



Walgreens Boots Alliance Inc. (WBA)

Updated April 2nd, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	14.7%	Market Cap:	\$36.0 B
Fair Value Price:	\$55	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	5/17/20
% Fair Value:	74%	5 Year Valuation Multiple Estimate:	6.1%	Dividend Payment Date¹:	6/12/20
Dividend Yield:	4.5%	5 Year Price Target	\$70	Years Of Dividend Growth:	44
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	4.0%

Overview & Current Events

Walgreens Boots Alliance is the largest retail pharmacy in both the United States and Europe. Through its flagship *Walgreens* business and other business ventures (including equity investments), Walgreens has a presence in more than 25 countries and employs more than 440,000 people. In its leading retail pharmacy business, Walgreens operates approximately 18,750 stores in 11 countries. The \$36 billion market cap company also operates one of the largest global pharmaceutical wholesale and distribution networks, that deliver to upwards of 230,000 pharmacies, doctors, health centers and hospitals each year.

On April 2nd, 2020 Walgreens reported Q2 fiscal year 2020 results for the period ending February 29th, 2020. (Walgreens' fiscal year ends August 31st.) For the quarter sales increased 3.7% to \$35.8 billion, up 4.1% on a constant currency basis, led by a 3.8% increase in the Retail Pharmacy USA segment and a 5.7% increase in the Pharmaceutical Wholesale segment. Adjusted net earnings decreased -11.8% to \$1.3 billion, while earnings-per-share equaled \$1.52, down -7.3% compared to the same quarter a year ago, on a significantly lower share count.

Walgreens also provided some commentary on its 2020 outlook. Prior to the COVID-19 pandemic, Walgreens was on track to maintain its previous guidance of roughly flat adjusted EPS growth, plus or minus 3%. Since the outbreak, the company has withdrawn its guidance due to uncertainty and will update investors in the quarters to come.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$2.16	\$2.64	\$2.53	\$2.61	\$2.90	\$3.88	\$4.59	\$5.10	\$6.02	\$5.99	\$5.50	\$7.02
DPS	\$0.59	\$0.80	\$0.95	\$1.14	\$1.28	\$1.37	\$1.46	\$1.53	\$1.64	\$1.78	\$1.83	\$2.45
Shares²²	939	889	944	947	950	1,090	1,083	1,024	952	893	880	820

From 2009 through 2018, Walgreens grew earnings-per-share by 12.9% per annum. This was driven by a combination of factors including solid top-line growth (\$63 billion to \$132 billion), net profit margin expansion (3.7% to 4.6%) and a reduction in the number of shares outstanding. Given Walgreens much higher base from which to grow, we anticipate the company's growth rate slowing from the low double-digits to the mid-single-digits.

Share repurchases and an aging population tailwind will continue to help, but Walgreens' core business is becoming more challenged. We forecast 5% annual growth over the intermediate term, as the company has run into headwinds as of late, and it is not yet clear whether or not there is a runway back to growth. This is especially true given the environment of increased pricing scrutiny in the health care sector today.

The coronavirus will have an impact on the business, but it is not yet clear how things will ultimately shake out. Initially short-term stockpiling of supplies could boost results, but the true test will be in the quarters to come.

¹ Estimate

² In millions

Disclosure: This analyst is long the security discussed in this research report.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.9	14.8	13.2	16.3	21.8	20.2	18.0	16.2	11.5	10.8	7.4	10.0
Avg. Yld.	1.7%	2.1%	2.8%	2.7%	2.0%	1.8%	1.8%	1.9%	2.3%	2.8%	4.5%	3.5%

During the past decade shares of Walgreens have traded with an average price-to-earnings ratio of about 15- or 16- times earnings. However, this was during a time when the company's growth rate was much more robust. We have reduced this fair value multiple, to 10 times earnings, to better reflect a slower anticipated growth rate moving forward along with near-term uncertainty. Still, shares are trading at a compelling valuation in our view.

Moreover, the dividend ought to add meaningfully in the years to come. Walgreens has a storied track record of increasing its dividend every year. Even with an expectation of slowing earnings growth, with a modest payout ratio, there is ample room for the dividend to continue to grow moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	27%	30%	38%	44%	44%	35%	32%	30%	27%	30%	33%	35%

Walgreens' competitive advantage lies in its vast scale and network in an important and growing industry. However, lately a variety of headwinds have surfaced including reimbursement pressure, lower generic deflation and consumer market challenges that have called this advantage into question to a degree. Not to mention the coronavirus impact.

Meanwhile, the payout ratio remains reasonable and should continue to add an income ballast for investors.

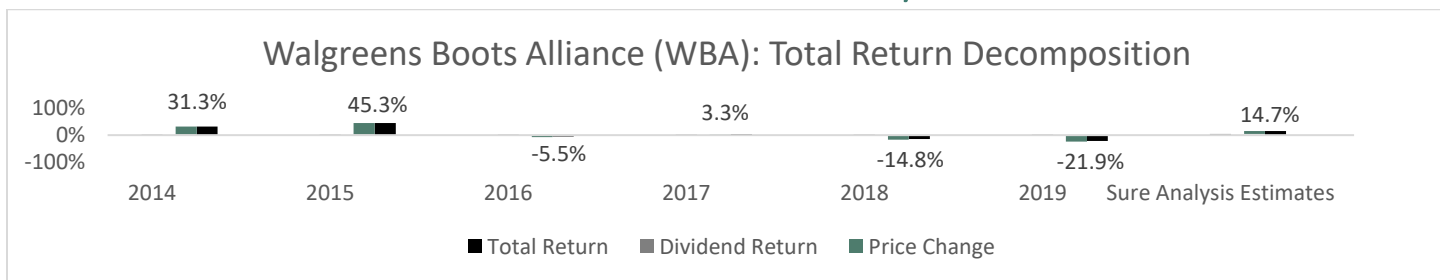
Furthermore, despite the lack of expected growth this year, it should be noted that Walgreens has put together a very strong record in good times or bad. Walgreens' earnings dipped just -6.9% in 2009, as an illustration.

As of the most recent quarter Walgreens held \$792 million in cash, \$18.9 billion in current assets and \$90.0 billion in total assets (31% of which was goodwill and intangible assets) against \$28.7 billion in current liabilities and \$65.7 billion in total liabilities. Long-term debt stood at \$10.6 billion against underlying earnings power of ~\$5 billion annually.

Final Thoughts & Recommendation

Shares are down a significant -27% since our last report. While the near-term is uncertain, Walgreens has proven to be an exceptional company over the years. The dividend track record is excellent, earnings growth had previously been robust, and the company still maintains a relatively conservative stance even while digesting acquisitions. That being said, industry headwinds are starting to gain some momentum. Still, total return potential comes in at 14.7% per annum, stemming from 5% growth, a 4.5% starting yield and the potential for a valuation tailwind. We continue to rate Walgreens as a buy at the current quotation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue (\$B)	67	72	72	72	76	103	117	118	132	137
Gross Profit	18976	20492	20342	21119	21569	26753	29874	29162	30792	30076
Gross Margin	28.1%	28.4%	28.4%	29.2%	28.2%	25.9%	25.5%	24.7%	23.4%	22.0%
SG&A Exp.	15518	16561	16878	17543	17992	22400	23910	23813	24694	25242
D&A Exp.	1030	1086	1166	1283	1316	1742	1718	1654	1770	2038
Operating Profit	3458	3931	3464	3576	3577	4353	5964	5349	6098	4834
Op. Margin	5.1%	5.4%	4.8%	5.0%	4.7%	4.2%	5.1%	4.5%	4.6%	3.5%
Net Profit	2091	2714	2127	2548	1932	4220	4173	4078	5024	3982
Net Margin	3.1%	3.8%	3.0%	3.5%	2.5%	4.1%	3.6%	3.4%	3.8%	2.9%
Free Cash Flow	2730	2430	2881	3089	2787	4413	6522	5904	6896	3892
Income Tax	1282	1580	1249	1499	1526	1056	997	760	998	588

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	26275	27454	33462	35481	37250	68782	72688	66009	68124	67598
Cash & Equivalents	1880	1556	1297	2106	2646	3000	9807	3301	785	1023
Acc. Receivable	2450	2497	2167	2632	3218	6849	6260	6528	6573	7226
Inventories	7378	8044	7036	6852	6076	8678	8956	8899	9565	9333
Goodwill & Int.	3001	3229	3447	3717	3539	28723	25829	25788	28697	27436
Total Liabilities	11875	12607	15226	16027	16633	37482	42407	37735	41435	43446
Accounts Payable	4585	4810	4384	4635	4315	10088	11000	12494	13566	14341
Long-Term Debt	2401	2409	5392	5047	4490	14383	19028	12935	14397	16836
Total Equity	14400	14847	18236	19454	20513	30861	29880	27466	26007	23512
D/E Ratio	0.17	0.16	0.30	0.26	0.22	0.47	0.64	0.47	0.55	0.72

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	8.1%	10.1%	7.0%	7.4%	5.3%	8.0%	5.9%	5.9%	7.5%	5.9%
Return on Equity	14.5%	18.6%	12.9%	13.5%	9.7%	16.4%	13.7%	14.2%	18.8%	16.1%
ROIC	12.5%	15.9%	10.4%	10.6%	7.8%	11.9%	8.8%	9.0%	12.2%	9.7%
Shares Out.	939	889	944	947	950	1,090	1,083	1,024	952	924
Revenue/Share	68.25	78.08	81.39	75.60	79.15	98.15	107.55	109.61	132.20	148.20
FCF/Share	2.76	2.63	3.27	3.23	2.89	4.19	5.98	5.47	6.93	4.21

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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