

Walgreens Boots Alliance (NASDAQ: WBA)

Sector: Consumer Staples / Healthcare



Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$73.45	\$55.58	\$86.31	\$49.03	10.88	\$50.34B	3.35%	.88

Business Description:

Walgreens Boots Alliance is a pharmacy-led health and wellbeing company. They operate in three segments: Retail Pharmacy USA, Retail Pharmacy International and Pharmaceutical Wholesale. The Retail Pharmacy USA segment consists of the Walgreen Co. business, which includes the operation of retail drugstores, care clinics and specialty pharmacy services. The Retail Pharmacy International segment consists mainly of the Alliance Boots pharmacy-led health and beauty stores, optical practices, and related contract manufacturing operations. The Pharmaceutical Wholesale segment consists of the Alliance Boots pharmaceutical wholesaling and distribution businesses. The company owns a portfolio of retail and business brands including Walgreens, Duane Reade, Boots and Alliance Healthcare, as well as global health and beauty product brands, including Botanics, Liz Earle, No7 and Soap & Glory.

Industry Trends:

The pharmaceutical industry has recently been subject to strong consolidation pressures as companies seek to combine supply chains in hopes of driving down costs and improving patient outcomes. Additionally, the prescription drug market is on the rise. As the population ages, the demand for drugs will rise. Prescription sales are 65% of WBA's retail sales. Furthermore, the increasingly limited supply of primary care physicians gives WBA an opportunity to grow in the healthcare space. Finally, generic drugs are growing at a quicker rate than prescriptions. This will allow for higher margins in a shrinking margin industry.

Investment Thesis:

Walgreens Boots Alliance holds a significant market share of both the pharmaceutical retail and pharmaceutical wholesale industries in the U.S. and Europe, as well as many key partnerships across the pharmaceutical supply chain. Additionally, the population in the U.S. and Europe is living longer and senior citizens are becoming a greater proportion of the general population. Elderly people (those 64+) make up a significant portion of WBA's pharmaceutical sales. These factors and more will drive continued growth for WBA.

Valuation Assumptions:

WACC: 9.0%
Perpetuity Growth Rate: 3.0%
Margin of Safety: 32.7%

5-Year Share Price Performance:



Competitive Advantage and Analysis

Due to WBA's size and scope (retail pharmacy, optical practices, contract manufacturing operations, wholesale segment, etc.), we believe they have a competitive advantage in regard to their control of various aspects of their supply chain and thus prices.

Risks:

The greatest risks facing WBA which may negatively impact its share price include, but are not limited to:

- Increased reimbursement pressure from PBMs squeezing margins
- Weakening front-of-store sales
- Lawsuits related to opioid crisis
- E-commerce

Corporate Social Responsibility Highlights:

- Emissions down 15.3% in 2018
- Red notes: 40M sold, \$71M raised
- Gave more than 34M lifesaving vaccines to children around the world
- How2Recycle labels on 600+ Walgreens owned brands

Report Prepared By:

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Sources: Bloomberg, Thomson Reuters, Moody's