



Walgreens Boots Alliance Inc. (WBA)

Updated June 27th, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	15.7%	Market Cap:	\$26 B
Fair Value Price:	\$40	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	8/17/23
% Fair Value:	75%	5 Year Valuation Multiple Estimate:	6.1%	Dividend Payment Date¹:	9/8/23
Dividend Yield:	6.4%	5 Year Price Target	\$51	Years Of Dividend Growth:	47
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 \$26 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 June 27th, 2023, Walgreens reported results for the third quarter of fiscal 2023. Sales grew 9% but earnings-per-share rose only 3% over last year's quarter, from \$0.97 to \$1.00, mostly due to high COVID-19 vaccinations and tests in last year's period. Earnings-per-share missed the analysts' consensus by \$0.07. It was the first earnings miss after 11 quarters in a row. As the pandemic has subsided, Walgreens is facing tough comparisons. It thus lowered its guidance for earnings-per-share from \$4.45-\$4.65 to \$4.00-\$4.05. We have lowered our forecast from \$4.55 to \$4.03. The stock has plunged -45% off its peak in early 2022 due to the fading tailwind from the pandemic and low consumer demand. In the last four months, Walgreens has sold part of its stake in AmerisourceBergen for \$1.9 billion to reduce its debt.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.61	\$2.90	\$3.88	\$4.59	\$5.10	\$6.02	\$5.99	\$4.74	\$5.31	\$5.04	\$4.03	\$5.14
DPS	\$1.14	\$1.28	\$1.37	\$1.46	\$1.53	\$1.64	\$1.78	\$1.84	\$1.88	\$1.91	\$1.92	\$2.34
Shares²	947	950	1,090	1,083	1,024	952	895	880	866	865	862	790

Walgreens has grown its earnings-per-share by 7.6% per year on average over the last decade. This was driven by a combination of factors including solid top-line growth (\$72 billion to \$133 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 long-term, an aging population and a focus on becoming a health destination should provide tailwinds. Walgreens proved to be a vital healthcare component in the pandemic as well, accounting for a significant portion of the COVID-19 vaccinations and tests. Due to the somewhat low comparison base formed in fiscal 2023 amid the fading tailwind from COVID-19 vaccinations, we expect Walgreens to grow its earnings-per-share by 5.0% per year on average beyond this year.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.3	21.8	20.2	18.0	16.2	11.5	10.8	10.4	9.1	9.1	7.4	10.0
Avg. Yld.	2.7%	2.0%	1.8%	1.8%	1.9%	2.4%	2.8%	3.7%	3.9%	4.2%	6.4%	4.5%

¹ Estimated date.

² In millions

Disclosure: This analyst does not own 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 14.3. 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 7.4 implies a valuation tailwind of 6.1% per year over the next five years.

Meanwhile, the stock offers a generous, 10-year high dividend yield of 6.4%. Walgreens has raised its dividend for 47 consecutive years. Even with an expectation of lackluster earnings growth, with a modest payout ratio, there is ample room for the dividend to continue to grow for many more years. Management has repeatedly confirmed its commitment to keep raising the dividend for years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

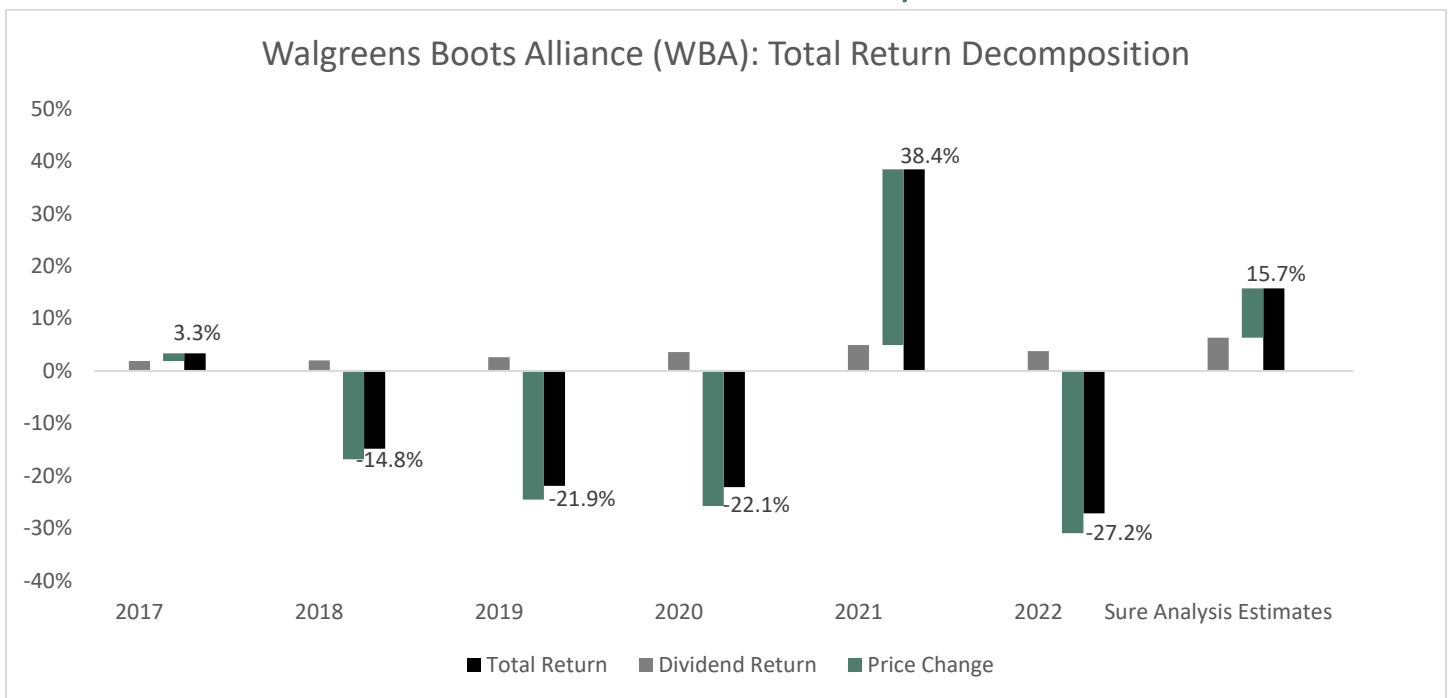
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	44%	44%	35%	32%	30%	27%	30%	39%	35%	38%	48%	45%

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, with an exceptional dividend growth record. We expect the stock to offer a 15.7% average annual return over the next five years thanks to 5.0% earnings growth, a 6.4% starting yield and a 6.1% valuation tailwind. We rate the stock as a buy, but we reiterate that patience will be required, as the stock is under pressure due to the fading tailwind from the pandemic and heating competition, partly due to the recent acquisition of One Medical by Amazon.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue (\$B)	72	76	103	117	118	132	137	140	133	133
Gross Profit	21119	21569	26753	29874	29162	30792	30076	28017	28067	28265
Gross Margin	29.2%	28.2%	25.9%	25.5%	24.7%	23.4%	22.0%	20.1%	21.2%	21.3%
SG&A Exp.	17543	17992	22400	23910	23813	24694	25242	27045	24586	27295
D&A Exp.	1283	1316	1742	1718	1654	1770	2038	1927	1973	1990
Operating Profit	3576	3577	4353	5964	5349	6098	4834	972	3481	970
Op. Margin	5.0%	4.7%	4.2%	5.1%	4.5%	4.6%	3.5%	0.7%	2.6%	0.7%
Net Profit	2548	1932	4220	4173	4078	5024	3982	456	2542	4337
Net Margin	3.5%	2.5%	4.1%	3.6%	3.4%	3.8%	2.9%	0.3%	1.9%	3.3%
Free Cash Flow	3089	2787	4413	6522	5904	6896	3892	4110	4176	2165
Income Tax	1499	1526	1056	997	760	998	588	360	667	-30

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	35481	37250	68782	72688	66009	68124	67598	87174	81285	90124
Cash & Equivalents	2106	2646	3000	9807	3301	785	1023	516	1193	1358
Acc. Receivable	2632	3218	6849	6260	6528	6573	7226	7132	5663	5017
Inventories	6852	6076	8678	8956	8899	9565	9333	9451	8159	8353
Goodwill & Int.	3717	3539	28723	25829	25788	28697	27436	26021	22358	33010
Total Liabilities	16027	16633	37482	42407	37735	41435	43446	66038	57463	59716
Accounts Payable	4635	4315	10088	11000	12494	13566	14341	14458	11136	11255
Long-Term Debt	5047	4490	14383	19028	12935	14397	16836	15742	8981	11675
Total Equity	19454	20513	30861	29880	27466	26007	23512	20637	23419	25275
D/E Ratio	0.26	0.22	0.47	0.64	0.47	0.55	0.72	0.76	0.38	0.46

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.4%	5.3%	8.0%	5.9%	5.9%	7.5%	5.9%	0.6%	3.0%	5.1%
Return on Equity	13.5%	9.7%	16.4%	13.7%	14.2%	18.8%	16.1%	2.1%	11.5%	17.8%
ROIC	10.6%	7.8%	11.9%	8.8%	9.0%	12.2%	9.7%	1.2%	7.3%	11.5%
Shares Out.	947	950	1,090	1,083	1,024	952	895	880	866	866
Revenue/Share	75.60	79.15	98.15	107.55	109.61	132.20	148.20	158.51	152.94	153.25
FCF/Share	3.23	2.89	4.19	5.98	5.47	6.93	4.21	4.67	4.82	2.50

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

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