



Walgreens Boots Alliance



## Walgreens Boots Future Looks Healthy

**Price \$50.12**

**Dividend Holding**

**September 15, 2021**

- 3.8% Dividend Yield, compelling valuation.
- Fantastic free cash flow, enabled by omnichannel distribution and sustainable expansion.
- Broad investment portfolio, including a significant stake in the emerging Chinese market.
- Plans to expand franchising opportunities across Asia and the Middle East.

### Investment Thesis

Walgreens Boots Alliance (WBA) is the parent company of American pharmacy chain Walgreens and UK pharmacy chain Boots. 78% of the US population lives within 5 miles of a WBA store, and 86% of the UK population lives within 10 minutes of a Boots location.

Walgreens has played a critical role in the distribution of COVID-19 tests and vaccinations in the United States, and WBA has several strategic investment partnerships across the globe. For this reason, we believe that WBA is a good pick for dividend yield and capital appreciation.

### United States Segment

The United States segment of Walgreens Boots Alliance includes the retail brands Walgreens and Duane Reade. This forms one of the largest drugstore chains in the US, with 9,021 drugstores in all 50 states, Puerto Rico, and the US Virgin Islands. About 78% of the US population lives within 5 miles of a Duane Reade or Walgreens pharmacy. This footprint filled nearly 818 million prescriptions in 2020. In addition, in a strategic partnership with VillageMD, one of Walgreen's investments, Walgreens has begun to provide an integrated primary care provider and pharmacy model to increase healthcare outcomes and reduce costs to patients.

AllianceRx is a specialty and home delivery pharmacy to aid those with chronic and rare conditions. Formed in 2017 in a partnership, AllianceRx provides both standard pharmacy and home-care services for medications that may otherwise be difficult to obtain and treatments that may be harsh.



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Early in 2021, WBA acquired a majority stake iA, a provider of pharmacy automation solutions, reducing the burden on pharmacists from dispensing to patient care. iA has more than 25 years in the pharmacy business, which has led to the development of several products, both in the software segment and advanced hardware, to collect and distribute medication.

## International Segment

Walgreens operates 4,192 retail stores abroad; the largest segment Boots UK makes up 2,336 of the stores. 86% of the UK population lives within 10 minutes of a Boots location, which provides standard pharmacy and convenience services and optician services, and in-store pickup from the Boots.com store. Franchising has been an increasing part of the business model, with Thailand, Ireland already having franchised stores and planned stores in Indonesia, UAE, Saudi Arabia, Bahrain, Oman, and Qatar.

Acquired in 2014, Farmacias Benavides in Mexico (1,165 stores) and Farmacias Ahumada in Chile (317 stores) make up the central and South American market for Walgreens.

In 2020 WBA joined in an alliance with McKesson to combine German operations to create a wholesale pharmaceutical business in Germany, with WBA holding 70%. WBA hopes that this partnership will allow growth in its pharmaceutical wholesale division and improve WBA's foothold in the European market.

## Growth Strategy

M&A is currently focused on strategic growth in firms that align with WBA's goals of becoming a "next-gen" pharmacy. For example, during the height of the COVID-19 pandemic, the myWalgreens online program saw 40 million new members in 6 weeks, growing to 8 million daily customers online and in-store. The future of the "next-gen" pharmacy is omnichannel, with a customer engagement platform designed to aid customers, while also providing personal health data. This, in turn, will enable the care integration platform, which will allow users to get virtual or home doctor visits or find care. Finally, providing users with a health marketplace for prescriptions, specialists, or care management.

Walgreens invests in several emerging health and pharmacy companies across the United States and the world, including a large stake in several Chinese firms.





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In addition, capital priorities are to pay down debt by approximately \$2.5 billion and rapidly advance online and omnichannel distribution networks.

Walgreens launched the Walgreens Advertising Group (WAG) to partner with Mastercard and Synchrony to provide retail and healthcare financial services. This includes co-branded credit cards, prepaid debit cards, and healthcare payment programs, allowing WBA to build alternative revenue streams.

## Risk

WBA is a company that operates across a broad range of sectors across the globe, including retail and pharmacy services. These risks include brand damage related to possible errors at the pharmacy, customer preferences shifting away from the traditional retail experience, and foreign exchange risk.

## Metrics

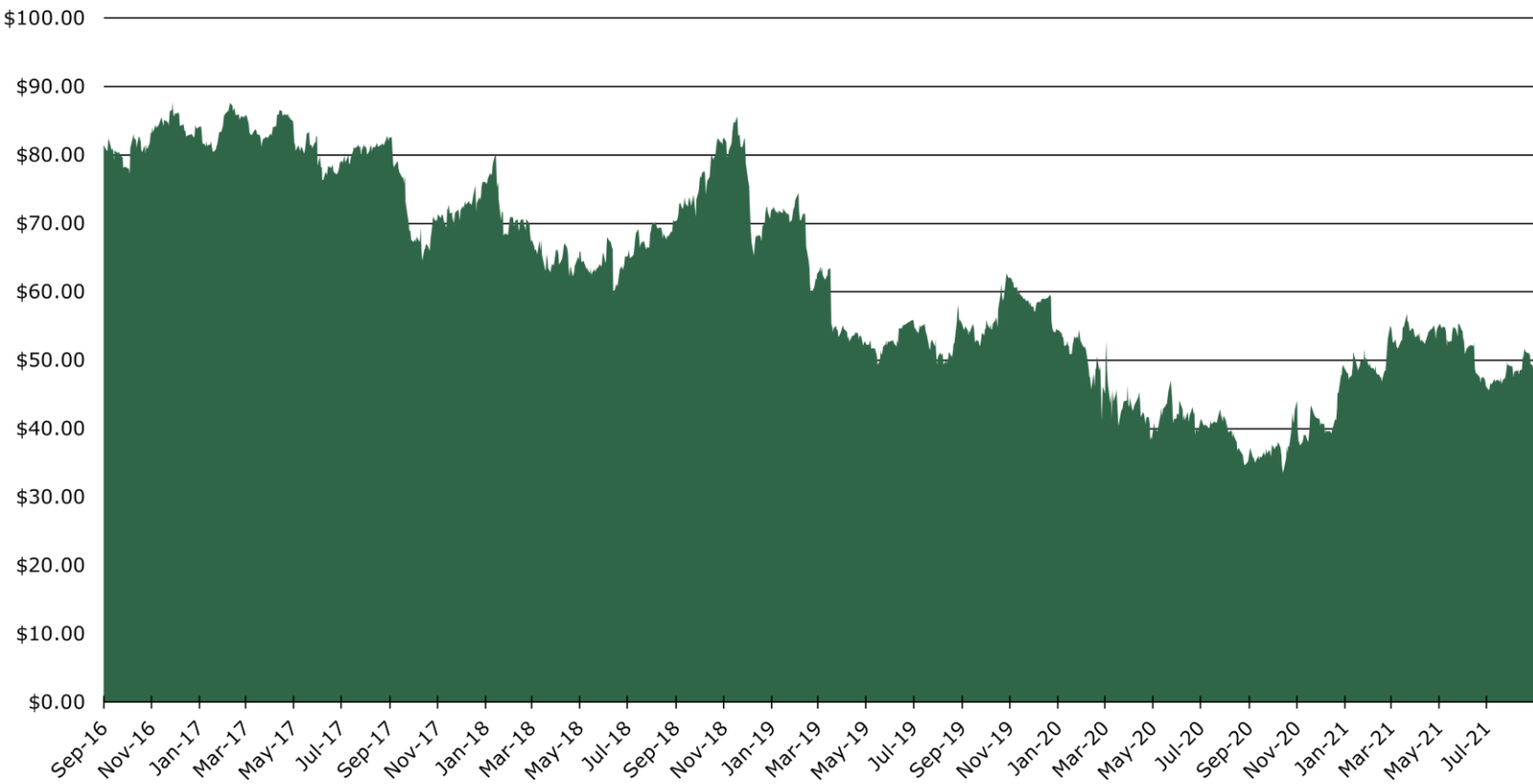
WBA has seen free cash flow increase by 35.8% year over year, with an 81.4% increase in earnings-per-share (EPS). This is indicative of both a significant recovery from COVID-19 and additional growth. As a result, EPS guidance has been raised by 10% for the remainder of FY2021.

There has been a more modest 10.4% increase in revenue year over year.

<b>Walgreens Boots Alliance (WBA)</b>	<b>FY2021</b>	<b>E2022</b>	<b>E2023</b>
<b>Price-to-Sales</b>	0.3	0.3	0.3
<b>Price-to-Earnings</b>	10.5	9.9	9.3
<b>EV/EBITDA</b>	13.1	12.5	12.1

<b>Estimated Next 12 Months</b>	<b>Dividend Yield</b>	<b>Price-to-Sales</b>	<b>Price-to-Earnings</b>
<b>Walgreens Boots Alliance (WBA)</b>	3.9%	0.3	9.94
<b>CVS Health (CVS)</b>	2.4%	0.4	10.49
<b>RiteAid (RAD)</b>	0.0%	0.04	Neg

## Walgreens Boots Alliance (WBA)



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