Mossberg's Investor Digest
Idea Profile

Express Scripts (Nasdaq: ESRX)

DESCRIPTION:

Headquartered in St. Louis, Missouri, Express Scripts is a leading pharmacy benefit management company (PBM) that manages prescription drug programs for insurers, employers and other health care payers. By leveraging the purchase power of several payers, Express Scripts, like other PBMs, essentially negotiates better pricing for prescription drugs. The company also uses its efficiencies of scale and scope to assist customers in the evaluation of drugs, promotion of generics, and other services. Approximately 80% of revenue is derived from PBM services and the remainder comes from specialty and ancillary services including the delivery of injectible drugs, and the distribution of pharmaceuticals and supplies. More than 95% (60,0000) of retail pharmacies participate in one or more of the company's networks. The company was founded in 1986 and employs nearly 12,000 people.

KEY INVESTMENT CONSIDERATION:

Generic Drugs are Recession Resistant - It seems simple, but, despite what happens in the economy, people are still going to get sick and they are going to look for prescription drugs to feel better. In particular, generic drugs should be very recession resistant. Representing approximately 2/3 of its prescriptions, Express Scripts has one of the highest generic fill rates in the industry. This is important because the more generics that are used the lower the cost to the payer. In turn, ESRX, with its high generic fill rates becomes more valuable to its existing and potential clients.

Consolidation will drive growth – The PBM market is still relatively fragmented with many that operate on a local and regional basis. Express Scripts is one of the largest players (approximately 15% market share) and is likely to take advantage of depressed prices in the current economic environment to make acquisitions and further strengthening its buying power and scope.

KEY RISK:

Government Regulations – There are numerous regulations that affect the PBM industry. A change in regulations or the company's failure to follow the regulations could significantly affect results.

VALUATION:

Analysts are looking for EPS of $3.68 for 2009, up 19% from $3.10 in 2008. This equates to multiples of approximately 15x and 17x, respectively. Given the expected growth rate and a 6-year track record of delivering ROE above 20%, multiples at these levels appear very attractive.

(Nasdaq: ESRX)
Investment Data (as of 11/24/08)

Recent Price	**$53.72**
52-Week Range	48.37 - 79.10
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	247MM
Average Trading Volume (3 mos)	2.8 MM
Market Capitalization	**13.3 B**
Cash	0.3 B
Long Term Debt	1.8 B
Enterprise Value (EV)	14.9 B
LT Debt/ Equity	2.1
BV/ Share	3.50
TTM Revenue	18.5 B
P/ Revenue	**0.7x**
TTM EPS (non-GAAP)	2.79
P/ EPS	**19x**
TTM EBITDA	1.3 B
EV/ TTM EBITDA	**11x**