



Walgreens Boots Alliance Inc. (WBA)

Updated October 13th, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	15.8%	Market Cap:	\$20 B
Fair Value Price:	\$31	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	11/13/23
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.4%	Dividend Payment Date¹:	12/11/23
Dividend Yield:	8.0%	5 Year Price Target	\$40	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 \$20 billion market cap company has a presence in 9 countries, employs more than 330,000 people and has about 13,000 stores in the U.S., Europe, and Latin America.

On October 12th, 2023, Walgreens reported results for the fourth quarter of fiscal 2023. Sales grew 9% but earnings-per-share fell -18% over last year's quarter, from \$0.82 to \$0.67, due to high COVID-19 vaccinations and tests in last year's period. Earnings-per-share missed the analysts' consensus by \$0.02. It was the second earnings miss after 11 quarters of earnings beats in a row. As the pandemic has subsided, Walgreens is facing tough comparisons. Given also a higher expected tax rate, Walgreens provided guidance for earnings-per-share of only \$3.20-\$3.50 in fiscal 2024. The stock has plunged -55% off its peak in early 2022 due to the fading tailwind from the pandemic and low consumer demand. Walgreens has sold part of its stake in AmerisourceBergen for \$1.9 billion lately to reduce its debt. We are concerned over the debt pile of Walgreens. Its net debt is \$62 billion, which is more than triple the market cap of the stock.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.90	\$3.88	\$4.59	\$5.10	\$6.02	\$5.99	\$4.74	\$5.31	\$5.04	\$3.98	\$3.35	\$4.28
DPS	\$1.28	\$1.37	\$1.46	\$1.53	\$1.64	\$1.78	\$1.84	\$1.88	\$1.91	\$1.92	\$1.92	\$2.12
Shares²	950	1,090	1,083	1,024	952	895	880	866	865	864	862	790

Walgreens has grown its earnings-per-share by 3.6% per year on average over the last decade. This was driven by a combination of factors including sales growth, 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 low comparison base formed in fiscal 2024 amid the fading tailwind from the pandemic, we expect Walgreens to grow its earnings-per-share by 5.0% per year on average beyond this year.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.8	20.2	18.0	16.2	11.5	10.8	10.4	9.1	9.1	8.5	7.2	9.3
Avg. Yld.	2.0%	1.8%	1.8%	1.9%	2.4%	2.8%	3.7%	3.9%	4.2%	5.6%	8.0%	5.3%

¹ Estimated date.

² In millions

Disclosure: This analyst does not own the security discussed in this research report.



Walgreens Boots Alliance Inc. (WBA)

Updated October 13th, 2023, by Aristofanis Papadatos

During the past decade, shares of Walgreens have traded with an average price-to-earnings ratio of 13.6. However, this was during a time when the company's growth rate was much more robust. We have reduced this fair value multiple to 9.3 times earnings, in line with the 4-year average, to better reflect a slower expected growth rate moving forward. The current price-to-earnings ratio of 7.2 implies a valuation tailwind of 5.4% per year over the next five years.

Meanwhile, the stock offers a generous, 10-year high dividend yield of 8.0%. 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

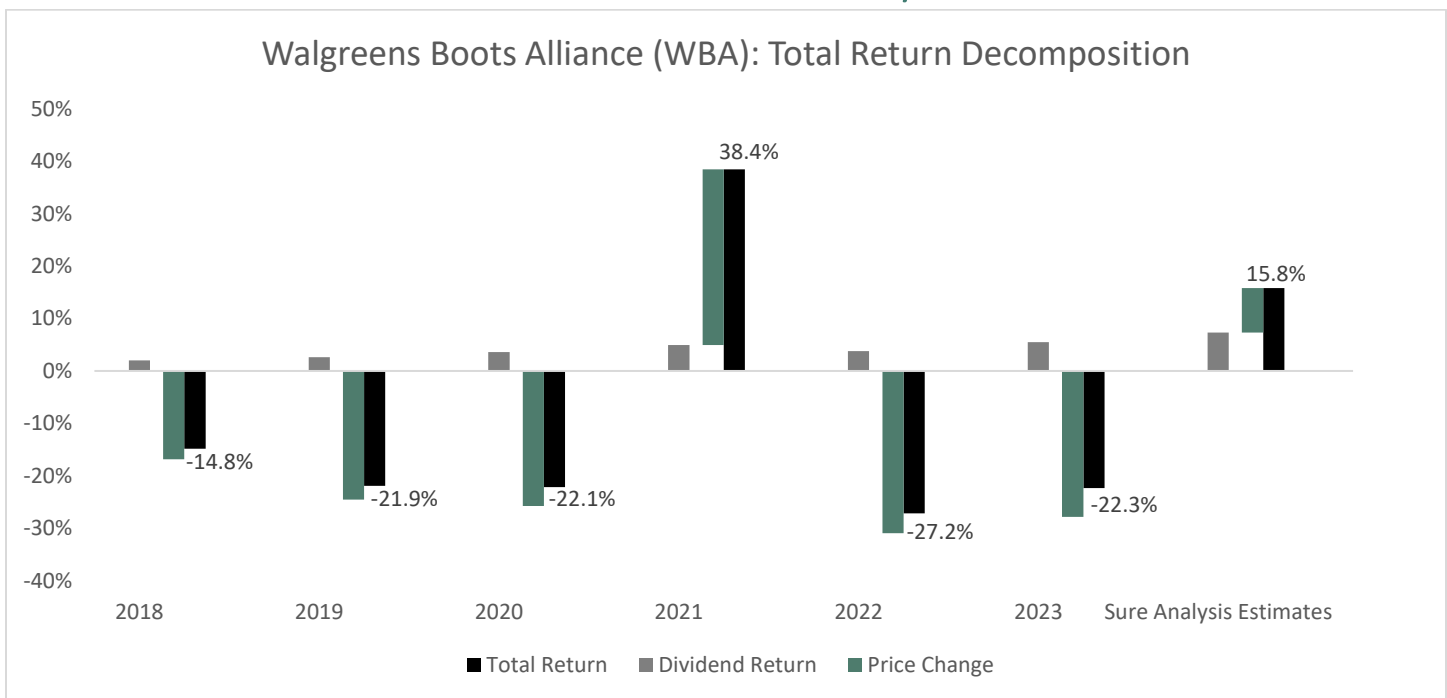
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	44%	35%	32%	30%	27%	30%	39%	35%	38%	48%	57%	50%

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 15.8% average annual return over the next five years thanks to 5.0% earnings growth, an 8.0% starting yield and a 5.4% 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



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst does not own the security discussed in this research report.



Walgreens Boots Alliance Inc. (WBA)

Updated October 13th, 2023, by Aristofanis Papadatos

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	76	103	117	118	132	137	140	133	133	139
Gross Profit	21569	26753	29874	29162	30792	30076	28017	28067	28265	27072
Gross Margin	28.2%	25.9%	25.5%	24.7%	23.4%	22.0%	20.1%	21.2%	21.3%	19.4%
SG&A Exp.	17992	22400	23910	23813	24694	25242	27045	24586	27295	34205
D&A Exp.	1316	1742	1718	1654	1770	2038	1927	1973	1990	2257
Operating Profit	3577	4353	5964	5349	6098	4834	972	3481	970	(7133)
Op. Margin	4.7%	4.2%	5.1%	4.5%	4.6%	3.5%	0.7%	2.6%	0.7%	-5.1%
Net Profit	1932	4220	4173	4078	5024	3982	456	2542	4337	(3080)
Net Margin	2.5%	4.1%	3.6%	3.4%	3.8%	2.9%	0.3%	1.9%	3.3%	-2.2%
Free Cash Flow	2787	4413	6522	5904	6896	3892	4110	4176	2165	141
Income Tax	1526	1056	997	760	998	588	360	667	(30)	(1858)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	37250	68782	72688	66009	68124	67598	87174	81285	90124	96628
Cash & Equivalents	2646	3000	9807	3301	785	1023	516	1193	1358	728
Acc. Receivable	3218	6849	6260	6528	6573	7226	7132	5663	5017	5381
Inventories	6076	8678	8956	8899	9565	9333	9451	8159	8353	8257
Goodwill & Int.	3539	28723	25829	25788	28697	27436	26021	22358	33010	41822
Total Liabilities	16633	37482	42407	37735	41435	43446	66038	57463	59716	68138
Accounts Payable	4315	10088	11000	12494	13566	14341	14458	11136	11255	12635
Long-Term Debt	4490	14383	19028	12935	14397	16836	15742	8981	11675	9063
Total Equity	20513	30861	29880	27466	26007	23512	20637	23419	25275	20021
D/E Ratio	0.22	0.47	0.64	0.47	0.55	0.72	0.76	0.38	0.46	0.45

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.3%	8.0%	5.9%	5.9%	7.5%	5.9%	0.6%	3.0%	5.1%	-3.3%
Return on Equity	9.7%	16.4%	13.7%	14.2%	18.8%	16.1%	2.1%	11.5%	17.8%	-13.6%
ROIC	7.8%	11.9%	8.8%	9.0%	12.2%	9.7%	1.2%	7.3%	11.5%	-7.7%
Shares Out.	950	1,090	1,083	1,024	952	895	880	866	866	863
Revenue/Share	79.15	98.15	107.55	109.61	132.20	148.20	158.51	152.94	153.25	161.12
FCF/Share	2.89	4.19	5.98	5.47	6.93	4.21	4.67	4.82	2.50	0.16

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.