

EQUITY RESEARCH REPORT

WALGREENS BOOTS ALLIANCE



Walgreens Boots Alliance

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SECTOR & STRATEGY ANALYSIS

COMPANY AND INDUSTRY OVERVIEW

Founded in 1909 by Charles R. Walgreen and John Boot in Chicago, Illinois, Walgreens Boots Alliance (WBA) provides **healthcare and retail pharmacy services** through three main segments: United States Retail Pharmacy, International, and United States Healthcare. The U.S. Retail Pharmacy segment encompasses retail drugstores, specialty and home delivery **pharmacy services, and health and wellness offerings**. The International segment focuses on pharmacy-led health and beauty retail outside the U.S. and pharmaceutical wholesaling in Germany. The U.S. Healthcare segment improves health outcomes and reduces costs for payors and providers through integrated healthcare services, including owned and partnered assets.

The company operates in eight countries, employing approximately **312,000 people worldwide**. In fiscal year 2024, WBA reported a **revenue of \$147.7 billion**, with the U.S. market contributing the largest share at \$124.2 billion. Over its history, WBA has shifted **from a traditional drugstore model to a diversified healthcare services platform**, focusing on digital health initiatives, pharmacy automation, and community-based healthcare solutions. With a commitment to enhancing access to affordable and quality care, WBA is advancing its offerings in areas like specialty pharmacy, primary care clinics, and e-commerce. The company's main **competitors** are CVS Health Corporation, Rite Aid, and Target Corporation.

MARKET OFFERINGS

WBA has a **wide product offering** including prescription and over-the-counter drugs, vitamins and other supplements and health and beauty products, all of which are produced by external manufacturers. The **production costs** are divided into labor, premises, and machinery. These costs are highly volatile due to market uncertainties, which can only be combatted by long-term contracts and bulk purchases. WBA's

Valuation Date: 24/11/2024

Price: \$8.66

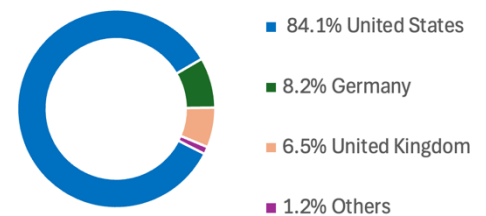
52-week range: 8.08 – 27.05

Average Volume: 21,825,526

P/E Ratio: N.A.

EPS: (10.01)

Revenue Exposure by Country



internal value chain thus begins with sourcing products from said manufacturers. The chain also includes running retail pharmacy outlets, providing healthcare services like vaccinations. This is organized by using **advanced technologies** like automated warehousing systems and digital supply chain management to streamline inbound logistics. Outbound logistics involves further distribution to retail stores, pharmacies and other third-part customer touchpoints which is maintained by investments in transportation, and digital distribution centers to ensure timely deliveries. The most integral part of the process however is the extensive marketing through traditional media, digital marketing, and in-store promotions, and developing omnichannel retail strategies and customer loyalty programs to incentivize repeated purchases. WBA also aggressively undertakes **customer service strategies** such as prescription filling, mobile apps for easier access and wellness tools, medication synchronization, prescription delivery and consultations.

SUPPLIERS

Walgreen's **supplier network is extremely large and diverse**, such that both global pharma giants and smaller, more specialized suppliers contribute to the company's inventory. In the company's relationships with suppliers, a fundamental role is played by the product differentiation between branded and generic drugs, as it strongly impacts how much bargaining power Walgreens has. For branded drugs, WBA has less room to negotiate due to the limited number of suppliers. Instead, in the case of generics, it can leverage competition among multiple suppliers to secure better prices. WBA's ability to **negotiate favorable terms** with its suppliers, especially with the latter, helps in managing its costs and maintaining competitive pricing within the retail market.

A significant aspect of Walgreen's supply chain is the **logistics** behind it. Given that pharmaceuticals often require specific handling procedures, be it in terms of temperature control or the ability to follow extremely strict schedules, the efficiency of transportation directly impacts the overall cost structure

and product availability of the company. Due to this aspect, Walgreens has invested in a robust distribution network to mitigate logistical challenges. Nevertheless, the geographic spread of suppliers, including pharma companies in developing countries such as India and China has continuously introduced additional complexity, partially overcome through long-term contracts which are common in this sector as they ensure stability and continuity of supply. Contracts with these suppliers, thanks to WBA's leading role within the industry and historical stability, are generally fixed-price agreements or volume-based contracts, thus allowing Walgreens to have a **stronger price stability**. However, fluctuations in the cost of raw materials and transportation do lead to instances of volatility that nevertheless do not affect Walgreens directly, as suppliers are often required to absorb these risks as per the contract terms.

Supplier changes, though infrequent, are not negligible both in the short-term and the long-term outlook of the industry. Voluntary changes often involve WBA shifting to new generic drug suppliers to lower costs and ultimately drive profits, while involuntary changes may occur due to supply-side non-compliance with regulatory standards, such as FDA guidelines. Both types of changes carry both opportunities due to exploring new supplier relationships and risks, such as supply chain disruptions and higher product costs.

Due to the large product base that WBA offers, the company works with thousands of suppliers. Nevertheless, a large portion of its critical pharmaceutical products, especially branded drugs, are provided by a few major companies which may lead to bargaining power imbalances that hurt WBA. Instead, with regards to generic drugs, Walgreens has more leverage due to an extremely **competitive supplier market**, especially in countries such as China and India which serve as major hubs for generic drug production. Additionally, the geographic spread of suppliers and WBA's reliance on international manufacturers may introduce strong risks related to political instability and regulatory differences.

CYCLICALITY AND ELASTICITY

The pharmaceutical and healthcare sector in which the company operates is characterized by **relatively low cyclicality** and demand elasticity since healthcare products, especially medications, are non-discretionary. In fact, consumers need them regardless of their economic conditions, rendering the demand for pharmaceutical products less susceptible to price changes and economic downturns. Focusing solely on WBA, these economic conditions enable its **core business to remain stable** even throughout extended periods of economic uncertainty. Nevertheless, seasonality does affect certain segments of its product offerings as, for example, the demand for cold medications and flu vaccines spikes during the winter months, as opposed to summer months.

While WBA operates in a traditionally **inelastic and less cyclical market**, both the 2008 financial crisis and the Covid-19 pandemic had significant effects on the company's performance, as evidenced by **large drops in stock prices** throughout those economic periods. During the 2008 financial crisis, even though the demand for pharmaceuticals remained steady, consumer spending on non-essential retail products such as cosmetics and general merchandise (part of WBA's product offerings), declined as people prioritized necessities. Additionally, the stock market's overall volatility led to a sell-off across most sectors, including the retail sector, which ultimately had a strong effect on Walgreen's stock, dragging it down. Similarly, the Covid-19 pandemic in 2020 disrupted WBA's operations, despite its predominant role within an essential business such as the pharma industry. Global supply chain issues, store closures and reduced foot traffic contributed largely to the revenue challenges that WBA had to face. While Walgreens **temporarily benefited from its involvement in the distribution of vaccines and Covid-19 tests**, the progressive shift toward digital healthcare during the pandemic introduced new competitive pressures.

The cost of strategic acquisitions completed by WBA shortly after the outbreak of the Covid-19 pandemic, such as its stake

in VillageMD for \$6.2 billion, has further strained Walgreens' balance sheet. Even though moves such as this one are part of the company's pivot towards healthcare services, they come with significant financial burden and the stock market often reacts negatively when companies undertake capital-intensive expansions, especially when immediate returns are yet unclear.

Additionally, **broader market dynamics such as rising inflation, higher interest rates and post-pandemic economic adjustments** have played a role in causing an 84% drop in WBA's stock in the last 5 years. Retail stocks, including WBA's have faced increased margin pressure and investors have reacted negatively due to them being increasingly cautious about profitability within such a challenging environment.

OWNERSHIP AND MANAGEMENT

WBA **ownership is largely dominated by institutional investors**, who hold approximately 61.05% of the shares. Major holders include **Vanguard Group** (9.34%), **BlackRock** (5.71%), and **SSgA Funds Management** (4.97%). Insider ownership accounts for 17.88%, with Stefano Pessina holding a significant 16.92% stake. The shareholder base is primarily U.S.-based, with passive funds such as the Vanguard Total Stock Market ETF holding considerable positions. Despite the prevalence of passive investments, some active management and strategic adjustments are evident, though shareholder activism remains minimal. The high insider ownership offers a potential avenue for influence.

WBA's management team comprises 19 members with an average tenure of 4 years, reflecting a balance of experienced and newer leadership. CEO Timothy Wentworth, who has been in office for 1 year, and COO Ornella Barra, with a decade of tenure, are key figures. CFO Manmohan Mahajan, with 8 years at WBA, brings financial stability. Stefano Pessina, the Executive Chairman, holds a pivotal role with 9 years on the board and a 16.92% ownership stake, underscoring his influence on strategic decisions. The board of directors includes 12 members, 67% of whom are

independent, with an average tenure of 5 years, ensuring balanced oversight and continuity.

GROWTH AND PARTNERSHIPS

WBA has pursued **both organic and inorganic growth** in order to maintain its position as a leading retail pharmacy and healthcare provider within the US national market. Even though organic growth, be it through store expansions, digital transformation or increased healthcare product offerings, remains of utmost importance, inorganic growth through acquisitions has played a central role in the company's strategy.

Notable recent acquisitions such as WBA's majority stakes in VillageMD and Shields Health Solutions have reflected WBA's central focus of integrating primary care and specialty pharmacy services within its portfolio of service offerings. These moves have signaled, both to shareholders and to the public at large, the top management's objective of pivoting towards an even more healthcare-centric model, going beyond traditional retail pharmacy operations. WBA has been operating also in Europe, Latin America and Asia and its internationalization has always been considered a key of its growth strategy. Nevertheless, the company's presence in markets such as Germany, UK, Chile and Thailand, among others, highlights both WBA's commitment to global expansion and the potential pitfalls of managing diverse regulatory environments.

WBA's acquisition history has demonstrated **a combination of opportunism and strategic intent**. While the company cannot be traditionally considered a "serial acquirer", recent news regarding potential investment opportunities that WBA is exploring suggest an increasingly focused approach to identifying opportunities that align with its strategic shift towards healthcare services as a whole. WBA has in fact emphasized its goal of building scalable healthcare services to complement its retail operations, ensuring future growth as traditional pharmacy margins may face pressure in the future. This overarching goal is reflected also in partnerships and

commercial agreements that WBA has developed throughout the years. Through its sale of Alliance Healthcare to AmerisourceBergen, the two companies have publicly announced the development of further commercial agreements and potential partnerships, allowing WBA to expand its reach across the healthcare value chain. This relationship with AmerisourceBergen in particular would enhance its supply chain capabilities while diversifying revenue streams. WBA has also announced earlier this year a strategic partnership with BARDA, part of the ASPR in the U.S. Department of Health and Human Services in order to increase innovation in decentralized clinical trials. All these elements point to WBA's desire to further develop its healthcare-centric business model and have reinforced WBA's relevance in community healthcare, while providing also for even higher financial stability, positioning the company for long-term scalability.

COMPETITORS

The **competitive pressure within the retail pharmacy sector remains high** since major players such as CVS Health, Rite Aid and Walmart compete aggressively in both pricing and service offerings. CVS Health has been able for example to diversify significantly thanks to its acquisition of Aetna, integrating healthcare services more deeply into its business model. Moves such as this one have evidenced WBA's need to respond to this pressure by expanding beyond retail pharmacy into healthcare services as a whole, thus shifting its business priorities, reflected for example in its investments in VillageMD and Shields Health Solutions, as mentioned in previous paragraphs.

The **widespread availability of product** alternatives such as generic drugs, online pharmacies and telemedicine services, driven by consumer demand for convenience and affordability, have also raised the competitive pressure within this industry. Furthermore, trends such as digital healthcare, prescription delivery and AI-driven healthcare solutions are continuously reshaping the market, as both new entrants and

incumbents have been trying to adopt these technologies on a daily basis in order to gain an edge on their competitors.

In terms of **competitor strategies**, key players such as CVS Health and Amazon have aggressively expanded into new healthcare services and digital platforms to capture market share. A trend regarding companies' behaviors within the industry can be identified: competitors tend to double down on innovation and diversification during periods of growth, but during economic slowdowns, cost-cutting and price wars intensify. WBA's strategy of investing in healthcare services reflects an effort to match these trends and mitigate the competitive pressure in its core retail operations.

PORTER'S FIVE FORCES

<p>Threat of New Entrants</p>	<p>High barriers to entry due to regulatory complexities (FDA compliance, international standards) Economies of scale in distribution and purchasing give established players an advantage over new entrants, limiting entry opportunities.</p>
<p>Bargaining Power of Suppliers</p>	<p>Major pharmaceutical companies hold significant power due to patent protections and limited alternatives for branded drugs. WBA has greater leverage in sourcing generic drugs due to a competitive supplier market, particularly in India and China. Supplier dependence on external financing for production adds variability to supply stability.</p>
<p>Bargaining Power of Buyers</p>	<p>Customers increasingly demand lower prices and better service, fueled by price transparency and online competition. The availability of alternative distribution channels such as online pharmacies and telemedicine increases customer power.</p>
<p>Threat of Substitutes</p>	<p>Product alternatives, such as generic drugs, online pharmacies, and telemedicine, are growing rapidly, driven by affordability and convenience.</p>
<p>Industry Rivalry (Incumbents)</p>	<p>High competitive pressure from major players like CVS Health and Rite Aid. Competitors are aggressively expanding into healthcare services and digital platforms (e.g. CVS's Aetna acquisition). Intense price wars and cost-cutting occur during economic slowdowns, increasing margin pressures across the sector.</p>

PESTEL ANALYSIS

POLITICAL

- **Regulatory Changes:** Healthcare policies in key markets like the U.S. and UK affect pharmacy operations and drug pricing. Policies like Medicare reforms or drug cost caps can impact revenues
- **Geopolitical Risks:** Global operations expose WBA to trade tensions, supply chain disruptions, and sanctions that could hinder market access and logistics
- **Government Support:** Increasing focus on public-private partnerships in healthcare provides opportunities, especially for pharmacy-driven health services

ECONOMIC

- **Inflation and Recession:** Rising inflation reduces consumer purchasing power, particularly for non-essential retail items like beauty products.
- **Healthcare Spending:** Aging populations in developed countries drive higher demand for healthcare, which aligns with WBA's focus on expanding healthcare services.
- **Currency Fluctuations:** Operating in multiple countries exposes WBA to exchange rate volatility, affecting revenues and profitability.

SOCIAL

- **Demographics:** Aging populations in markets like the U.S. and Europe increase demand for pharmacy and healthcare services.
- **Health Awareness:** Growing consumer focus on wellness and preventive healthcare aligns with WBA's community pharmacy and wellness initiatives.
- **Customer Behavior:** A shift toward convenience, including e-commerce and home delivery for medications and retail goods, shapes WBA's strategic investments in digital platforms.

TECHNOLOGICAL

- **Telehealth Growth.**
- **Partnerships** with companies like VillageMD and advancements in telehealth expand WBA's healthcare offerings.

ENVIRONMENTAL

- **Sustainability Initiatives.**
- Focus on **reducing carbon footprint** and implementing green packaging aligns with consumer expectations and regulatory requirements.

LEGAL

- **Compliance Costs:** Operating in heavily regulated sectors like pharmacy and healthcare increases compliance costs and risks.
- **Privacy Regulations:** Compliance with data protection laws like GDPR and HIPAA is essential, given the handling of sensitive healthcare data.

SWOT ANALYSIS

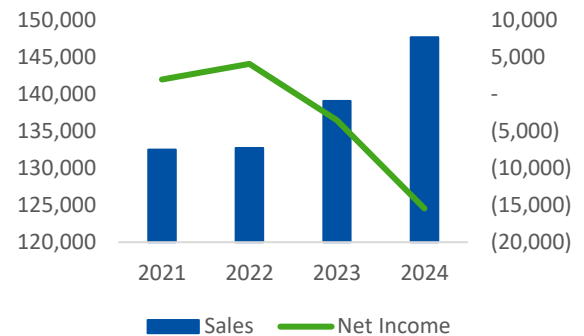
STRENGTH	WEAKNESSES
<ul style="list-style-type: none"> • Strong global presence over 21,000 stores across 11 countries and strong brand recognition. • Diversified operations lead to multiple sources of revenue and thus less risk. • Increasing investment in e-commerce and omnichannel capabilities, such as Boots.com, has boosted online sales. • Collaborations with VillageMD and AmerisourceBergen strengthen its healthcare offerings and supply chain efficiency. 	<ul style="list-style-type: none"> • High operational costs, affecting margins. • Declining retail sales in the US due to shifting consumer spending and increased competition. • The pharmaceutical industry faces a lot of legal issues which are both time consuming and expensive.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Expansion of healthcare service and partnerships. • Expanding into new areas. • Increasing focus on ESG can attract new customers. • Utilizing the new AI technologies for marketing and for new offerings. • Rising demand for e-commerce. 	<ul style="list-style-type: none"> • Intense competition. • Economic uncertainty in certain areas. • The uncertainty of government regulatory laws • Supply chain vulnerabilities.

FINANCIAL STATEMENT ANALYSIS

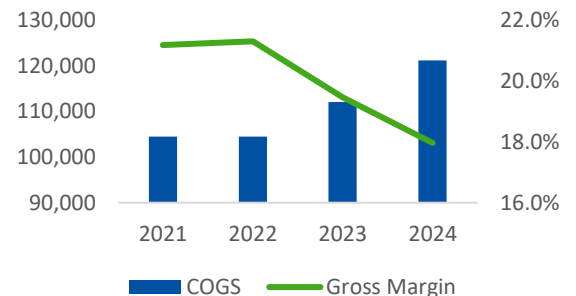
INCOME STATEMENT

In 2021, the ongoing **COVID-19 pandemic** and a global shift towards healthcare digitization significantly influenced Walgreens Boots Alliance’s operations. The company capitalized on **increased demand for pharmacy services and health products but faced supply chain challenges**. Walgreens launched a digital health platform to support remote pharmacy needs, offsetting declines in non-essential in-store purchases. Revenue stood at \$132.509 billion, reflecting a stable performance. This was primarily driven by Walgreens' **robust retail pharmacy business and healthcare services**, which remained steady as consumers continued filling prescriptions and utilizing essential services post-pandemic. Growth was likely constrained by weaker consumer spending and ongoing disruptions in global supply chains. In the same period COGS was \$104.442 billion, translating to a gross margin of around 21%, which indicates a **consistent cost structure**. Walgreens effectively managed its supply chain to meet steady demand. EBITDA was \$5.94 billion, supported by stable revenue and manageable operational expenses. The company demonstrated strong cost discipline during this period, maintaining post-pandemic efficiency. Net income was \$1.994 billion, reflecting solid performance and effective cost management. The company's pharmacy operations provided steady cash flow, supporting profitability; in particular FCF were \$4.176 billion, demonstrating strong cash-generating ability and dividends were \$1.88 per share, reflecting consistent shareholder returns supported by stable earnings. In 2022, however, the company faced **geopolitical uncertainty and inflationary pressures**, because of the war in Ukraine, but its focus on healthcare services and pharmacy innovation paid off. This limited growth could be attributed to slight pricing adjustments and expanded services. However, the marginal increase suggests limited organic growth, possibly due to competitive pressures in the healthcare retail segment and customers cutting back on discretionary purchases amidst

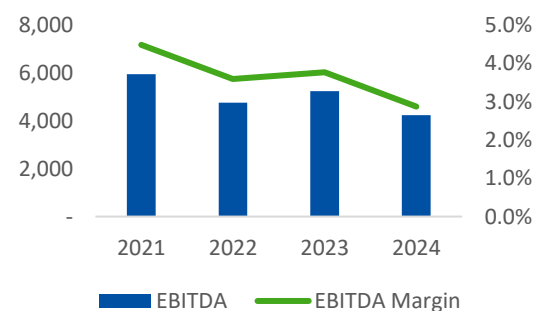
REVENUES & NET INCOME



COGS & GROSS MARGIN



EBITDA & EBITDA MARGIN



inflation concerns. COGS remained flat at \$104.438 billion, despite marginal revenue growth. This stability likely reflects effective supply chain management, improved cost control initiatives, and efforts to mitigate inflationary pressures. **This sharp increase was likely driven by improved operating efficiencies**, better cost management, and lower one-time expenses. Dividends rose to \$1.91 per share, aligned with the significant improvement in net income. This increase highlights Walgreens' confidence in its profitability. But, at the same time, FCF dropped to \$2.165 billion (-48%), reflecting rising capital expenditures and operational expenses. **In 2023, revenue increased to \$139.081 billion, growing by 4.8%**. The recovery in healthcare and pharmacy demand post-pandemic likely contributed to this growth. Walgreens expanded its healthcare footprint through partnerships and strategic investments. Additionally, increased healthcare spending by **aging populations likely bolstered revenue**. However, supply chain bottlenecks and rising inflation began to challenge operations. **COGS rose sharply to \$112.009 billion (7.2% increase)**, driven by significant cost inflation, particularly in labor and raw materials. The healthcare industry faced cost pressures due to rising wages, increased transportation costs, and higher input prices. Walgreens' inability to offset these rising costs with operational efficiency resulted in lower profitability. EBITDA was at \$5.24 billion, as revenue growth from expanding healthcare services partially offset rising costs. The company may have benefitted from its investments in new revenue streams, though efficiency challenges persisted. But the company reported a net loss of \$0.308 billion, marking a dramatic decline. This reversal was driven by a significant increase in operating expenses, rising interest payments, and lower-than-expected operating margins. **Strategic investments in healthcare and inflationary pressures further weighed on net income**. Dividends slightly increased to \$1.92, despite a net loss. The company likely aimed to maintain investor confidence despite deteriorating performance, while FCF plummeted to \$0.14 billion, driven by declining profitability and increased working capital requirements. Finally, **2024 marked the dark period the**

company is experiencing. Even though revenue climbed to \$147.658 billion, marking a 6.2% growth, driven by a strategic focus on expanding healthcare services, retail pharmacy network optimization, and inflationary pricing adjustments. However, customer destocking and general market volatility limited even stronger growth, as the company faced **challenges in maintaining consistent volume growth.** While COGS surged to \$121.134 billion (8.2% increase), outpacing the revenue growth. **Rising procurement costs, inflation, and inefficiencies** in handling larger volumes contributed to this disproportionate increase. Walgreens likely struggled with integrating cost-saving measures effectively into its operations during this period. EBITDA fell as well to \$4.24 billion (-19%). This decline was due to persistent cost pressures, including higher procurement costs, rising labor expenses, and operational inefficiencies. Despite growing revenue, the company struggled to convert it into operating profitability. Damages deepened significantly, with net income falling to -8.636 billion, reflecting heavy operational losses, possible asset impairments, and an inability to offset rising costs. **The sharp drop suggests structural inefficiencies, unsustainable cost structures, and potential write-offs of underperforming assets.** Therefore, the dividends dropped sharply to \$1.23 (-36%), reflecting financial strain. FCF turned negative at -\$0.363 billion, highlighting unsustainable cash outflows due to operational inefficiencies, rising costs, and significant net losses. **The steep decline in net income and cash flows made sustaining high dividend payouts untenable.**

BALANCE SHEET

Considering the balance sheet of the analyzed period, in **2022** Walgreens capitalized on post-pandemic recovery, achieving steady growth in revenue and profitability through cost discipline and strategic expansions, as **total assets grew** from \$81.285 billion to \$90.124 billion (11% increase) due to investments in healthcare services and expansions, and **shareholders' equity also rose to \$30.408 billion** (26% increase), driven by strong net income. **In 2023** the **onset of**

MAIN BALANCE SHEET ITEMS

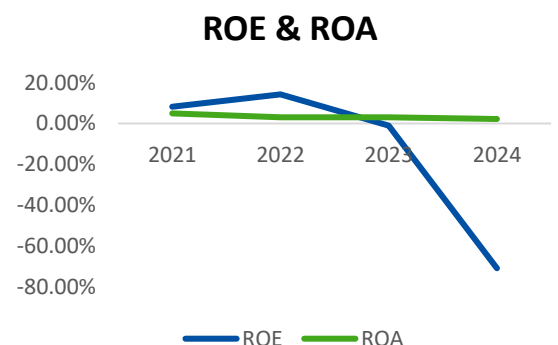


rising costs, inflation, and inefficiencies started eroding profitability and, simultaneously, strategic investments placed additional strain on the cash flow. The total assets reached \$96.628 billion, but **equity declined** to \$28.489 billion due to net losses. This reflects the growing pressure on Walgreens' balance sheet as profitability eroded. **In 2024, structural challenges, cost pressures, and operational inefficiencies, leading to heavy losses,** forced the company to reassess its strategy and reduce shareholder payouts. Total assets dropped to \$81.037 billion, likely due to asset write-offs or impairments. **Shareholders' equity fell significantly to \$12.18 billion (-57%),** driven by substantial net losses and a deteriorating financial position. The capital structure then became extremely unbalanced over the period considered, as its debt-to-equity ratio more than doubled from 3.28 in 2021 to 7.87 in 2024, and its debt to asset ratio increased from 0.70 in 2021 to 0.85 in 2024. Between 2021 and 2024, Walgreens Boots Alliance's equity fell significantly due to several interrelated factors. **Impairments from healthcare acquisitions** like CareCentrix and VillageMD resulted in substantial write-offs. These losses compounded with negative net income in 2023 and 2024, **driven by restructuring costs and large opioid litigation settlements.** Despite declining profitability, Walgreens maintained high dividend payouts, further reducing retained earnings and equity. Moreover, the company's costly healthcare acquisitions, which were intended for growth and were financed by the increase of debt, failed to deliver immediate returns, placing an additional strain on the equity base.

RATIO ANALYSIS

PROFITABILITY

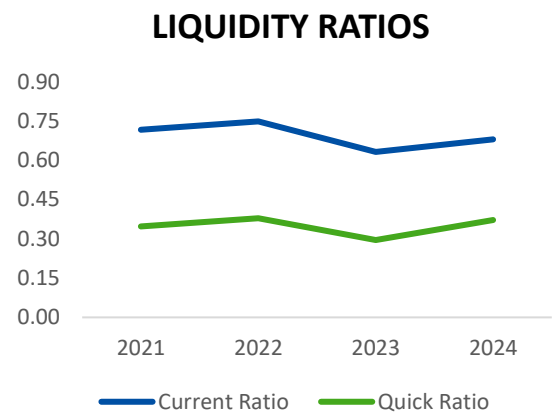
The **gross profit margin instability** reflects inconsistent operational efficiency and poor cost management. In the pharmaceutical industry, a Return on Assets (ROA) of 5% to 10% is often considered good. In 2021, ROA was 4.94%, scraping the average of the declining to 3.07% in 2022, despite higher net income, due to an increase in total assets. ROA slightly improved to 3.09% in 2023, but declined again to



2.20% in 2024, reflecting reduced operational efficiency as asset impairments and growing healthcare-related investments weighed on profitability. **The downward trend in ROA underscores difficulties in optimizing asset utilization**, particularly as WBA expanded into healthcare services with underperforming acquisitions like VillageMD. In the industry an ROE range of 8-16% indicates good returns for shareholders, Walgreens’ ROE is decreasing extremely fast. In 2021, ROE was 8.26%, indicating moderate returns. It increased sharply to 14.26% in 2022, reflecting higher profitability driven by gains from divestitures. However, in 2023, after the increase of the year before, **ROE turned negative reaching -1.08% and it plummeted to -70.90% in 2024**, driven by significant net losses and a declining equity base, signaling a sharp erosion in shareholder value.

LIQUIDITY

The current ratio was 0.717 in 2021, slightly improving to 0.748 in 2022, reflecting **better short-term financial health**. However, it dropped to 0.632 in 2023, indicating strained liquidity as liabilities grew. In 2024, it rose to 0.680, reflecting efforts to stabilize liquidity despite operational pressures. The current ratio consistently remained below 1.0, signaling potential challenges in meeting short-term obligations without relying on external financing. The quick ratio improved slightly from 0.347 in 2021 to 0.379 in 2022, then declined to 0.295 in 2023, reflecting tighter liquid asset levels. In 2024, it rebounded to 0.372. The quick ratio's low levels highlight WBA’s dependency on inventory and its vulnerability to supply chain disruptions. Furthermore, it is noticeable the fact that **movements of current and quick ratio were similar, this can highlight the fact that inventories remained stable** during this period and, therefore, they were not the cause of the fluctuation of the current ratio. Working Capital to Sales Ratio was negative throughout the period, starting at -4.71% in 2021 and worsening to -6.49% in 2023, before improving slightly to -5.84% in 2024. Negative values reflect a reliance on short-term financing to support



operations, a potential risk during periods of economic uncertainty.

EFFICIENCY

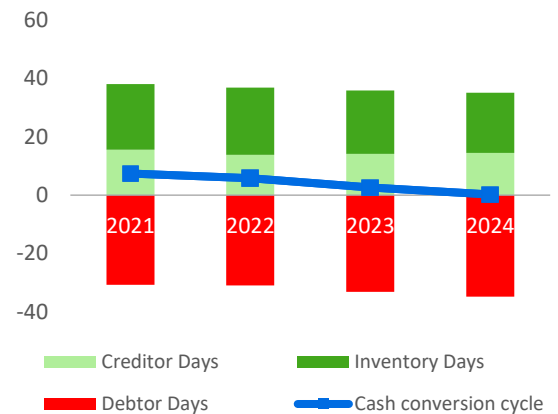
According to Inventory Turnover Ratio, **WBA managed inventory effectively during the pandemic**, meeting demand for vaccines and testing. However, by 2023 and 2024, increased inventories reflected inefficiencies tied to destocking trends and supply chain challenges. Receivables Turnover Ratio improved over the period, signaling better receivables management in line with increased healthcare services revenue, although retail pressures likely dampened gains. Despite an upward trend in revenue, **asset turnover ratios lagged industry peers**, reflecting the underutilization of acquired healthcare assets and slower returns from capital investments in new ventures like VillageMD.

SOLVENCY

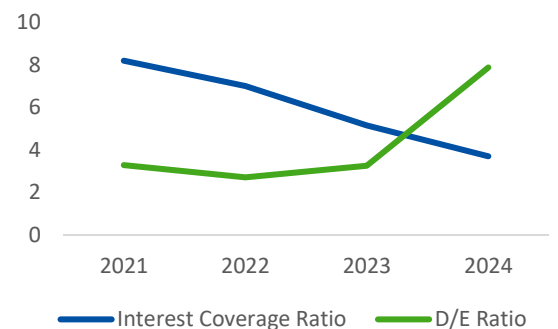
The debt-to-equity ratio was **3.28 in 2021, indicating heavy reliance on debt financing**. It improved to 2.71 in 2022, supported by higher equity from retained earnings. However, it rose sharply to 7.87 in 2024, reflecting the rapid erosion of equity amid persistent high debt level. The sharp increase in 2024 highlights heightened financial risk due to shrinking equity from net losses. Financial leverage increased from 3.36 in 2021 to a concerning 6.65 in 2024, reflecting the company’s growing dependency on borrowed funds relative to equity. **Interest Coverage Ratio fell from 8.18 in 2021 to 3.70 in 2024**, signaling declining ability to cover interest expenses with operating income. The drop reflects reduced EBITDA and increasing debt costs.

These trends underscore the urgency for WBA to manage its debt, optimize its healthcare investments, and improve operational efficiency to restore financial stability

WORKING CAPITAL DAYS



SOLVENCY RATIOS



COMPANY VALUATION

Year	Revenues Base Scenario (in M \$)	Revenues Positive Scenario (in M \$)	Growth rate (Base Scenario)	Growth rate (Positive Scenario)
2021	\$ 132,509			
2022	\$ 132,703		-0.15%	
2023	\$ 139,081		4.81%	
2024	\$ 147,658		6.17%	
2025E	\$ 149,327	\$ 154,737	1.13%	4.79%
2026E	\$ 152,238	\$ 162,155	1.95%	4.79%
2027E	\$ 155,237	\$ 169,928	1.97%	4.79%,
2028E	\$ 158,311	\$ 176,492	1.98%	3.86%
2029E	\$ 161,462	\$ 181,665	1.99%	2.93%

To determine the appropriate **revenues' growth rate** for the DCF model, historical, fundamental, and analysts' estimated growth rates were analyzed.

The table above presents Walgreens' historical and projected revenue. Operating within the **highly competitive U.S. pharmaceutical retail sector**, characterized by the significant reimbursement pressure, growing competition from Amazon, and inefficiencies stemming from the mismanagement of the Alliance Boots integration—Walgreens finds itself at a critical stage. Furthermore, the recent leadership transition has heightened uncertainty regarding the company's future growth trajectory.

Due to the lack of concrete guidance from the company, we align Walgreens' revenue growth estimates with the broader North American pharmaceutical retail sector's trends. Over the forecast period, we assume two scenarios:

1. Base Scenario: if the restructuring plan faces delays or fails to deliver the expected operational efficiencies, revenue growth will align with the long-term inflation targets of 2%, consistent with U.S. Federal Reserve projections.

2. Positive/Optimistic Scenario: the new CEO focuses on expanding the company's online presence while effectively executing the plan to close and repurpose 2000 underperforming stores (of which 800 are slated for

reconfiguration). This strategy could result in a gradual recovery and higher-than-average sector growth over the medium term.

In both cases, we anticipate that after the five-year horizon, Walgreens' **perpetual growth rate will stabilize at 2%**, reflecting long-term inflation targets and industry norms.

WACC

COST OF EQUITY

The cost of equity is calculated using the **Capital Asset Pricing Model (CAPM)**. A risk-free rate of 4.38% was selected, based on the average of the 10-year government bond yield of the United States for the last 12 months. The beta was calculated, and it was found to be 0.87. For the Market Risk Premium, we consulted P. Fernandez, an esteemed Professor of Finance at the IESE Business School in Spain. His research revealed that the average MRP for the US in 2024 is 5.50%. Therefore, based on the data provided, the **Cost of Equity is 9.17%**.

Cost of equity	
Risk free rate	4.38%
MRP	5.50%
Beta	0.87
Ke	9.17%

COST OF DEBT

Cost of Debt was calculated based on the same risk-free rate that was used to calculate Cost of Equity (4.38%). The **default spread** occurred to be 4.55% as the Rating S&P as of July 2024 (source: Factset) was BB negative. As a result, pre-tax cost of debt using the rating was 8.93%. To calculate after-tax Cost of Debt, we used the US corporate tax which is 25%. Therefore, **after-tax Cost of Debt occurred to be 6.70%**.

Cost of debt	
Risk free rate	4.38%
Rating	BB-
Credit spread	4.55%
Kd after-tax	6.70%

WACC

The Weighted Average Cost of Capital (WACC) was calculated by weighing the cost of debt and cost of equity as well as using the equity market value and the debt market value. As of November 20, 2024, Walgreens market capitalization (market value of equity) is \$7,617 million (20%) and outstanding Debt is \$30,734 million (80%) which results in **WACC of 7.19%**. This percentage is **reasonable** given the nature of the industry which is characterized by high competitions and low margins. Apart from that, it depicts a stable large corporation.

WACC	
MV of equity	7.62bn
MV of net debt	30.73bn
Tax rate	25.00%
E/(D+E)	20%
D/(D+E)	80%
WACC	7.19%

DISCOUNTED CASH FLOW MODEL

For our valuation, we primarily rely on the **base scenario model**, which yields an **enterprise value of \$40.45 billion** and an **equity value of \$7.98 billion**. This corresponds to an intrinsic **share price of \$9.16**, representing a 5.82% increase over the **current share price of \$8.66** (as of 24/11/2024). However, we also deemed it important to include an optimistic scenario to reflect potential outcomes under more favorable conditions.

The **optimistic scenario** yields an **enterprise value of \$47.44 billion** and an **equity value of \$14.97 billion**. This corresponds to an intrinsic **share price of \$17.19**, representing a 98.5% increase over the current share price of \$8.66. Although this is not the model we have adopted, it can serve as a useful reference point for future projections, particularly if the targets set in the latest financial statements are met.

A more detailed overview of the two DCF can be found in the appendix.

We have decided to include a sensitivity analysis reflecting potential changes in the WACC and the perpetual growth rate, which are the two variables with the greatest impact on the DCF model.

SENSITIVITY ANALYSIS

		WACC				
		6.19%	6.69%	7.19%	7.69%	8.19%
g	1.00%	10.96	5.98	1.81	(1.72)	(4.75)
	1.50%	16.00	10.05	5.16	1.08	(2.39)
	2.00%	22.24	15.00	9.16	4.37	0.36
	2.50%	30.17	21.12	14.02	8.30	3.59
	3.00%	40.60	28.91	20.03	13.06	7.45

In the table above we calculated the different price Walgreens can assume **changing the WACC and the perpetual growth rate** we estimated. In the **most pessimistic scenario**, reflecting both a 0.50% decrease in the perpetual growth rate and a 0.50% increase in WACC compared to the base scenario, the resulting share price is \$1.08. Conversely, in the **most optimistic scenario**, featuring a 0.50% higher perpetual growth rate and a 0.50% lower WACC, the calculated share price is \$21.12.

COMPARABLE COMPANIES ANALYSIS

To supplement the precedent analysis, a comparable companies approach was used. This involved **benchmarking WBA against relevant peers** in retail healthcare and consumer goods, including CVS Health, Rite Aid, Walmart, and other comparable businesses.

From the provided data:

Sources	Competitors	EV/EBITD A	P/E	EV/SALES
Damodaran	Drugs (Pharmaceutical)	9,6x	38,9x	4,1x
Factset	Rite Aid	17,3x	-	0,2x
Factset	CVS health	8,5x	8,1x	0,4x
Factset	Herbalife Ltd	5,5x	9,9x	0,6x
Factset	Target Corp	7,7x	12,9x	0,7x
Factset	Walmart	18,8x	47,0x	1,2x
Factset	Reckitt Benckiser	10,9x	22,3x	2,9x
Factset	Dollar General Corporation (DG)	7,4x	11,6x	0,6x
Factset	Farmacias Benavides SAB de CV	3,9x	37,6x	0,4x
Factset	Bath & Body Works, Inc. (BBWI)	6,6x	7,4x	1,4x
	<i>Median</i>	7,7x	12,3x	0,6x
	<i>Mean</i>	9,6x	19,6x	0,9x

- **EV/EBITDA** multiples ranged from 3.9x (Farmacias Benavides) to 18.8x (Walmart), with a peer median of **7.7x** and a mean of **9.6x**.
- **P/E** multiples varied significantly, with a peer median of **12.3x** and a mean of **19.6x**.
- **EV/Sales** multiples were relatively stable, with a peer median of **0.6x** and a mean of **0.9x**.

Applying these multiples to WBA's financial metrics provided the following valuations:

Valuation with multiples (in million \$)	EV/EBITD A	P/E	EV/SALES
Metric	4.240	(15.448)	147.658
Enterprise value	40.794		82.688
Net Debt	(30.734)		(30.734)
Minority Interest	(1.735)		(1.735)
Equity Value	8.325	(189.624)	50.219
NOSH	870,83	870,83	870,83
Price	9,56	(217,75)	57,67

The **EV/EBITDA** multiple of **9.6x**, in particular, suggests a **fair value of \$9.56 per share**, slightly above WBA's current price of \$8.66.

RECOMMENDATION

Walgreens Boots Alliance appears modestly undervalued, with an intrinsic value per share equal to **\$9.16** according to the **Discounted Cash Flow** analysis in the base scenario and **\$17.19** in the optimistic scenario, while the **relative valuation** yields a valuation of **\$9.56** per share. All these values are above the **current share price of \$8.66** (respectively 5.82%, 98.5% and 10.38%).

However, given the relatively small upside and the ongoing operational and strategic challenges facing Walgreens Boots Alliance (WBA), we maintain a **HOLD recommendation**. The company is navigating a significant **restructuring phase** marked by plans to close approximately 1,200 stores over the next three years, aiming to address a \$1.6 billion annual loss. This downsizing comes amid **intensified competition** from Amazon, Walmart, and CVS, alongside unfavorable reimbursement rates from pharmacy benefit managers. Additionally, Walgreens has scaled back its primary care clinic expansion and announced over \$1 billion in cost reductions.

While there are efforts to streamline operations and reposition the retail pharmacy business (which is why we also modeled a positive scenario to reflect the potential outcomes of such decisions), uncertainties persist. These include **weakening margins** in the U.S. pharmacy segment, high litigation costs, and reduced revenues from COVID-related services.

Given the **uncertainty surrounding these turnaround efforts** and their long-term impact, we recommend that investors monitor the company's strategic initiatives and market developments for **potential catalysts** that could enhance valuation. While some recovery in U.S. healthcare and international businesses offers potential, **the near-term outlook remains clouded by structural and competitive headwinds**.

HOLD

DCF APPENDIX (Base scenario)

EBIT ESTIMATION

(Data in \$ million)	Historicals				Explicit forecast			
	2021	2022	2023	2024	2025	2027	2028	2029
Sales	132,509	132,703	139,081	147,658	149,327	155,237	158,311	161,462
<i>Growth</i>		0.15%	4.81%	6.17%	1.13%	1.97%	1.98%	1.99%
COGS	(104,442)	(104,438)	(112,009)	(121,134)	(122,503)	(126,186)	(128,685)	(129,206)
<i>% of sales</i>	78.82%	78.70%	80.54%	82.04%	82.04%	81.29%	81.29%	80.02%
Gross profit	28,067	28,265	27,072	26,524	26,824	29,051	29,626	32,255
<i>Margin</i>	21.18%	21.30%	19.46%	17.96%				
SG&A Expenses	(22,126)	(23,504)	(21,828)	(22,284)	(24,994)	(25,983)	(26,498)	(27,025)
EBITDA	5,941	4,761	5,244	4,240	1,830	3,068	3,129	5,230
<i>Margin</i>	4.48%	3.59%	3.77%	2.87%	1.23%	1.98%	1.98%	3.24%
D&A	(1,923)	(1,990)	(2,257)	(2,459)	(2,012)	(2,515)	(2,564)	(2,615)
EBIT	4,018	2,771	2,987	1,781	(182)	553	564	2,615
<i>Margin</i>	3.03%	2.09%	2.15%	1.21%	(0.12%)	0.36%	0.36%	1.62%

DCF

(Data in \$ million)	Historicals				Explicit forecast				
	2021	2022	2023	2024	2025	2027	2028	2029	TV
EBIT		2,771	2,987	1,781	(182)	553	564	2,615	
Operational taxes		(693)	(747)	(445)	45	(138)	(141)	(654)	
NOPAT		2,078	2,240	1,336	(136)	415	423	1,962	
D&A		1,990	2,257	2,459	2,012	2,515	2,564	2,615	
Gross cash flows		4,068	4,497	3,795	1,875	2,930	2,988	4,577	
Change in noncash WC		540	1,467	1,195	(1,279)	154	158	162	
<i>% of sales</i>		0.41%	1.05%	0.81%	(0.86%)	0.10%	0.10%	0.10%	
CAPEX		(1,734)	(2,117)	(1,381)	(1,874)	(1,948)	(1,986)	(2,026)	
<i>% of sales</i>		(1.31%)	(1.52%)	(0.94%)	(1.25%)	(1.25%)	(1.25%)	(1.25%)	
FCFF		2,874	3,847	3,609	(1,277)	1,136	1,159	2,713	
TV cash flow									
Year					1	3	4	5	5
Discount factor					0.93	0.81	0.76	0.71	0.71
PV FCFF					(1,191)	923	878	1,917	
Terminal Value									53,341
PV terminal value									37,700
Enterprise Value				40,449					
Net Debt				(30,734)					
Minority Interest				(1,735)					
Equity Value				7,980					
NOSH				870.83					
Share Price				9.16					
Current Share Price				8.66					
Upside/Downside				5.82%					
Recommendation				HOLD					

DCF APPENDIX (Positive scenario)

EBIT ESTIMATION								
(Data in \$ million)	Historicals				Explicit forecast			
	2021	2022	2023	2024	2025	2027	2028	2029
Sales	132.509	132.703	139.081	147.658	154.737	169.928	176.492	181.665
<i>Growth</i>		0,15%	4,81%	6,17%	4,79%	4,79%	3,86%	2,93%
COGS	(104.442)	(104.438)	(112.009)	(121.134)	(126.941)	(138.128)	(143.463)	(145.374)
<i>% of sales</i>	78,82%	78,70%	80,54%	82,04%	82,04%	81,29%	81,29%	80,02%
Gross profit	28.067	28.265	27.072	26.524	27.796	31.800	33.029	36.292
<i>Margin</i>	21,18%	21,30%	19,46%	17,96%				
SG&A Expenses	(22.126)	(23.504)	(21.828)	(22.284)	(25.899)	(28.442)	(29.541)	(30.407)
EBITDA	5.941	4.761	5.244	4.240	1.896	3.358	3.488	5.885
<i>Margin</i>	4,48%	3,59%	3,77%	2,87%	1,23%	1,98%	1,98%	3,24%
D&A	(1.923)	(1.990)	(2.257)	(2.459)	(2.012)	(2.679)	(2.807)	(2.915)
EBIT	4.018	2.771	2.987	1.781	(115)	680	681	2.970
<i>Margin</i>	3,03%	2,09%	2,15%	1,21%	(0,07%)	0,40%	0,39%	1,63%

DCF									
(Data in \$ million)	Historicals				Explicit forecast				TV
	2021	2022	2023	2024	2025	2027	2028	2029	
EBIT		2.771	2.987	1.781	(115)	680	681	2.970	
Operational taxes		(693)	(747)	(445)	29	(170)	(170)	(742)	
NOPAT		2.078	2.240	1.336	(87)	510	511	2.227	
D&A		1.990	2.257	2.459	2.012	2.679	2.807	2.915	
Gross cash flows		4.068	4.497	3.795	1.925	3.188	3.318	5.143	
Change in noncash WC		540	1.467	1.195	(1.000)	400	338	266	
<i>% of sales</i>		0,41%	1,05%	0,81%	(0,65%)	0,24%	0,19%	0,15%	
CAPEX		(1.734)	(2.117)	(1.381)	(1.941)	(2.132)	(2.214)	(2.279)	
<i>% of sales</i>		(1,31%)	(1,52%)	(0,94%)	(1,25%)	(1,25%)	(1,25%)	(1,25%)	
FCFF		2.874	3.847	3.609	(1.017)	1.456	1.441	3.129	
TV cash flow									
Year					1	3	4	5	5
Discount factor					0,93	0,81	0,76	0,71	0,71
PV FCFF					(949)	1.182	1.092	2.212	
Terminal Value									61.531
PV terminal value									43.488
Enterprise Value				47.440					
Net Debt				(30.734)					
Minority Interest				(1.735)					
Equity Value				14.971					
NOSH				870,83					
Share Price				17,19					
Current Share Price				8,66					
Upside/Downside				98,52%					