

Option market price projection overlaps with our fair value on this stock at this price.

range so we are not making an investment recommendation IOI Tear Sheet: Express Scripts (ESRX)





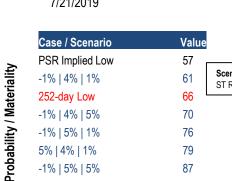
Since we first valued ESRX in July 2015, there have been some big shifts in the PBM world and a move toward vert integration. Client ANTM,16.5% of ESRX revenues, is suing ESRX to break contract over rebate pricing. ANTM suit may lead to more client defections in this zero-sum industry. Insurer UNH acquired 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

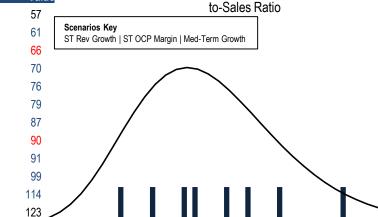
S-T Revenue Growth	PBM is a zero-sum industry. ESRX can only grow by stealing another PBM's client or by acquisition. Proj: +5% (Best), -1% (Worst)
S-T Profitability	ANTM suit likely to hurt profits and our calculation of OCP may be overstated. Proj: +5% (B), +4% (W)
Investment Level / Eff.	Low ongoing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

Intangibles related to ANTM may be overstated. \$5-\$15b **Balance Sheet**

Potential Price Range Based on Historical Price



25



Stock Price

140 120 100 \$88 \$61 60 The PBM business is an artifact of an opaque, Byzantine system of drug pricing in the U.S. and the relationships between drug manufacturers, PBMs and clients is phenomenally complex and interwoven. ACA is providing stress on insurers to find areas to cut costs and create efficiencies. ANTM's suit against ESRX is likely related to ANTM's proposed merger with Cigna (CI), since CI has its own in-house PBM and ANTM would benefit from negotiating power an in-house PBM would bring versus drug makers. In this complex industry, parts of which (especially drug pricing) are increasingly 20 under regulatory scrutiny, we do not believe we have better insight into future demand for ESRX's stand-alone PBM services and the profit ESRX could derive than the market as a whole. We are more conscious of downside risks, but possible WBA acquisition of ESRX provides upside risk as well. 8/11/2015 7/31/2017 8/5/2016 7/26/2018 7/21/2019

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

5% | 4% | 1%

-1% | 5% | 5%

252-day High

5% | 4% | 5%

5% | 5% | 1%

5% | 5% | 5%

PSR Implied High

123

1-year Trading Range