



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



ABOUT CAIRN INVESTMENT GROUP Cairn Investment Group is an independent fee only Registered Investment Advisor based in Portland, Oregon. Cairn staff has the experience and capabilities to serve our investors with a level of personal attention that only a smaller, independent company can provide. We pride ourselves on working in close contact with our investors.

503.241.4901 :: 877.241.4901 :: cairninvestment.com

121 SW Morrison, Suite 1060 :: Portland, Oregon 97204

© 2019 Cairn Investment Group

Cairn Investment Group and its affiliates ("Cairn") produces Company Spotlight reports ("Reports") for its clients and the general public. The Reports are impersonal and do not provide individualized advice or recommendations for any specific investor or portfolio. Investing involves substantial risk. Cairn makes no guarantee or other promise as to any results that may be obtained from using the Reports. Past performance should not be considered indicative of future performance. No reader should make any investment decision without first conducting his or her own research and due diligence. At various times Cairn may own, buy or sell the securities discussed for purposes of investment or trading. Cairn disclaims any and all liability in the event any information, commentary, analysis, opinions, advice and/or recommendations in the Reports prove to be inaccurate, incomplete or unreliable or result in any investment or other losses.

The Reports commentary, analysis, opinions, advice and recommendations represent the then current views of Cairn, and are subject to change at any time. The information provided in the Reports is obtained from sources the author believes to be reliable. However, the author has not independently verified or otherwise investigated all such information.

This is not a solicitation or offer to buy or sell any securities. Cairn does not receive any compensation from any of the companies featured in the Reports. Any redistribution of the Reports or the information contained therein, without the written consent of Cairn is strictly prohibited.