



Walgreens Boots Alliance Inc. (WBA)

Updated January 11th, 2022, by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|---|----------------------|
| Current Price: | \$54 | 5 Year CAGR Estimate: | 8.0% | Market Cap: | \$46 B |
| Fair Value Price: | \$54 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date¹: | 2/17/22 ² |
| % Fair Value: | 100% | 5 Year Valuation Multiple Estimate: | -0.2% | Dividend Payment Date¹: | 3/11/22 |
| Dividend Yield: | 3.5% | 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 \$46 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 July 14th, 2021, Walgreens raised its quarterly dividend by 2.1% to \$0.4775, marking the 46th straight yearly increase. On January 6th, 2021, Walgreens reported Q1 results for the period ending November 30th, 2021. Sales from continuing operations grew 7.8% over the prior year's quarter, driven by COVID-19 vaccinations and testing. U.S. retail comparable sales grew 11%, which is a 20-year high growth rate. Adjusted earnings-per-share grew 53%, from \$1.10 to \$1.68, and exceeded analysts' consensus by \$0.34. Thanks to markedly strong results and sustained business momentum, Walgreens raised its guidance for its annual earnings-per-share from flat to low-single digit growth.

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 |
| Shares³ | 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, earnings-per-share fell off dramatically, with the company posting a -21% decline, mostly due 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 modest 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.

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 | 10.1 | 10.0 |
| Avg. Yld. | 2.8% | 2.7% | 2.0% | 1.8% | 1.8% | 1.9% | 2.4% | 2.8% | 3.7% | 3.9% | 3.5% | 3.6% |

¹ Estimate

² Estimated date.

³ In millions

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



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During the past decade shares of Walgreens have traded with an average price-to-earnings ratio of about 15. 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 price-to-earnings ratio of 10.1 implies a marginal valuation headwind of -0.2% per year over the next five years.

Meanwhile, the stock offers a generous 3.5% dividend. Walgreens has raised its dividend for 46 consecutive years. Even with an expectation of slowing earnings growth, with a modest payout ratio, there is ample room for the dividend to continue to grow for many more years.

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 in 2020, it should be noted that Walgreens has put together a very strong record in good times or bad.

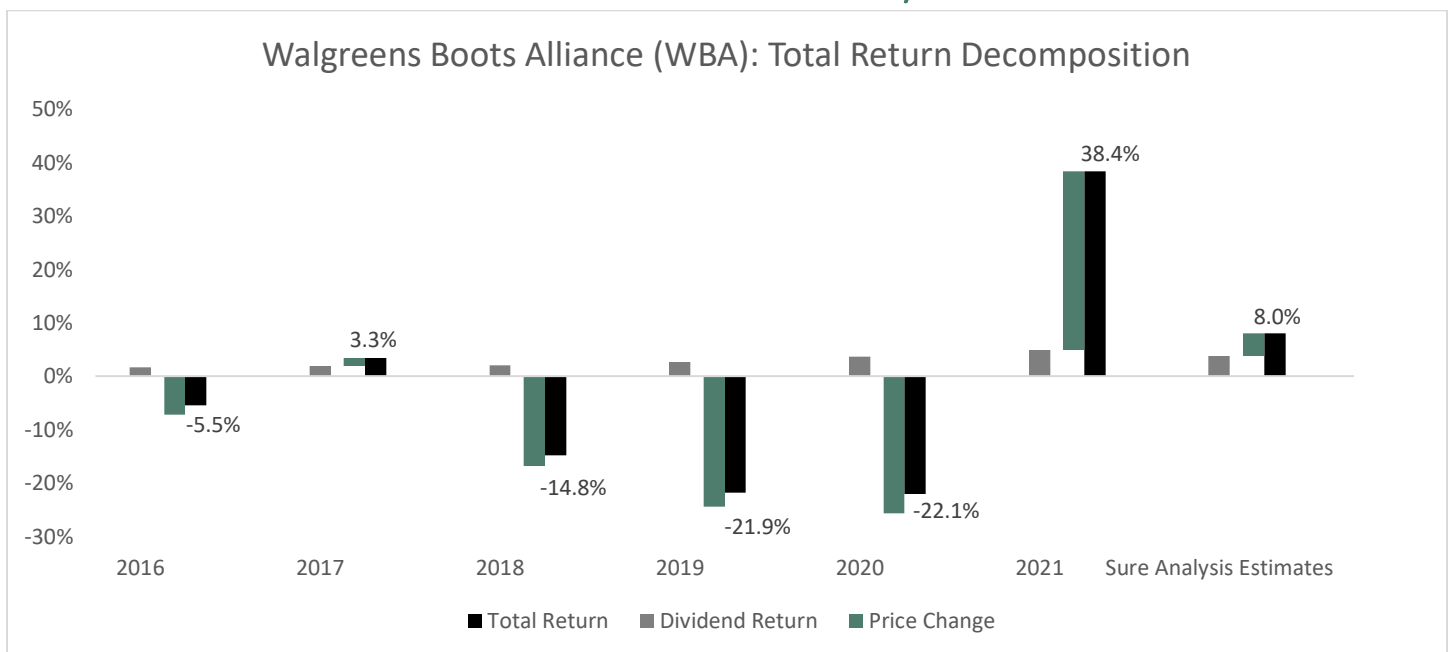
Walgreens' earnings dipped just -6.9% in 2009, as an illustration.

As of the most recent quarter, Walgreens held \$4.1 billion in cash, \$20.3 billion in current assets and \$81.3 billion in total assets against \$24.4 billion in current liabilities and \$63.1 billion in total liabilities. Long-term debt stood at \$11.2 billion.

Final Thoughts & Recommendation

Walgreens has proven to be an exceptional company over the years. The dividend track record is excellent and earnings growth has been solid. However, as the stock has rallied 55% off its bottom in late 2020, it has become somewhat less attractive. We expect the stock to offer an 8.0% average annual return over the next five years thanks to 5% growth and a 3.5% starting yield, partly offset by a marginal valuation headwind. We still view Walgreens as attractive but lower its rating from "buy" to "hold".

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue (\$B) | 72 | 72 | 76 | 103 | 117 | 118 | 132 | 137 | 140 | 133 |
| Gross Profit | 20342 | 21119 | 21569 | 26753 | 29874 | 29162 | 30792 | 30076 | 28017 | 28067 |
| Gross Margin | 28.4% | 29.2% | 28.2% | 25.9% | 25.5% | 24.7% | 23.4% | 22.0% | 20.1% | 21.2% |
| SG&A Exp. | 16878 | 17543 | 17992 | 22400 | 23910 | 23813 | 24694 | 25242 | 27045 | 24586 |
| D&A Exp. | 1166 | 1283 | 1316 | 1742 | 1718 | 1654 | 1770 | 2038 | 1927 | 1973 |
| Operating Profit | 3464 | 3576 | 3577 | 4353 | 5964 | 5349 | 6098 | 4834 | 972 | 3481 |
| Op. Margin | 4.8% | 5.0% | 4.7% | 4.2% | 5.1% | 4.5% | 4.6% | 3.5% | 0.7% | 2.6% |
| Net Profit | 2127 | 2548 | 1932 | 4220 | 4173 | 4078 | 5024 | 3982 | 456 | 2542 |
| Net Margin | 3.0% | 3.5% | 2.5% | 4.1% | 3.6% | 3.4% | 3.8% | 2.9% | 0.3% | 1.9% |
| Free Cash Flow | 2881 | 3089 | 2787 | 4413 | 6522 | 5904 | 6896 | 3892 | 4110 | 4176 |
| Income Tax | 1249 | 1499 | 1526 | 1056 | 997 | 760 | 998 | 588 | 360 | 667 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 33462 | 35481 | 37250 | 68782 | 72688 | 66009 | 68124 | 67598 | 87174 | 81285 |
| Cash & Equivalents | 1297 | 2106 | 2646 | 3000 | 9807 | 3301 | 785 | 1023 | 516 | 1193 |
| Acc. Receivable | 2167 | 2632 | 3218 | 6849 | 6260 | 6528 | 6573 | 7226 | 7132 | 5663 |
| Inventories | 7036 | 6852 | 6076 | 8678 | 8956 | 8899 | 9565 | 9333 | 9451 | 8159 |
| Goodwill & Int. | 3447 | 3717 | 3539 | 28723 | 25829 | 25788 | 28697 | 27436 | 26021 | 22358 |
| Total Liabilities | 15226 | 16027 | 16633 | 37482 | 42407 | 37735 | 41435 | 43446 | 66038 | 57463 |
| Accounts Payable | 4384 | 4635 | 4315 | 10088 | 11000 | 12494 | 13566 | 14341 | 14458 | 11136 |
| Long-Term Debt | 5392 | 5047 | 4490 | 14383 | 19028 | 12935 | 14397 | 16836 | 15742 | 8981 |
| Total Equity | 18236 | 19454 | 20513 | 30861 | 29880 | 27466 | 26007 | 23512 | 20637 | 23419 |
| D/E Ratio | 0.30 | 0.26 | 0.22 | 0.47 | 0.64 | 0.47 | 0.55 | 0.72 | 0.76 | 0.38 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|
| Return on Assets | 7.0% | 7.4% | 5.3% | 8.0% | 5.9% | 5.9% | 7.5% | 5.9% | 0.6% | 3.0% |
| Return on Equity | 12.9% | 13.5% | 9.7% | 16.4% | 13.7% | 14.2% | 18.8% | 16.1% | 2.1% | 11.5% |
| ROIC | 10.4% | 10.6% | 7.8% | 11.9% | 8.8% | 9.0% | 12.2% | 9.7% | 1.2% | 7.3% |
| Shares Out. | 944 | 947 | 950 | 1,090 | 1,083 | 1,024 | 952 | 895 | 880 | 866 |
| Revenue/Share | 81.39 | 75.60 | 79.15 | 98.15 | 107.55 | 109.61 | 132.20 | 148.20 | 158.51 | 152.94 |
| FCF/Share | 3.27 | 3.23 | 2.89 | 4.19 | 5.98 | 5.47 | 6.93 | 4.21 | 4.67 | 4.82 |

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

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