

CVS Tenant Profile



CVS Quick Stats

1969

Founded

9,959

Locations

300,000

Employees

**\$256.8
billion**

Revenue

Net lease tenant profile CVS Pharmacy

CVS Pharmacy is one of America's largest, most profitable, and oldest retail corporations. In 1963, Ralph Hoagland partnered up with brothers, Sidney and Stanley Goldstein to open, what they called then, a chain of "Consumer Value Stores" where customers could buy affordable beauty and health supplies. Not only was the timing right, but also their idea to sell beauty and health supplies tapped into the underserved pharmaceutical retail market that has proven to be one of the most reliable, profitable, and sustainable retail investments of the last fifty years.

It should surprise no-one that Hoagland, Sidney and Stanley Goldstein found early success. In 1969, after a quick six years where CVS had grown to forty stores regionally, Hoagland and the Goldstein brothers were bought out by the Melville Corporation, a retail holding conglomerate based out of Rye, New York. The Melville Corporation formally reorganized into CVS Health in 1996.

Today, CVS Health has 9,959 retail pharmacy locations (11% of all pharmacies in the U.S.), and employs approximately 300,000 people nationwide. In 2019, CVS posted \$256.8 billion worth of revenue and a Net Income \$6.6 billion with a profit margin of 2.58%. CVS Health is a publicly listed company on the NYSE and trades under the ticker \$CVS. Larry Merlo is the President and CEO and the company is headquartered in Woonsocket, Rhode Island.



Net lease overview

The political and social uncertainty stemming from both the November 4th presidential election and the global health crisis will likely hamper fourth quarter of 2020 economic activity. As described in the second quarter of 2020 Cap Rate report, Covid-19 initially hurt demand across all real estate asset types; however, the research report goes on to show that STNL properties with large, established, credit-tenants, that operated essential businesses performed better than the average real estate asset. The two best performers were pharmacies and dollar stores.

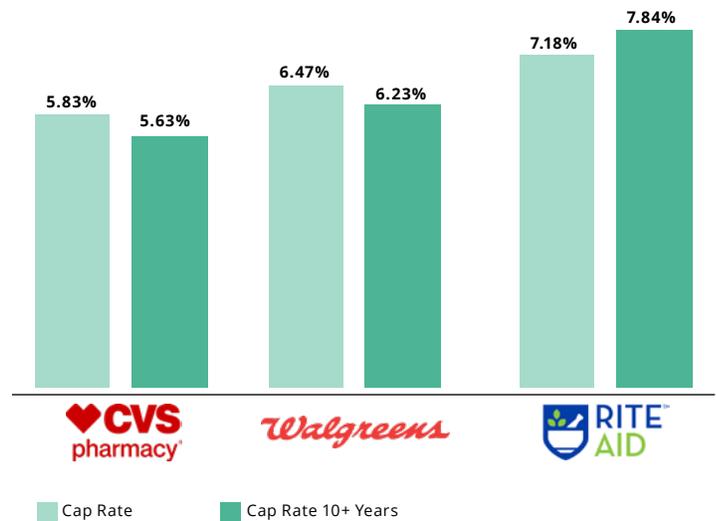
CVS average cap rates

CVS had lower average cap rates for all transactions regardless of term when compared to its competitors in the retail pharmacy space. Although Walgreens and Rite Aid are both well established essential businesses, neither of them share CVS's excellent credit rating of "A". Using the data in graph one, retail investors priced CVS's strong credit rating with a corresponding 60 basis point premium when comparing it to the competition. While default risk is still unlikely for these large companies, the pricing evidence supports retail investors growing preference for the safest investment opportunity during times of strong uncertainty. Expect to see this trend continue into fourth quarter of 2020 as uncertainty builds.

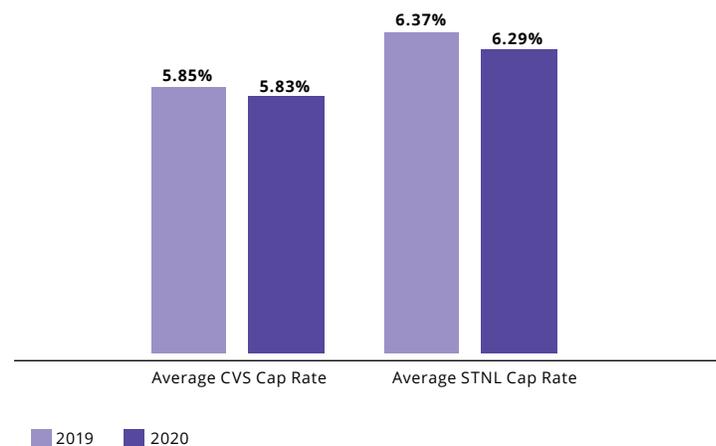
The first graph illustrates that CVS Pharmacy is viewed as one of the safest investments in the STNL market given the pricing premium that is expected to transact. CVS is nearly 65 basis points more expensive to buy than the average STNL investment asset. Some of the reasons for the cap rate gap can be attributed to CVS's investor friendly leases. First off, CVS does offer ground leases which are inherently less risky for net lease investors because owners are only responsible for the dirt and can't be held liable for any cost associated to the building's structure. Additionally, CVS offers term lengths of up to twenty years, which is a longer term than the average STNL deal.

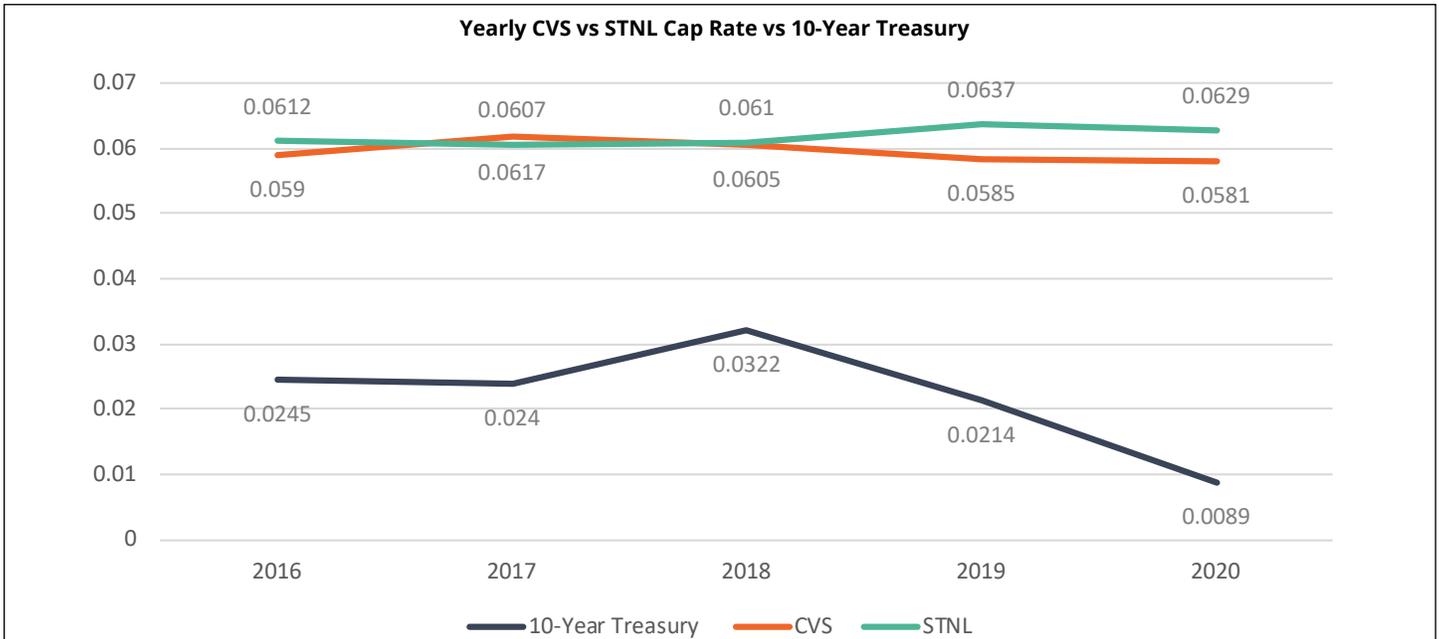
While it is difficult to navigate the future months, it shouldn't surprise anyone if CVS continues to outperform the broader real estate market. CVS Health is uniquely positioned in a market that is anticipating a massive demand shock for vaccines sometime in the second quarter or third quarter of 2021. Despite the massive task of implementing the vaccine rollout, the retail pharmacy market has costly barriers of entry that limit CVS's competition in the private sector to two or three of the company's traditional rivals. For these reasons as well as the lease fundamentals discussed earlier, CVS Pharmacy is one of the safest options in the market.

Average Cap Rates



CVS vs STNL Cap Rate





CVS vs STNL

With interest rates at record lows, new investors may enter the STNL market looking for low risk investment opportunities that still offer yield on investment. In the chart above, as interest rates on bonds fall, there is a correlating depreciation in CVS’s average cap rate over the same time period. A decrease in market activity in addition to increased demand for safe assets that offer steady cashflow, may increase purchase prices and drive cap rates down in the next few quarters. Expect data that supports trends seen in first quarter and second quarter of 2020 to continue until a vaccine has been widely adopted.



NET LEASE *Advisor* See more information on CVS Pharmacy [here](#).