

Walgreens Boots Alliance Inc. (WBA)

Updated October 15th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	14.6%	Market Cap:	\$33 B
Fair Value Price:	\$50	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	11/15/20
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.8%	Dividend Payment Date¹:	12/12/20
Dividend Yield:	5.0%	5 Year Price Target	\$64	Years Of Dividend Growth:	45
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	2.2%

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, Walgreens has a presence in more than 25 countries, employs more than 450,000 people and has more than 21,000 stores. The \$33 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 July 7th, 2020 Walgreens increased its dividend 2.2% to \$0.4675 per quarter, marking the 45th consecutive year of increasing its payment and 87th year of making a payment.

On October 15th, 2020 Walgreens reported Q4 and full year 2020 results for the period ending August 31st, 2020. For the quarter sales increased 2.3% to \$34.7 billion, led by a 3.6% increase in the Retail Pharmacy USA segment and a 4.3% increase in the Pharmaceutical Wholesale division. Adjusted operating income decreased -27.7% to \$1.1 billion. On a per share basis, adjusted EPS decreased -28.2% to \$1.02, reflecting an estimated adverse impact of -\$0.46 from the COVID-19 pandemic.

For the year sales increased 2.0% to \$139.5 billion. Adjusted operating income decreased -24.9% to \$5.2 billion, while adjusted earnings-per-share totaled \$4.74, down -20.6% year-over-year but ahead of previous guidance of \$4.65 to \$4.70. This included an estimated -\$1.06 adverse impact from the COVID-19 pandemic.

In addition, Walgreens introduced fiscal 2021 guidance, anticipating low single-digit growth in adjusted EPS.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.64	\$2.53	\$2.61	\$2.90	\$3.88	\$4.59	\$5.10	\$6.02	\$5.99	\$4.74	\$4.98	\$6.36
DPS	\$0.80	\$0.95	\$1.14	\$1.28	\$1.37	\$1.46	\$1.53	\$1.64	\$1.78	\$1.84	\$1.87	\$2.40
Shares²	889	944	947	950	1,090	1,083	1,024	952	895	880	870	830

From 2010 through 2019, Walgreens grew earnings-per-share by 12.0% per annum. This was driven by a combination of factors including solid top-line growth (\$67 billion to \$137 billion), net profit margin expansion (3.2% to 4.0%) and a reduction in the number of shares outstanding. In 2020 results fell off dramatically, with the company posting a -21% decline, mostly attributable to the COVID-19 pandemic. The three factors of success in the past – revenue growth, margin expansion and a lower share count – are being simultaneously challenged in the short-term.

Over the intermediate term we are keeping intact our 5% anticipated growth rate, expecting some sort of recovery towards “normal,” along with a return to share repurchases. This is more or less in-line with the company’s expectation for low single-digit growth for fiscal 2021. Over the long-term an aging population and a focus on becoming a health destination should provide tailwinds.

¹ Estimate

² In millions

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

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.8	13.2	16.3	21.8	20.2	18.0	16.2	11.5	10.8	10.2	7.6	10.0
Avg. Yld.	2.1%	2.8%	2.7%	2.0%	1.8%	1.8%	1.9%	2.4%	2.8%	3.8%	5.0%	4.0%

During the past decade shares of Walgreens have traded with an average price-to-earnings ratio of about 15 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. Even with reduced earnings expectations shares are trading at a compelling valuation.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	30%	38%	44%	44%	35%	32%	30%	27%	30%	39%	38%	38%

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. And this was before the COVID-19 pandemic, which has pressured sales and margins.

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

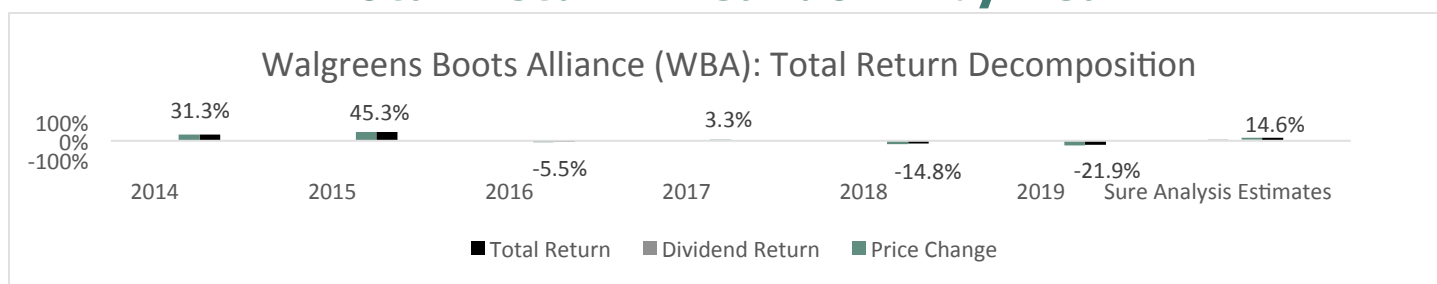
Furthermore, despite the reduced earnings last year, it should be noted that Walgreens has put together a very strong record in good times or bad. Walgreens' earnings dipped just -6.9% in 2009, as an illustration.

As of the most recent quarter Walgreens held \$516 million in cash, \$18.1 billion in current assets and \$87.2 billion in total assets (30% of which was goodwill and intangible assets) against \$27.1 billion in current liabilities and \$66.0 billion in total liabilities. Long-term debt stood at \$12.2 billion against underlying earnings power of ~\$4 billion annually.

Final Thoughts & Recommendation

Shares are down -5% 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. That being said, industry headwinds are starting to gain some momentum. Still, total return potential comes in at 14.6% per annum, stemming from 5% growth, a 5.0% 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	72	72	72	76	103	117	118	132	137	140
Gross Profit	20492	20342	21119	21569	26753	29874	29162	30792	30076	28017
Gross Margin	28.4%	28.4%	29.2%	28.2%	25.9%	25.5%	24.7%	23.4%	22.0%	20.1%
SG&A Exp.	16561	16878	17543	17992	22400	23910	23813	24694	25242	27045
D&A Exp.	1086	1166	1283	1316	1742	1718	1654	1770	2038	1927
Operating Profit	3931	3464	3576	3577	4353	5964	5349	6098	4834	972
Op. Margin	5.4%	4.8%	5.0%	4.7%	4.2%	5.1%	4.5%	4.6%	3.5%	0.7%
Net Profit	2714	2127	2548	1932	4220	4173	4078	5024	3982	456
Net Margin	3.8%	3.0%	3.5%	2.5%	4.1%	3.6%	3.4%	3.8%	2.9%	0.3%
Free Cash Flow	2430	2881	3089	2787	4413	6522	5904	6896	3892	4110
Income Tax	1580	1249	1499	1526	1056	997	760	998	588	360

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	27454	33462	35481	37250	68782	72688	66009	68124	67598	87174
Cash & Equivalents	1556	1297	2106	2646	3000	9807	3301	785	1023	516
Acc. Receivable	2497	2167	2632	3218	6849	6260	6528	6573	7226	7132
Inventories	8044	7036	6852	6076	8678	8956	8899	9565	9333	9451
Goodwill & Int.	3229	3447	3717	3539	28723	25829	25788	28697	27436	26021
Total Liabilities	12607	15226	16027	16633	37482	42407	37735	41435	43446	66038
Accounts Payable	4810	4384	4635	4315	10088	11000	12494	13566	14341	14458
Long-Term Debt	2409	5392	5047	4490	14383	19028	12935	14397	16836	15742
Total Equity	14847	18236	19454	20513	30861	29880	27466	26007	23512	20637
D/E Ratio	0.16	0.30	0.26	0.22	0.47	0.64	0.47	0.55	0.72	0.76

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.1%	7.0%	7.4%	5.3%	8.0%	5.9%	5.9%	7.5%	5.9%	0.6%
Return on Equity	18.6%	12.9%	13.5%	9.7%	16.4%	13.7%	14.2%	18.8%	16.1%	2.1%
ROIC	15.9%	10.4%	10.6%	7.8%	11.9%	8.8%	9.0%	12.2%	9.7%	1.2%
Shares Out.	889	944	947	950	1,090	1,083	1,024	952	895	880
Revenue/Share	78.08	81.39	75.60	79.15	98.15	107.55	109.61	132.20	148.20	158.51
FCF/Share	2.63	3.27	3.23	2.89	4.19	5.98	5.47	6.93	4.21	4.67

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

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