



Walgreens Boots Alliance Inc. (WBA)

Updated April 1st, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	12.0%	Market Cap:	\$39 B
Fair Value Price:	\$54	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	5/19/22
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.5%	Dividend Payment Date¹:	6/10/22
Dividend Yield:	4.2%	5 Year Price Target	\$68	Years Of Dividend Growth:	46
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

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 \$39 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 March 31st, 2022, Walgreens reported Q2 results for the period ending February 28th, 2021. Sales from continuing operations grew 3% over the prior year's quarter, driven by COVID-19 vaccinations and testing. U.S. retail comparable sales grew 15%, which is a 20-year high growth rate. Adjusted earnings-per-share grew 26%, from \$1.26 to \$1.59, and exceeded analysts' consensus by \$0.19. The company has beaten analysts' estimates for 7 consecutive quarters. Walgreens reiterated its guidance for low-single digit growth of its annual earnings-per-share. However, the stock dipped -6% due to concerns over the fading tailwind from the pandemic (11.8 million vaccinations in Q2 vs. 15.6 million in Q1), which resulted in a deceleration of sales growth (3% in Q2 vs. 8% in Q1).

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	855	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	8.4	10.0
Avg. Yld.	2.8%	2.7%	2.0%	1.8%	1.8%	1.9%	2.4%	2.8%	3.7%	3.9%	4.2%	3.6%

¹ Estimated date.

² 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 8.4 implies a valuation tailwind of 3.5% per year over the next five years.

Meanwhile, the stock offers a generous 4.2% 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

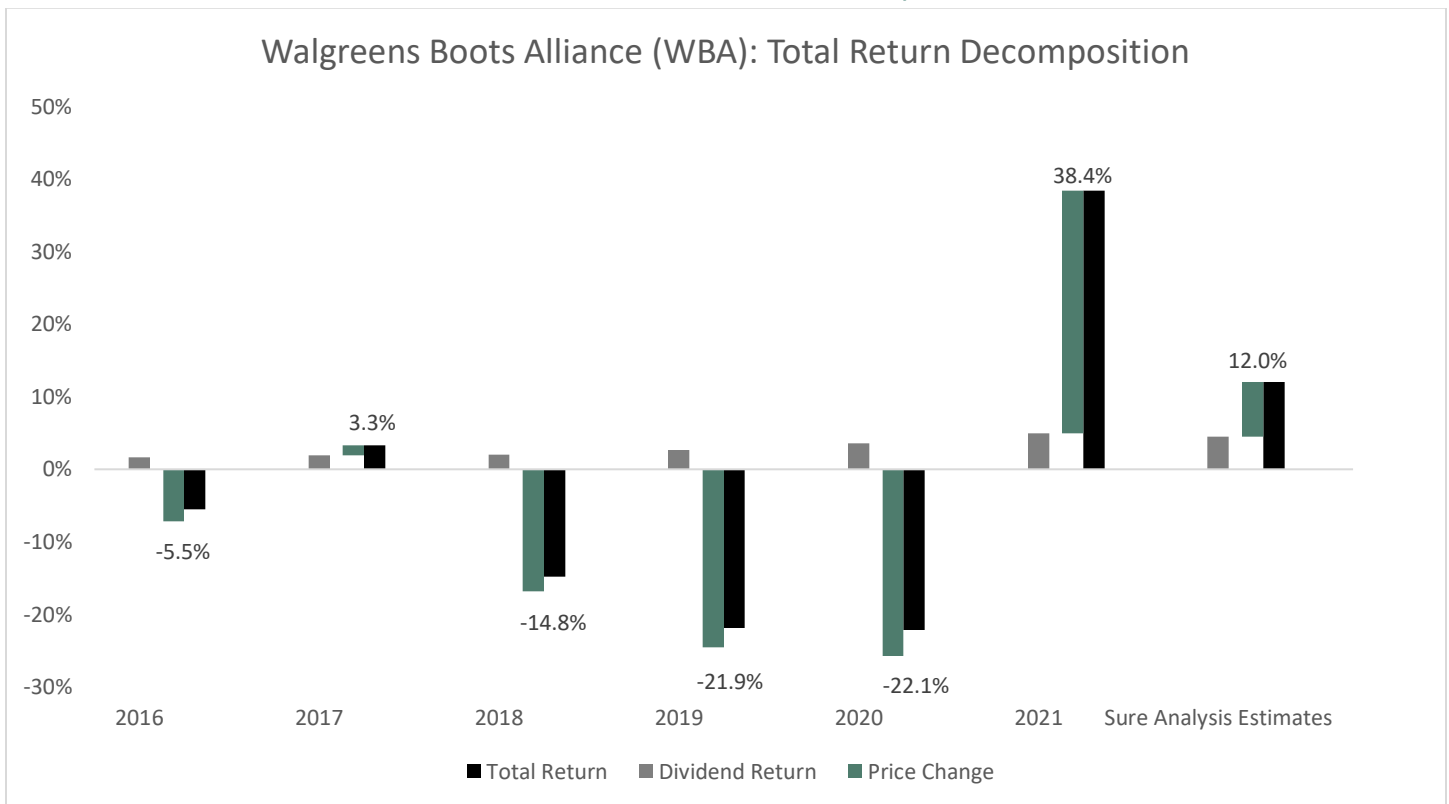
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	38%	44%	44%	35%	32%	30%	27%	30%	39%	35%	36%	36%

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.

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. We expect the stock to offer a 12.0% average annual return over the next five years thanks to 5% growth, a 4.2% starting yield and a 3.5% valuation tailwind. We thus rate the stock as a buy.

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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