



Walgreens Boots Alliance Inc. (WBA)

Updated October 14th, 2021, by Eli Inkrot

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	9.6%	Market Cap:	\$43 B
Fair Value Price:	\$54	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	11/18/21
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date¹:	12/11/21
Dividend Yield:	3.8%	5 Year Price Target	\$68	Years Of Dividend Growth:	46
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	2.1%

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, the \$43 billion market cap company has a presence in more than 9 countries, employs more than 315,000 people and has more than 13,000 stores in the U.S., Europe and Latin America.

On January 6th, 2021, Walgreens announced the sale of the majority of the company's Alliance Healthcare business and a portion of the Retail Pharmacy International segment's business in Europe to AmerisourceBergen for \$6.5 billion. A portion of the proceeds were used to eliminate \$3.3 billion in debt.

On March 15th, 2021, Rosalind Brewer succeeded Stefano Pessina as the company's CEO.

On July 14th, 2021, Walgreens increased its quarterly dividend 2.1% to \$0.4775, marking the 46th straight yearly increase.

On October 14th, 2021, Walgreens reported Q4 and fiscal year 2021 results for the period ending August 31st, 2021. For the quarter sales increased 12.8% to \$34.3 billion, reflecting strong growth in the both the international segment and the United States. Adjusted earnings-per-share equaled \$1.17 compared to \$1.02 in the year ago period.

For the year Walgreens generated \$132.5 billion in sales, an 8.6% increase compared to fiscal 2020. Walgreens continues to be a key player in the battle against the COVID-19 pandemic, administering more than 40 million vaccinations and more than 16 million tests so far. Adjusted earnings-per-share equaled \$5.31 versus \$4.74 prior.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.53	\$2.61	\$2.90	\$3.88	\$4.59	\$5.10	\$6.02	\$5.99	\$4.74	\$5.31	\$5.35	\$6.83
DPS	\$0.95	\$1.14	\$1.28	\$1.37	\$1.46	\$1.53	\$1.64	\$1.78	\$1.84	\$1.88	\$1.91	\$2.44
Shares²	944	947	950	1,090	1,083	1,024	952	895	880	866	850	790

From 2011 through 2021, Walgreens grew earnings-per-share by 7.2% per annum. This was driven by a combination of factors including solid top-line growth (\$72 billion to \$132 billion), a steady net profit margin 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, steady margins and a lower share count – were simultaneously challenged in the short-term.

Over the intermediate term we are using a 5% anticipated growth rate, expecting some sort of recovery towards “normal,” along with a return to share repurchases. This includes effectively flat expected growth for fiscal 2022, with improvements coming in the years thereafter. Over the long-term an aging population and a focus on becoming a health destination should provide tailwinds. Walgreens is proving to be a vital healthcare component in the current crisis as well, accounting for a significant portion of the COVID-19 vaccinations and tests.

¹ Estimate

² In millions

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



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.2	16.3	21.8	20.2	18.0	16.2	11.5	10.8	10.4	9.1	9.4	10.0
Avg. Yld.	2.8%	2.7%	2.0%	1.8%	1.8%	1.9%	2.4%	2.8%	3.7%	3.9%	3.8%	3.6%

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. The current valuation of 9.4 times estimated earnings implies a small valuation tailwind.

Meanwhile, 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	38%	44%	44%	35%	32%	30%	27%	30%	39%	35%	36%	36%

Walgreens' competitive advantage lies in its vast scale and network in an important and growing industry. 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.

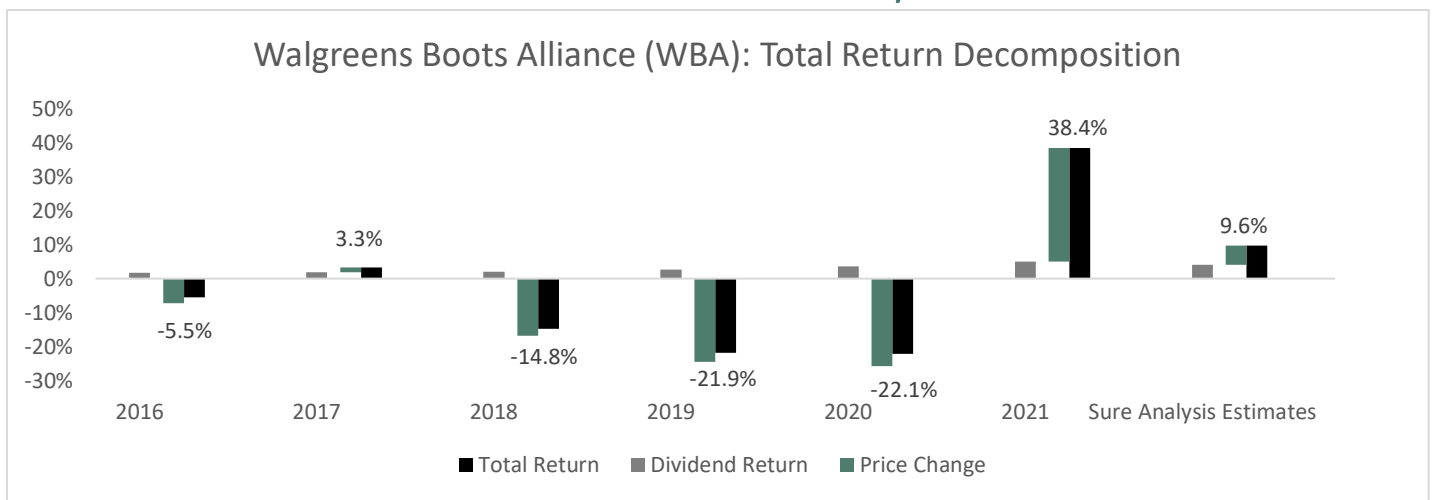
Walgreens' earnings dipped just -6.9% in 2009, as an illustration.

As of the most recent quarter Walgreens held \$1.2 billion in cash, \$15.8 billion in current assets and \$81.3 billion in total assets against \$22.1 billion in current liabilities and \$57.5 billion in total liabilities. Long-term debt stood at \$7.7 billion.

Final Thoughts & Recommendation

Shares are up 32% since our October 2020 report. Walgreens has proven to be an exceptional company over the years. The dividend track record is excellent, earnings growth has been solid, and the company still maintains a relatively conservative stance. Total return potential comes in at 9.6% per annum, stemming from 5% growth, a 3.8% starting yield and the potential for a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	72	72	76	103	117	118	132	137	140
Gross Profit	20342	21119	21569	26753	29874	29162	30792	30076	28017
Gross Margin	28.4%	29.2%	28.2%	25.9%	25.5%	24.7%	23.4%	22.0%	20.1%
SG&A Exp.	16878	17543	17992	22400	23910	23813	24694	25242	27045
D&A Exp.	1166	1283	1316	1742	1718	1654	1770	2038	1927
Operating Profit	3464	3576	3577	4353	5964	5349	6098	4834	972
Op. Margin	4.8%	5.0%	4.7%	4.2%	5.1%	4.5%	4.6%	3.5%	0.7%
Net Profit	2127	2548	1932	4220	4173	4078	5024	3982	456
Net Margin	3.0%	3.5%	2.5%	4.1%	3.6%	3.4%	3.8%	2.9%	0.3%
Free Cash Flow	2881	3089	2787	4413	6522	5904	6896	3892	4110
Income Tax	1249	1499	1526	1056	997	760	998	588	360

Balance Sheet Metrics

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

Profitability & Per Share Metrics

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