

Walgreens Boots Alliance (NASDAQ: WBA)

Sector: Retail



Walgreens Boots Alliance

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$98.38	\$68.87	\$88.00	\$66.92	14.9	\$72.67 B	2.38%	.89

Business Description

Walgreens Boots Alliance is a global pharmacy-led, health and wellbeing enterprise. They are the largest retail pharmacy, health and daily living destination across the United States and Europe. The WBA portfolio is made up of Walgreens, Boots, Alliance Healthcare, and Duane Reade, and additional health and beauty brands. Walgreens brand stores occupy the largest market share in the US retail pharmacy space, while Boots stores occupy a similar position in the UK. In addition to these dominant retail pharmacy chains, WBA maintains a strong presence in the global pharmaceutical wholesale business through the Alliance Healthcare brand, which also offers a wide array of services to a vast network of independent European pharmacies.

Industry Trends

Walgreens operates in two main industries, the retail and health care spaces. The retail space has been crushed because of fears that Amazon continually taking revenues away from brick and mortar sales. Walgreens has not been immune to such fears as Amazon has threatened to enter the pharmaceutical space. The pharmaceutical industry has marked by cost pressures on drugs and consolidation. Walgreens' stock has been hit by all of these pressures but has a strategy in place to counter such setbacks.

Investment Thesis

We believe WBA is a buy because of their strategic positioning, industry trends, and valuation. The company's new cash-only deal to acquire almost 1,932 Rite Aid stores will put them ahead in terms of store count in the US by a wide margin, with the added benefit of not having to take on Rite Aid's debt load as would have been the case in the initially rejected deal structure. Walgreens' business model puts it in the unique position of being the only global pharmacy-led business of its type. We believe this global presence will allow it to effectively weather any major industry headwinds, and opens up a wider array of growth opportunity compared to its competitors. This belief is strengthened by favorable demographic trends in the geographies in which they operate and significant hidden assets in the form of their large minority stake in major supplier Amerisourcebergen. The company is led by a management team that has proven able to act decisively in adjusting to industry trends evidenced by their increasing focus on specialty pharmacy products, as well as cost management, where they have successfully implemented a cost transformation program ahead of schedule, resulting in a 2.7% improvement in gross margin since 2014.

5-Year Stock Performance



Competitive Analysis

After the Rite-Aid deal, Walgreens only main competitor is CVS. CVS has a similar market share and retail locations while Rite-Aid lost almost half of their store count to Walgreens. As mentioned previously, Amazon is thinking of entering the space but will face challenges if they do so.

Competitive Advantages

WBA's major competitive advantages are: the strengths of its brands, their global footprint, their scale and their management. As mentioned earlier in this report, with the addition of the newly purchased rite aid stores, WBA's retail pharmacy brands possess dominant market shares in the US and UK in terms of both volume and value. 75% of the US population lives within 5 miles of a Walgreens, a statistics we believe will help them win the convenience battle should Amazon enter the market. In addition to these brands, Alliance healthcare is one of the largest pharmaceutical wholesalers in most of the markets in which they operate, a critical factor for success in an industry where scale is especially important. In the same vein, their large stake in Amerisourcebergen contributes to creating significant purchasing power which we believe widens their economic moat.

Risks

Walgreens faces a number of risks, including but not limited to: Amazon entering the pharmacy space, widespread changes in pharmacy reimbursement practices, changes made to Medicare and Medicaid programs, increased pricing pressure on pharmaceutical products. We believe WBA is positioned well to mitigate these risks in the long term and do not see any of the potential threats from major legislative changes to healthcare policy materializing. In addition, we do not see any significant balance sheet risk or valuation risk as we will be able to purchase the shares during what we believe to be a downturn driven by a market overreaction to the Amazon threat.

Report Prepared By:

Max Janik and Jack Leyland on 10/3/2017

Sources: Bloomberg

Valuation Assumptions

WACC: 7%
Terminal Growth Rate: 1.50%
Ave. 10 year Rev Growth Rate: 4.9%

Key Financials

ROA: 6.1%
ROE: 14%
ROIC: 9.6%
Net Income: \$4.17B

Corporate Social Responsibility

ISS Governance QualityScore: 1 (Highest possible)
CSRhub CSR Rating: 54 (Above Average).
2016 UN Foundation Global Leadership Award
Full CSR Report: <http://www.walgreensbootsalliance.com/corporate-social-responsibility-report/>

