



Walgreens Boots Alliance Inc. (WBA)

Updated January 4th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	10.8%	Market Cap:	\$23 B
Fair Value Price:	\$31	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/16/24
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.9%	Dividend Payment Date:	3/12/24
Dividend Yield:	3.7%	5 Year Price Target	\$40	Years Of Dividend Growth:	0
Dividend Risk Score:	B	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 \$23 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 January 4th, 2024, Walgreens reported results for the first quarter of fiscal 2024. Sales grew 10% but earnings-per-share plunged -43% over last year's quarter, from \$1.16 to \$0.66, due to high COVID-19 vaccinations and tests in last year's period and a much higher tax rate. Earnings-per-share exceeded the analysts' consensus by \$0.02. Walgreens has exceeded the analysts' estimates in 12 of the last 14 quarters. However, as the pandemic has subsided and competition has heated in the retail pharmaceutical industry, Walgreens is facing tough comparisons. It reiterated its guidance for earnings-per-share of \$3.20-\$3.50 in fiscal 2024 but cut its dividend by 48%, after 47 consecutive years of dividend growth, in order to strengthen its balance sheet. Walgreens has sold part of its stake in AmerisourceBergen for \$1.9 billion in the last 12 months to reduce its debt. We are concerned over the debt pile of Walgreens. Its net debt is \$63 billion, which is nearly 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	\$1.00	\$1.10
Shares¹	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	8.1	9.3
Avg. Yld.	2.0%	1.8%	1.8%	1.9%	2.4%	2.8%	3.7%	3.9%	4.2%	5.6%	3.7%	2.8%

¹ 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 13.6. However, this was during a time when the company's growth rate was much more robust. We have assumed a fair earnings multiple of 9.3, in line with the 4-year average, to better reflect a slower expected growth rate moving forward. The current price-to-earnings ratio of 8.1 implies a valuation tailwind of 2.9% per year over the next five years.

After 47 consecutive years of dividend growth, Walgreens just slashed its dividend by 48%. It had a decent payout ratio of less than 60% but it cut its dividend in order to reduce its debt load. Management had repeatedly confirmed its commitment to keep raising the dividend for years and hence it disappointed the shareholders. On the other hand, we view the dividend cut as a healthy decision from a long-term perspective amid a challenging business landscape.

Safety, Quality, Competitive Advantage, & Recession Resiliency

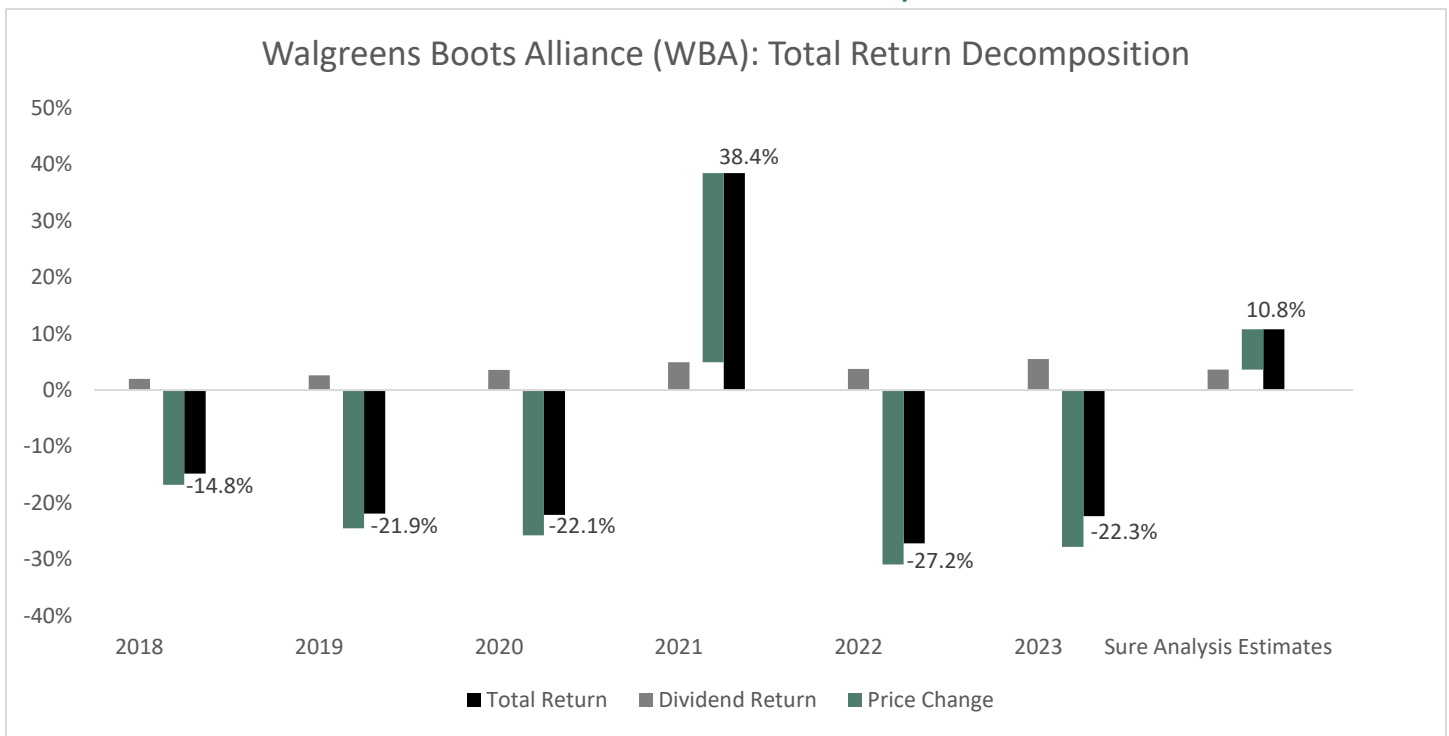
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	44%	35%	32%	30%	27%	30%	39%	35%	38%	48%	30%	26%

Walgreens' competitive advantage lies in its vast scale and network in an important and growing industry. The payout ratio is healthy 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 a resilient company over the years. We expect the stock to offer a 10.8% average annual return over the next five years thanks to 5.0% earnings growth, a 3.7% starting yield and a 2.9% 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 acquisition of One Medical by Amazon.

Total Return Breakdown by Year



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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	21,569	26,753	29,874	29,162	30,792	30,076	28,017	28,067	28,265	27,072
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.	17,992	22,400	23,910	23,813	24,694	25,242	27,045	24,586	27,295	34,205
D&A Exp.	1,316	1,742	1,718	1,654	1,770	2,038	1,927	1,973	1,990	2,257
Operating Profit	3,577	4,353	5,964	5,349	6,098	4,834	972	3,481	970	(7,133)
Op. Margin	4.7%	4.2%	5.1%	4.5%	4.6%	3.5%	0.7%	2.6%	0.7%	-5.1%
Net Profit	1,932	4,220	4,173	4,078	5,024	3,982	456	2,542	4,337	(3,080)
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	2,787	4,413	6,522	5,904	6,896	3,892	4,110	4,176	2,165	141
Income Tax	1,526	1,056	997	760	998	588	360	667	(30)	(1858)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	37,250	68,782	72,688	66,009	68,124	67,598	87,174	81,285	90,124	96,628
Cash & Equivalents	2,646	3,000	9,807	3,301	785	1,023	516	1,193	1,358	728
Acc. Receivable	3,218	6,849	6,260	6,528	6,573	7,226	7,132	5,663	5,017	5,381
Inventories	6,076	8,678	8,956	8,899	9,565	9,333	9,451	8,159	8,353	8,257
Goodwill & Int.	3,539	28,723	25,829	25,788	28,697	27,436	26,021	22,358	33,010	41,822
Total Liabilities	16,633	37,482	42,407	37,735	41,435	43,446	66,038	57,463	59,716	68,138
Accounts Payable	4,315	10,088	11,000	12,494	13,566	14,341	14,458	11,136	11,255	12,635
Long-Term Debt	4,490	14,383	19,028	12,935	14,397	16,836	15,742	8,981	11,675	9,063
Total Equity	20,513	30,861	29,880	27,466	26,007	23,512	20,637	23,419	25,275	20,021
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.

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