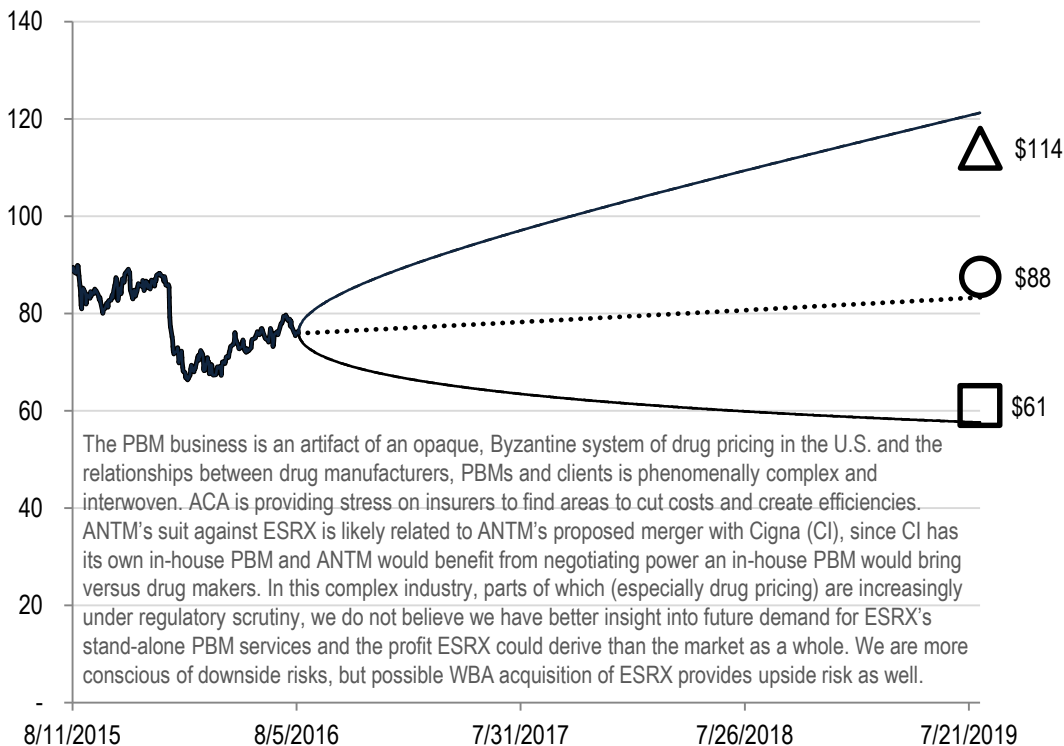


Option market price projection overlaps with our fair value range so we are not making an investment recommendation on this stock at this price.

IOI Tear Sheet : Express Scripts (ESRX)

Valuation Only

Data as of 8 August 2016



IOI's Take

Since we first valued ESRX in July 2015, there have been some big shifts in the PBM world and a move toward vert integration. Client ANTM, 16.5% of ESRX revenues, is suing ESRX to break contract over rebate pricing. ANTM suit may lead to more client defections in this zero-sum industry. Insurer UNH acquired smaller stand-alone PBM, Catamaran, creating 3rd largest PBM. CVS (no. 2 PBM) is hybrid retail/PBM. Stronger, integrated competitors may leave ESRX in weaker position. WBA acquisition of ESRX is possible, but its announced \$17b acquisition of RAD means WBA balance sheet is stretched, so near-term move is less likely. We cannot handicap up- and downside risk.

Drivers

S-T Revenue Growth	PBM is a zero-sum industry. ESRX can only grow by stealing another PBM's client or by acquisition. Proj: +5% (Best), -1% (Worst)
S-T Profitability	ANTM suit likely to hurt profits and our calculation of OCP may be overstated. Proj: +5% (B), +4% (W)
Investment Level / Eff.	Low ongoing capex requirements. High historical efficacy; lower in future. Proj (med-term growth): +5% (B), +1% (W)
Balance Sheet	Intangibles related to ANTM may be overstated. \$5-\$15b impact.

Valuation & Return

Valuation Uncertainty: High

	Low	Likely	High
Stock Fair Value (\$)	61	88	114
Stock Return (%)	-20	14	49
Option Period Return (%)	NA	NA	NA
Option Annual Return (%)	NA	NA	NA

Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	3	11
Profit Margin (%)	4	4
Med-term Growth	High	High

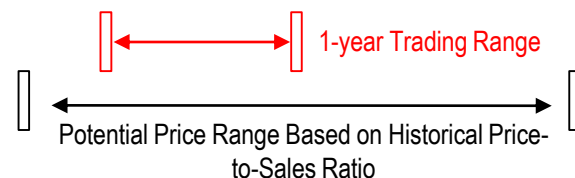
Market Risk

ESRX's PS Ratio was much higher in the past, so the range marked on our complex valuation diagram is probably too wide to the right. Operationally, we think downside scenarios more likely. Chance of WBA acquisition makes upside risk exists as well.

Case / Scenario	Value
PSR Implied Low	57
-1% 4% 1%	61
252-day Low	66
-1% 4% 5%	70
-1% 5% 1%	76
5% 4% 1%	79
-1% 5% 5%	87
252-day High	90
5% 4% 5%	91
5% 5% 1%	99
5% 5% 5%	114
PSR Implied High	123

Probability / Materiality

0 25 49 Stock Price 74 99 123



Scenarios Key
ST Rev Growth | ST OCP Margin | Med-Term Growth

