Beginning of 2022 first ever Chief Health Equity Officer appointed to make sure policies and solutions internally are free of disparities, and externally offers equitable healthcare - something especially important in these years after Covid and with the economy suffering.**

## **KEY FINANCIALS**

<b>Revenue:</b> <i>projected</i> \$304 Billion	<b>Market Cap:</b> \$123.65B
<b>EBITDA:</b> \$18.71B	<b>Share price:</b> \$94.19
<b>EBIT:</b> \$13.349B	<b>P/E Ratio:</b> 15.34
<b>Net Income:</b> \$7.91B	<b>Market Share:</b> 24.5%



# TARGET OVERVIEW



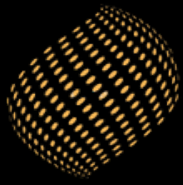
Ticker: SGFY

## **SIGNIFY HEALTH**

- A leading healthcare platform that utilizes analytics, technology, and healthcare provider networks in the United States. The company operates in two areas: home md community services, episode of care services
- Headquarters are in Dallas, Texas.
- The company operates in Norwalk, Connecticut, New York, New York, Dallas, Texas, South Dakota, Deerfield, Florida, and Rapid City. Signify Health, Inc. was founded in 2017 and is headquartered in Dallas, Texas.
- The company has 1001-5000 employees.
- Customers are: health plans, governments, health systems, physician groups

## **BUSINESS MODEL**

- Company breaks down revenue into two sections:
  - Home & Community Services (HSCs):
    - health evaluations performed within the patient's home or at a healthcare provider facility primarily to Medicare Advantage health plans
    - diagnostic screening and other ancillary services
    - services to address healthcare concerns related to social determinants of health
  - Episodes of Care Services (ECS):
    - services to enhance the healthcare delivery through developing and managing episodic payment programs in partnership with healthcare providers under the Bundled Payment for Care Improvement Advanced program with Centers for Medicare and Medicaid Services
    - care management services



## **ESG PRACTICES**

**Signify's efforts to reduce emissions include a focus not only on our direct operations, but on our partners and service providers. In 2021, our mobile network of more than 10,000 clinicians conducted more than 1.9 million in-home health evaluations. To reduce the transportation-related emissions associated with these visits, Signify has developed a technology platform that combines Google Maps with our own proprietary mapping software to calculate the shortest driving distance to each location.**

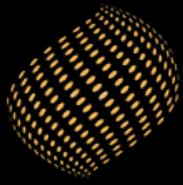
**Our facilities and office locations present opportunities for further reductions in energy use and emissions. Signify's offices in Dallas, Oklahoma City, and Rapid City feature the latest in dimmable LED lighting, energy and water conservation technologies, and sealed concrete floors and low volatile organic compounds (VOC) materials.**

**Signify has recently partnered with Persefoni — a leading climate management and accounting platform — to further evaluate the impact technology can have on reducing the carbon footprint of our operations, and for more thorough measurement of climate-related data**

## **KEY FINANCIALS**

- **Revenue: \$773.4**
- **Market cap: \$8.501 billion (yahoo)**
- **EBITDA: \$-0.485 billion (for the quarter ending June 30, 2022)**
- **EBIT: \$-0.508 billion (or the quarter ending June 30, 2022)**
- **Share price: \$29.07**
- **Net income: \$-0.371 billion**
- **Market Share:**
- **P/E ratio: 61.85 (November 4th 2022)**
- **With a market capitalisation of \$6.75 billion within the American home healthcare market - valued at an estimated \$55 billion, Signify Health is estimated to constitute approximately 12.27% of the market share of the American home healthcare sector.**





# DEAL ANALYSIS

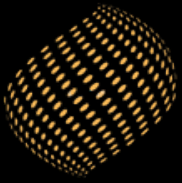
---

## STRENGTHS

- Signify Health's clinicians and providers can have an even greater impact by engaging with CVS's unique collection of assets and connecting patients to care how and when they need it.
- The deal will add health-risk assessment to CVS Health's portfolio, which competitors UnitedHealthcare and Humana have been investing in.
- Whether it's an ageing population with mobility issues or healthy Americans, demand for healthcare away from hospitals is set to grow further.

## OPPORTUNITIES

- The acquisition allows CVS to vertically integrate to fulfil patient needs across the entire care spectrum. It will do this by making it easier for patients and providers to navigate complex healthcare system by centralising services and improving coordination of care delivery.
- CVS will also increase Signify's digital capabilities to improve patient-provider outcomes. Automated messaging about prescriptions, appointments, and vaccinations improve the patient journey, while alleviating time-consuming tasks for providers.
- As CVS expands into different roles across the healthcare journey, the company earns access to more patient information. With their enlarged scope, CVS is likely to increase information-sharing across providers in order to improve patient care.



## **WEAKNESSES**

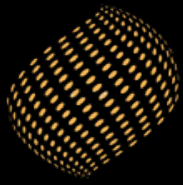
- **CVS has a relatively simple business model that can easily be copied by local and international competitors. This makes it difficult for CVS to incorporate Signify, a complex and broad company, into its structure.**
- **CVS does not have any international presence. In fact, some people can't even access the website unless they are a resident of the States.**
- **CVS said that 2024 revenue is likely to take a hit after one of its Aetna healthcare plans was given a ratings downgrade.**

## **THREATS**

- **CVS is the largest pharmacy chain in the US. This scale may seem like a blessing but can also now prove a challenge. Signify has over 10000 providers, which means that CVS is now tasked with coordinating millions of appointments annually.**
- **Many additional challenges come with this level of scaling, including creating provider schedules, managing routes, and communicating between providers and patients. In an industry that already faces high rates of turnover, if CVS isn't able to solve these challenges at scale and soon, the company could face potential labour shortages that threaten long-term relationships with customers.**



Source: CVS Health



# VALUATION ANALYSIS

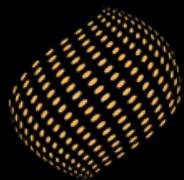
## DISCOUNTED CASH FLOW ANALYSIS (DCF)

Enterprise Value	4,526,622
(+) Cash	678,500
(-) Debt	(334,900)
Equity Value	4,870,222
No. of Shares	178,470
<b>Implied Share Price</b>	<b>27.29</b>

[Please click on the table to access full model.](#)

As calculated by the Discounted Cash Flow (DCF) Analysis, the Signify stock was slightly overvalued at the time of CVS' offer of acquisition (\$28). As a result, CVS has offered to pay 11.77% more than the implied share price (\$27.29) at \$30.5 per share, which is slightly higher than the 6% **premium** paid, given the stock price has been relatively stable since the news came out. The **sensitivity analysis** of the model also suggested that Signify's share price was in between \$20.6-\$35.7.

To build the model, various assumptions were taken into consideration to be able to obtain the **Terminal Growth Rate** (0.3% in the base case), and the **Weighted Average Cost of Capital** (WACC) (8.5% in the base case). Therefore, it must be noted that the share price obtained from the model was affected by assumptions.



# VALUATION ANALYSIS

## COMPARABLE COMPANIES ANALYSIS (CCA)

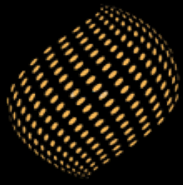
Signify Health	Low	High
Selected EBITDA Multiple:	2.7x	2.9x
Implied Enterprise Value	2,238	2,455
Net Debt	301	370
Implied Equity Value	1,938	2,084
Equity Value per Share	11.27	12
Premium %	158.02%	139.87%

[Please click on the table to access full model.](#)

Based on the comparable company analysis (CCA), Signify Health's **valuation multiples** appear to be higher than the mean and median of the companies chosen. Out of the selection made, some of the companies appeared to have negative **EV/EBITDA** valuation multiples, which led to the choice of using the **EV/Revenue** in the CCA Analysis.

This choice is common in the analysis of less mature companies, as their earnings can fluctuate and be negative, limiting the number of enterprise value multiples which can be used. As a result, the mean and 75th percentile **EV/Revenue** multiples were chosen, 2.7x and 2.9x, respectively, giving an implied equity value per share in the range \$11.27 - \$12. This implies that Signify Health was significantly undervalued at the time of the offer, and that CVS paid a **premium** of over 100%.

However, it must be noted that, with less mature companies, it can be challenging to obtain a fair valuation through the CCA Model, due to the large differences in financial metrics within similar companies.

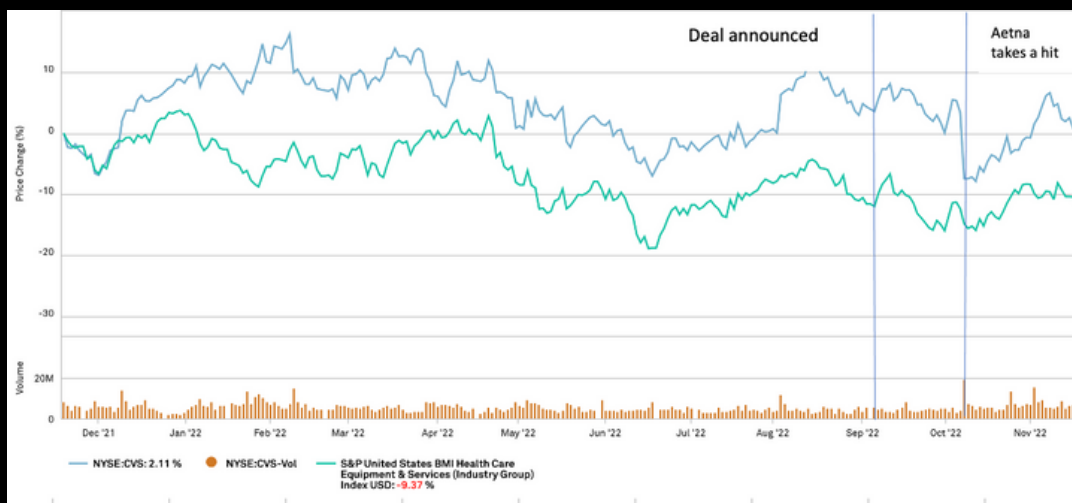


# CONCLUSION

## IMPACT ON INDUSTRY - HOME HEALTHCARE

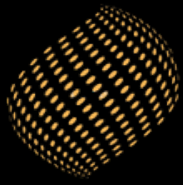
It is expected that the sector will continue to expand and innovate as more retailers like CVS and Walgreens make greater investments in home healthcare agencies and continue to push digital transformation initiatives.

With home healthcare ever growing and a more competitive space. This acquisition will likely have significant implications for the industry - especially given this acquisition in particular was fiercely contested. After the deal was announced the shares in both CNS and the respective index rose. Recently, when one of CVS's Aetna health plans was given a CMS ratings downgrade, CVS experienced its greatest fall in stock price this year, and resulted in the industry index also taking a hit - highlighting the importance of CVS and therefore this acquisition to the industry.



## IMPACT ON KEY COMPETITORS

Competition in the home health sector is heating up and key competitors of CVS such as United Health and Walgreens have announced moves into this space. Walgreens for example recently finalised a majority stake in Carecentrix for \$330 MM. This acquisition therefore is vital for CVS to remain competitive in this section of the healthcare industry. Further, it gives them an advantage over other competitors such as Amazon and UnitedHealth who also were interested in Signify.



## GLOSSARY

**EBITDA:** *Earnings before Interest, Tax, Depreciation and Amortisation. A useful measure to compare companies profitability.*

**EV/EBITDA:** *Enterprise Value 'Multiple', gives insight into the value of companies against their cash earnings less their non-cash expenses.*

**EV/Revenue:** *Enterprise Value 'Multiple', gives insight into the value of companies against their annual revenue.*

**Premium:** *Increased amount paid per share in comparison to the share price at the time of the M&A transaction, often presented as a percentage.*

**Sensitivity Analysis:** *The analysis of how a change in assumptions (inputs) can impact the output of a financial model.*

**Terminal Growth Rate:** *A growth rate that a company is expected to grow at forever based on the market and industry conditions.*

**Valuation Multiples:** *Financial tool providing one metric as a ratio of another; often used to compare similar companies.*

**WACC:** *Cost of capital used to represent a firm's after-tax costs from all resources.*

