



CAIRN  
INVESTMENT  
GROUP

## COMPANY SPOTLIGHT:

# Walgreens Boots Alliance, Inc.

## COMPANY DESCRIPTION

Headquartered outside of Chicago in Deerfield, Illinois, Walgreens is one of the largest pharmacies in the United States, with nearly 9,600 locations in all 50 states, Puerto Rico, and the US Virgin Islands. Founded in 1901, Walgreens has three arms: retail US pharmacy, retail international pharmacy, and wholesale pharmaceuticals.

Walgreens CEO, Gregory Wasson, is serving his tenth year.

## COMPANY HIGHLIGHTS AND FINANCIALS

The Walgreens Company purchased United Kingdom-based Alliance Boots (pharmacy and distribution services) in 2014, becoming the Walgreens Boots Alliance Inc. This acquisition cemented their position as a global leader in retail pharmacy, health, and wellness services. In the US and US territories, Walgreens operates nearly 9,600 pharmacy locations that focus on prescription drug fulfillment and sale of household goods. In 2017, Walgreens filled around 20% of prescription drugs in the US, accounting for around 70% of their revenue.

Due to the large disparity in revenue between pharmacy and retail household goods, Walgreens is partnering with other companies such as Kroger to expand their grocery offerings, and United Health

Group's MedExpress to introduce clinical services at their locations. These initiatives are expected to increase top line sales, and counter-balance their more mature pharmacy business. Large cash generation allows Walgreens to reward shareholders through dividend increases and strategic share buybacks.

### KEY POINTS

- :: Global leader in retail pharmacy services
- :: Strong presence in retail and distribution services via acquisition of Alliance Boots
- :: Strong history of paying and raising dividends
- :: Consistent returns on capital and free cash flow generation
- :: Compelling valuations based on historical operating metrics and future growth projections

## VALUATION AND RISKS

Walgreens is trading at very attractive valuation levels. At their current sales and cash flow multiples, they are trading at roughly a 30% discount compared to their historical operating performance. Investor concerns over Amazon entering the health care space is putting short-term pressure on Walgreen shares. Based on conservative growth assumptions that Walgreens will grow cash flows at 3% in the near future, Walgreens should be valued at close to \$88, not the low \$60s. These growth rate assumptions are much lower than their historical operating performance. If our assumptions turn out to be incorrect, we believe this provides a margin of safety.

Risks that we will monitor going forward surround the ever-changing landscape of health care services and the continued results from Walgreens' growth initiatives. Weighing both potential rewards and risks, we are optimistic that Walgreens Boots Alliance is a good long-term investment.

—Patrick Mason, Investment Analyst, Cairn Investment Group



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