



Walgreens Boots Alliance



Investment Report
March 2021
By: Iris Boparai

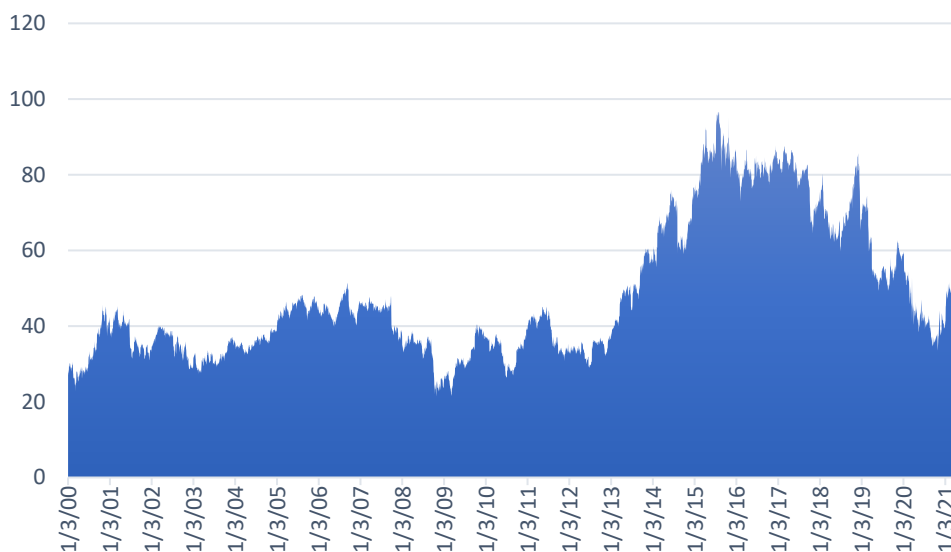
Investment Summary & Thesis

I am buying Walgreens Boots Alliance (WBA) at a price of \$56.55. This recommendation is based on its recent transaction with Village MD, increasing number of COVID-19 vaccines and tests being administered, and the Transformational Cost Management Program. Today the price sits at \$52.03. They have a high dividend yield at 3.87%. Their market cap is 44.96 Billion.

Key Drivers:

- VillageMD
 - WBA entered into an agreement with VillageMD to invest \$1.0 billion in equity and convertible debt over the next three years, including a \$250 million equity investment completed on July 8, 2020. WBA and VillageMD plan to open 500 to 700 “Village Medical at Walgreens” physician-led primary care clinics in more than 30 U.S. markets in the next five years. The Company will continue to account for its equity investment in VillageMD using the equity method of accounting. It is anticipated, assuming full conversion of the debt, that the Company will hold an approximately 30% ownership interest in VillageMD at the completion of the investment. The deal would make Walgreens the first national pharmacy chain to operate full-service medical offices on a large scale. This is going to be huge because the prescriptions that patients are prescribed are going to be sent right next door to Walgreens, which in turn should increase revenue in that sector.
- Increasing number of COVID-19 vaccines and tests being administered.
 - With COVID-19 vaccines being rolled out, more and more people are getting vaccinated. State requirements differ but one can sign up on the Walgreen’s app and then go to a nearby Walgreens to get the vaccine. This will bring in more foot traffic and will be beneficial for the retail pharmacy USA and international segments. Walgreens wants people to be safe and healthy and administering the vaccine is a way of doing that.
- Transformational Cost Management Program
 - The Transformational Cost Management Program is being put into place to help reduce costs. When looking at the financial data they are incurring more debt to drive long-term growth. This includes buying more stores and inventory to be turned over into sales. They plan on not opening as many stores as they planned to save money. They are also planning on saving \$2.0 billion by fiscal 2022 instead of the previous target, which was \$1.8 billion. They are also reducing the workforce in the Boots UK portion to reduce costs as well. This is going to drive up their financials and drive up their stock price.

WBA Stock Performance



Key Financials

Share Price	\$52.03
Market Cap (Billions)	44.96
Dividend Yield	3.87%
Beta	0.46
P/E	10.71
P/B	2.24
D/E	0.87
ROE %	18.34%

Business Description

Company Overview:

Walgreens Boots Alliance, Inc., a Delaware corporation (“Walgreens Boots Alliance”), is a global leader in retail and wholesale pharmacy, touching millions of lives every day through dispensing and distributing medicines, and through its convenient retail locations, digital platforms and health and beauty products with sales of \$139.5 billion in the fiscal year ended August 31, 2020. Walgreens Boots Alliance is the largest retail pharmacy, health and daily living destination across the United States and Europe. Walgreens Boots Alliance and the companies in which it has equity method investments together have a presence in more than 251 countries and employ more than 450,000 people. The Company is a global leader in retail and wholesale pharmacy and, together with the companies in which it has equity method investments, has over 21,000 stores in 111 countries. It also has the largest global pharmaceutical wholesale and distribution networks, with over 4,251 distribution centers delivering to more than 250,000 pharmacies, doctors, health centers and hospitals each year in more than 201 countries. In addition, Walgreens Boots Alliance is one of the world’s largest purchasers of prescription drugs and many other health and well-being products. The Company’s size, scale and expertise will help expand the supply of, and address the rising cost of, prescription drugs in the United States and worldwide. Walgreens Boots Alliance was incorporated in Delaware in 2014 and is the successor of Walgreen Co., an Illinois corporation, which was formed in 1909 as a successor to a business founded in 1901. The principal executive offices are located at 108 Wilmot Road, Deerfield, Illinois 60015. The common stock trades on the Nasdaq Stock Market under the symbol “WBA”.

Transactions:

In March 2013, Walgreens, Alliance Boots GmbH (“Alliance Boots”) and AmerisourceBergen Corporation (“AmerisourceBergen”) announced various agreements and arrangements, including a ten-year pharmaceutical distribution agreement between Walgreens and AmerisourceBergen pursuant to which the Company sources branded and generic pharmaceutical products from AmerisourceBergen in the United States and an agreement which provides AmerisourceBergen the ability to access generic pharmaceutical products through the Company’s global sourcing enterprise, Walgreens Boots Alliance Development GmbH. In May 2016, certain of these agreements were extended for three years and are now expected to expire in 2026. As of August 31, 2020, the Company owned 56,854,867 AmerisourceBergen common shares representing approximately 28% of the outstanding AmerisourceBergen common stock and has designated one member of AmerisourceBergen’s board of directors. As of August 31, 2020, the Company can acquire up to an additional 8,398,752 AmerisourceBergen shares in the open market and thereafter designate another member of AmerisourceBergen’s board of directors, subject in each case to applicable legal and contractual requirements.

On September 19, 2017, the Company announced that it had secured regulatory clearance for an amended and restated asset purchase agreement to purchase 1,932 stores, three distribution centers and related inventory from Rite Aid Corporation (“Rite Aid”) for \$4.375 billion in cash and other consideration. Consideration included cash of \$4,157 million and the fair value of the option granted to Rite Aid to become a member of the Company’s group purchasing organization, Walgreens Boots Alliance Development GmbH. During fiscal 2019, this option was terminated resulting in recognition of a gain in other income (expense). The purchases of these stores occurred in waves during fiscal 2018 and have been accounted for as business combinations. The transition of the first distribution center and related inventory occurred in fiscal 2019 and the transition of the remaining two distribution centers and related inventory were completed in fiscal 2020.

On December 12, 2019, the Company entered into an agreement with McKesson Corporation to combine their respective pharmaceutical wholesale businesses in Germany. The Company will have a 70% controlling equity interest in the joint venture and McKesson will have a 30% ownership interest. The new joint venture is expected to drive greater economies of scale in the German pharmaceutical wholesale market. The transaction is expected to close in early fiscal 2021.

On July 8, 2020, the Company entered into an agreement with VillageMD to invest \$1.0 billion in equity and convertible debt over the next three years, including a \$250 million equity investment completed on July 8, 2020, subject to the terms of the agreement. The Company and VillageMD plan to open 500 to 700 “Village Medical at Walgreens” physician-led primary care clinics in more than 30 U.S. markets in the next five years. The Company will continue to account for its equity investment in VillageMD using the equity method of accounting. It is anticipated, assuming full conversion of the debt, that the Company will hold an approximately 30% ownership interest in VillageMD at the completion of the investment. The deal would make Walgreens the first national pharmacy chain to operate full-service medical offices on a large scale.

Three Segments

Retail Pharmacy USA

This division operates 9,021 drugstores in 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. About 78 percent of the U.S. population lives within five miles of a Walgreens or Duane Reade pharmacy. It sells prescription and non-prescription drugs, as well as general merchandise, including household items, convenience and fresh foods, personal care, beauty care, photofinishing and candy. They filled approximately 818 million prescriptions in fiscal 2020, including immunizations, with pharmacy accounting for 75 percent of sales. Our expanded omnichannel capabilities provide customers with convenient access to consumer goods and services, as well as pharmacy and health and wellness services in communities across America. Integrated with our e-commerce platform, the Walgreens mobile application allows customers to refill prescriptions through scan technology, receive notifications alerting when a refill is due and choose in-store pick up, drive-thru or delivery to their home. Customers can also use the app to order retail products and choose in-store, curbside or drive-thru pick-up. The Walgreens Find Care platform also includes telehealth service providers, connecting patients and customers with options to access convenient and affordable care from their mobile devices. They have taken further steps to develop neighborhood health destinations, working with their strategic partners such as VillageMD to provide an integrated primary care and pharmacy model that aims to drive better health outcomes, reduce costs and provide a differentiated patient experience to the communities they serve. Walgreens also provides specialty pharmacy and mail services and offers in-store clinics and other healthcare services throughout the United States, and most of which are operated by their healthcare strategic partners. They have more than 85,000 healthcare service providers, including pharmacists, pharmacy technicians, nurse practitioners and other health-related professionals. Through them, they expect to continue to play a growing role in government and employer efforts to control escalating healthcare costs.



Retail Pharmacy International

This segment operates 4,428 retail stores, with a growing omnichannel and online presence. In Europe, they are the market leader. The principal retail brands are Boots in the UK, Thailand, Norway, the Republic of Ireland, the Netherlands and Lithuania, Benavides in Mexico and Ahumada in Chile. The Boots omnichannel offering is differentiated from that of competitors due to the product brands they own, such as No7, Boots Pharmaceuticals, Soap & Glory, Liz Earle, Sleek MakeUP, Botanics and the "only at Boots" exclusive products, together with our long-established reputation for trust and customer care. Their brands portfolio is enhanced by the in-house product research and development capabilities. Also, Boots UK is one of the leaders in the optical market, with 550 practices, of which 165 operate on a franchise basis. Around 30 percent of practices are located in Boots stores with the balance being standalone optical practices.



Pharmaceutical Wholesale

Their pharmaceutical wholesale division, which mainly operates under the Alliance Healthcare brand, supplies medicines, other healthcare products and related services to more than 115,000 pharmacies, doctors, health centers and hospitals each year from 306 distribution centers in 11 countries. Their wholesale businesses seek to provide high core service levels to pharmacists in terms of frequency of delivery, product availability, delivery accuracy, timeliness and reliability at competitive prices. This includes membership of Alphega Pharmacy, our pan-European network for independent pharmacies. In addition to the wholesale of medicines and other healthcare products, their businesses provide services to pharmaceutical manufacturers who are increasingly seeking to gain greater control over their product distribution, while at the same time outsourcing non-core activities. These services include pre-wholesale and contract logistics (mainly under the Alloga brand), direct deliveries to pharmacies, and innovative and specialized healthcare services, covering clinical homecare, medicine support, dispensing services, medicine preparation and clinical trial support (mainly under the Alcura brand). Combined with local engagement, scale is very important in pharmaceutical wholesaling. In addition to being a leading pharmaceutical wholesaler and distributor in Europe, they rank as one of the top three in market share in many of the individual countries in which they operate.



Revenue Across the Three Segments (\$ in Billions)

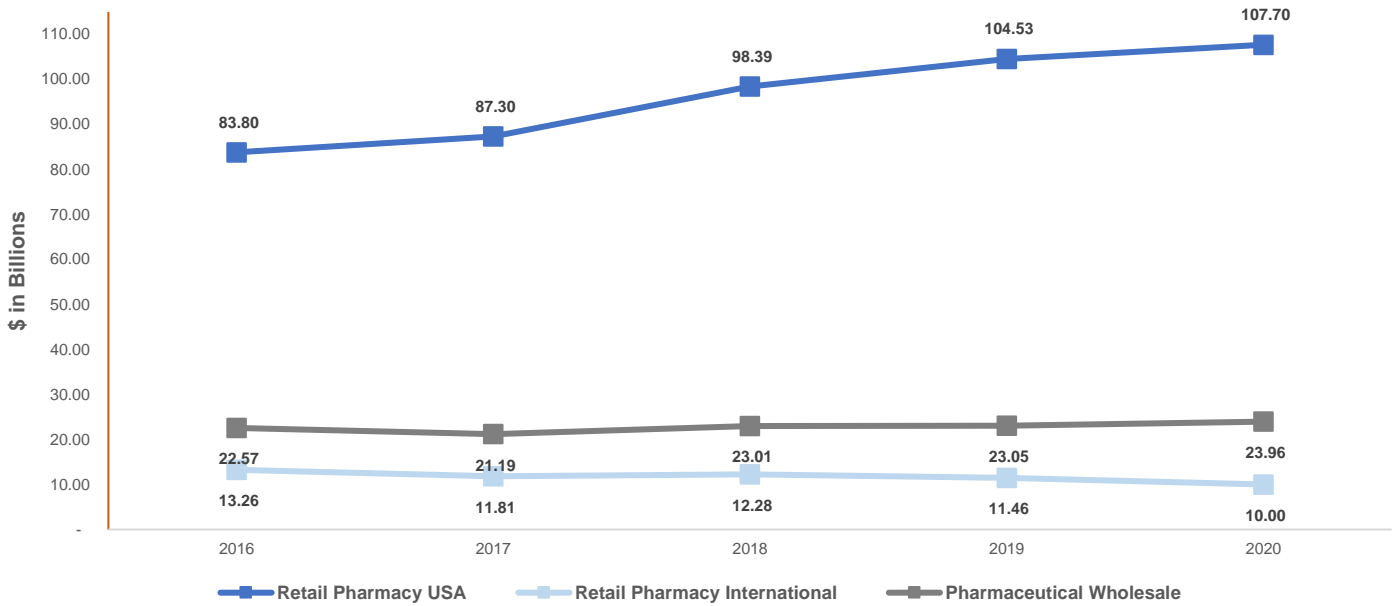


Chart Analysis

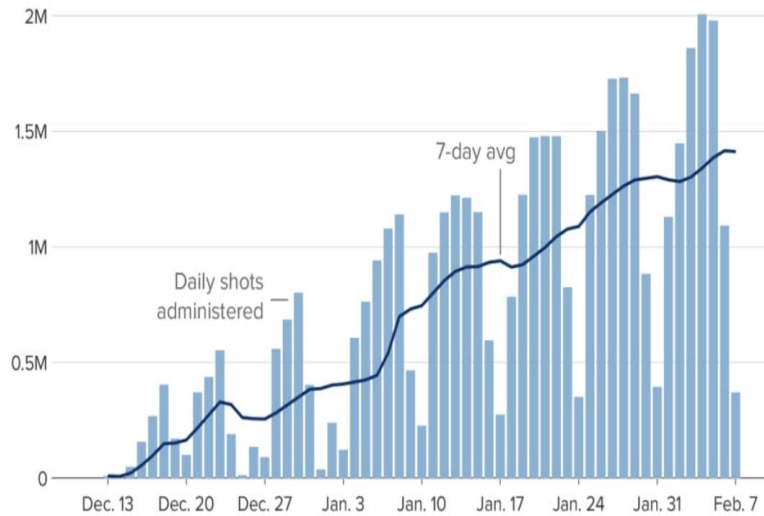
Retail Pharmacy USA brings in the most income because it has been around the longest. Around 75% of that income comes from the pharmacy side. With competitors like Amazon using Pill Pack, this could disrupt the pharmacy sales. But Walgreens is extending their omnichannel allowing customers to have prescriptions sent to their house. Since Walgreens is a trusted brand and a lot of people already get their prescriptions through them, I don't see Amazon having a huge disruption on Walgreen's revenue. Pharmaceutical wholesale is the second highest and retail pharmacy international is the third. Retail pharmacy international is relatively new and with the increasing number of stores being build, I see this increasing in the near future.

COVID-19:

COVID-19 affected many businesses throughout 2019 to today. Walgreen's saw a decrease in net income and other ratios. But Walgreens has been adapting to these unusual circumstances. In 2020, Walgreen's began testing people for COVID-19 at no cost. They offer free rapid testing across the U.S. Since COVID-19 testing began, Walgreens has administered more than 2.8 million tests. Also, Walgreen's has administering the vaccine as well. Walgreens is one of a dozen U.S. pharmacy chains partnering with the federal government that will administer Covid-19 vaccines. The Centers for Disease Control announced the partnership on Oct. 30. In the United States, 143 million vaccines have been administered and 51.6 million people are fully vaccinated. That accounts for only 15.72% of the population. In the graph below, you can see the increasing number of people getting vaccinated. When people book appointments to get the vaccine, they come into the store and this creates foot traffic. A lot of people end up buying something on their way out and that also creates revenue for Walgreens. They have also created a updated Walgreen app to allow people to order curbside or even pick up retail orders through the drive thru to minimize in person contact. Walgreen is also working with federal and state governments, Walgreens is vaccinating residents and staff at more than 35,000 long-term care facilities in 49 states. They will continue to give out vaccinations with the limited supply provided.

Vaccine doses administered in the U.S.

Daily doses administered by date of shot



SOURCE: Centers for Disease Control and Prevention. The CDC revises doses administered data in the days following the figures initially being reported. This chart shows all days for which the CDC says data is most complete. The figures through Feb. 7 are current as of Feb. 12.



Transactional Cost Management Program:

The Transformational Cost Management program came into effect due to COVID-19 and decreasing net profits. They are incurring debt to drive long-term growth but also using store optimization by only opening 232 stores in the U.S compared to the 250 originally planned. And opening 158 of 200 planned of Boots UK stores. Boots UK restructuring plan is reducing 11% in the workforce (vs. 7% previously) which could include closing down stores. There are advancing business process outsourcing partnership with Genpact. They have announced strategic partnership with Verizon for Network as a Service in U.S which will help save money. There will be continued efficiencies through new pharmacy processing automation and launch of new pharmacy operating model. The company increased its annual cost savings target from the Transformational Cost Management Program to in excess of \$2.0 billion by fiscal 2022, from the previous target, which was annual cost savings in excess of \$1.8 billion by fiscal 2022. This program will help their financials look better by saving more.

Management and Corporate Governance



Stefano Pessina

Executive Chairman, Walgreens Boots Alliance, Inc.



Ornella Barra

Co-Chief Operating Officer, Walgreens Boots Alliance, Inc.



James Skinner

Non-Executive Director, Walgreens Boots Alliance, Inc.

James Skinner has served as Executive Chairman since January 2015, having served as non-executive Chairman of the Board from July 2012 to January 2015. He is not the Non-Executive Director. Mr. Skinner previously served at the McDonald's Corporation as Vice Chairman from January 2003 to June 2012. He was the Chief Executive Officer from November 2004 to June 2012 and as a director from 2004 to June 2012 at McDonald's Corporation.

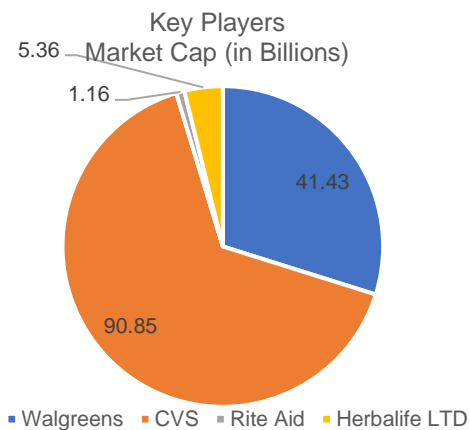
Stefano Pessina has served as Chief Executive Officer since July 2015 and as Executive Vice Chairman since January 2015. He served as Acting Chief Executive Officer from January 2015 to July 2015. Previously, he served as Executive Chairman of Alliance Boots from July 2007 to December 2014. Prior to that, Mr. Pessina served as Executive Deputy Chairman of Alliance Boots. Prior to the merger of Alliance UniChem and Boots Group, Mr. Pessina was Executive Deputy Chairman of Alliance UniChem, previously having been its Chief Executive for three years through December 2004. Mr. Pessina was appointed to the Alliance UniChem Board in 1997 when UniChem merged with Alliance Santé, the Franco-Italian pharmaceutical wholesale group which he established in Italy in 1977.

Ornella Barra has served as Co-Chief Operating Officer since June 2016. She served as Executive Vice President, President and Chief Executive of Global Wholesale and International Retail from December 2014 to June 2016. Previously, she served as the Chief Executive, Wholesale and Brands of Alliance Boots from September 2013 to December 2014 and Chief Executive of the Pharmaceutical Wholesale Division of Alliance Boots from January 2009 to September 2013, and before that, Wholesale & Commercial Affairs Director of Alliance Boots. Since January 2015, Ms. Barra has served as a director of AmerisourceBergen.

Industry Analysis

The retail pharmacy and pharmaceutical wholesale industries across the globe are highly competitive and dynamic and have experienced consolidation and an evolving competitive landscape in recent years. Prescription drugs will continue to play significant role in healthcare and constitute a first line of treatment for many medical conditions. Walgreens Boots Alliance believes the long-term outlook for prescription drug utilization is strong due, in part, to aging populations, increases in life expectancy, increases in the availability of generic drugs, the continued development of innovative drugs that improve quality of life and control healthcare costs and increases in the number of persons with insurance coverage for prescription drugs, including, in the United States, “baby boomers” increasingly becoming eligible for the federally funded Medicare Part D prescription program. Pharmaceutical wholesalers act as a vital link between drug manufacturers and pharmacies and healthcare providers in supplying pharmaceuticals to patients. Also, retail pharmacy relies heavily on private and governmental third-party payers. In addition, in many European countries, the government provides or subsidizes healthcare to consumers and regulates pharmaceutical prices, patient eligibility and reimbursement levels to control costs for the government-sponsored healthcare system. Legal and regulatory risk falls into play here. These industry dynamics and challenges are continuous and have intensified in recent years. Since the completion of the strategic combination with Alliance Boots in December 2014, the Company has had a continuous focus on operational efficiencies and cost reduction.

Industry Competition

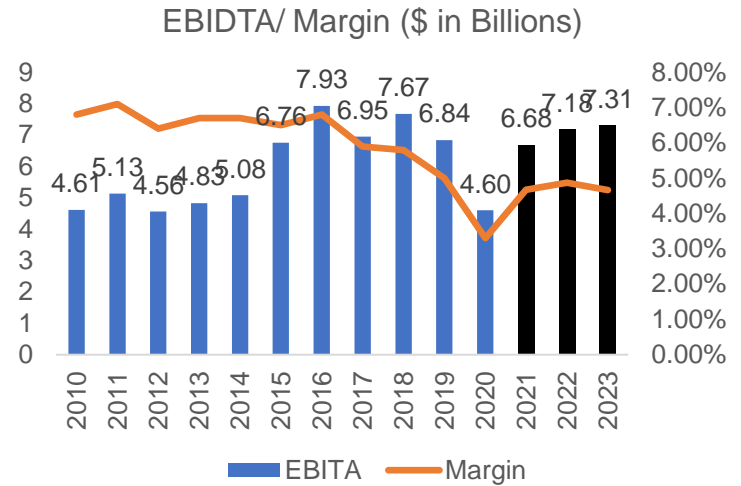
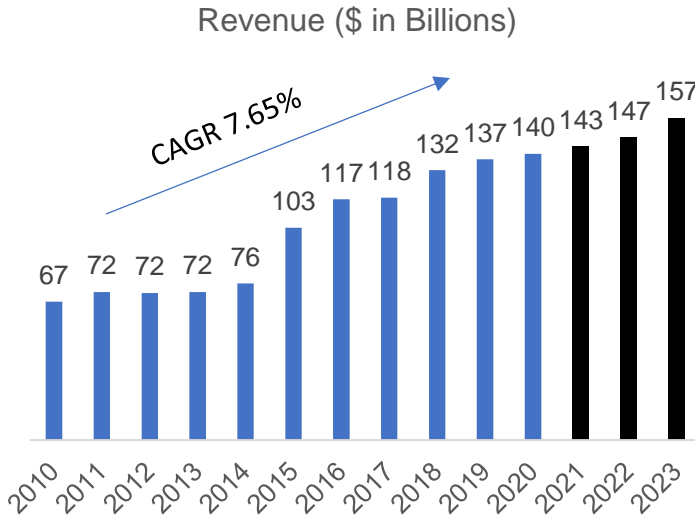


CVS is notably Walgreen's biggest competitor. They recently merged with Aetha which helps CVS provide low-cost services to people with Aetha insurance. Walgreens on the other hand is merging with VillageMD to also provide low cost services in a different way. They are allowing people to go to a nearby VillageMD, that is connected to Walgreens, and provide these services and then send over prescriptions right next door. This is especially beneficial to low-income communities that will utilize having doctors' offices so close and at a low cost. The pharmaceutical industry is overall stable and is a \$296.56 billion industry. The retail industry however is not as stable with more things switching online. Walgreens is putting more time and money into upgrading its app and allowing customer to order online and be able to send prescription medications to your house. Like stated before with Amazon coming out with the Pill Pack, Walgreen is a trusted brand that many people already use. They will continue to have customers despite the increasing number of competitors.

Porter's Five Forces

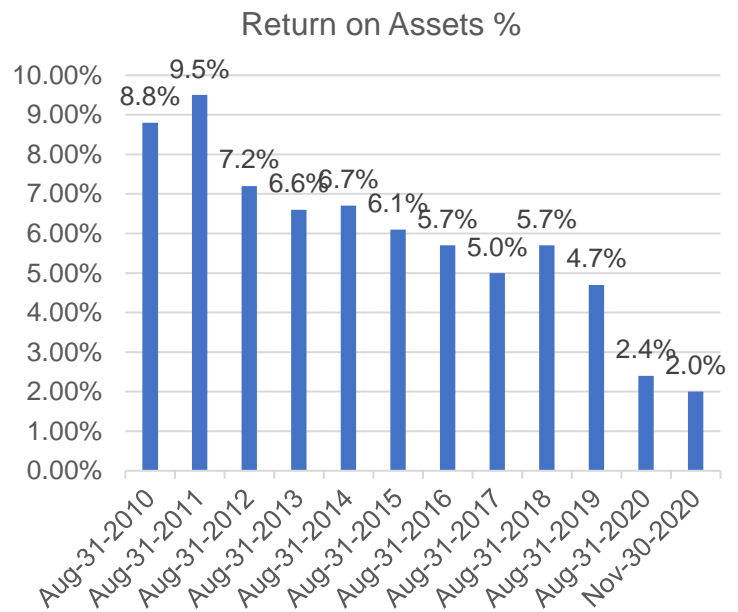
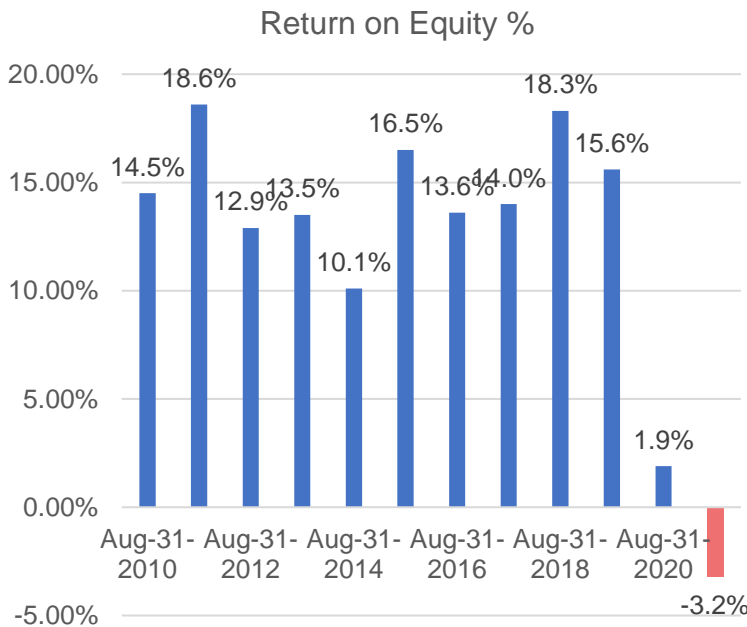
- Competitive Rivalry - High
 - There are well established competitors like Rite- Aid, CVS, and Walmart. The products that pharmaceutical companies offer don't differ much which allows the consumer little to no cost to switch over to a competitor causing the rivalry to be high.
- Threat of New Entrants - Low
 - The threat of new entrants is low because these existing firms are well established brands. One would need a large amount of capital to establish and compete. They would also have to get licenses that required by the FDA.
- Bargaining power of Suppliers - Low
 - Bargaining power of suppliers is low because suppliers provide Walgreens with raw materials and equipment. These suppliers are usually in contracts that business both the supplier and Walgreens so it would be hard to find contracts with well-established companies.
- Bargaining power of Buyers - High
 - The bargaining power of buyers is high because there is no switching cost for the consumer to go to a different store. Most of the stores offer similar products at similar prices.
- Threat of Substitutes - High
 - The threat of substitutes is high because as people buy vitamins and continue to live healthier lives, there will be little need to get prescription medicines. Also, there are homeopathic and herbal medicines that people might try to replace medications. There are always going to medications that cannot be replaced as well.

Financial Analysis



Walgreens Boots Alliance has had a steady revenue increase over the last 10 years. It has a CAGR of 7.65% from 2010 to 2020. This revenue is largely from the retail pharmacy USA segment of this company and 75% of that revenue being from the pharmaceutical portion. There is projected growth in the next three years as well.

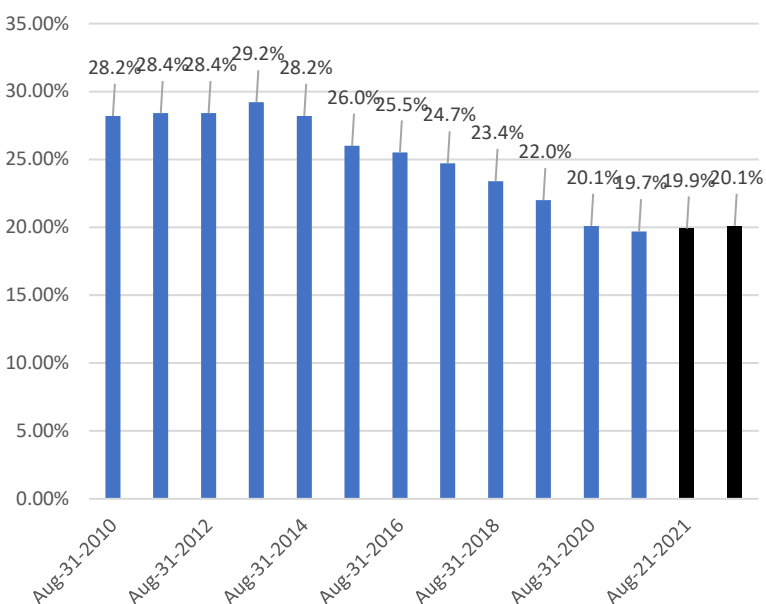
EBIDTA has been also increasing over the last couple of years. There was a slight decrease in 2020 due to the pandemic causing a lot of stores being shut especially internationally. This is also consistent with the margin ratio as well. There is predicted increase because of the lower expected operating expenses in the next three years.



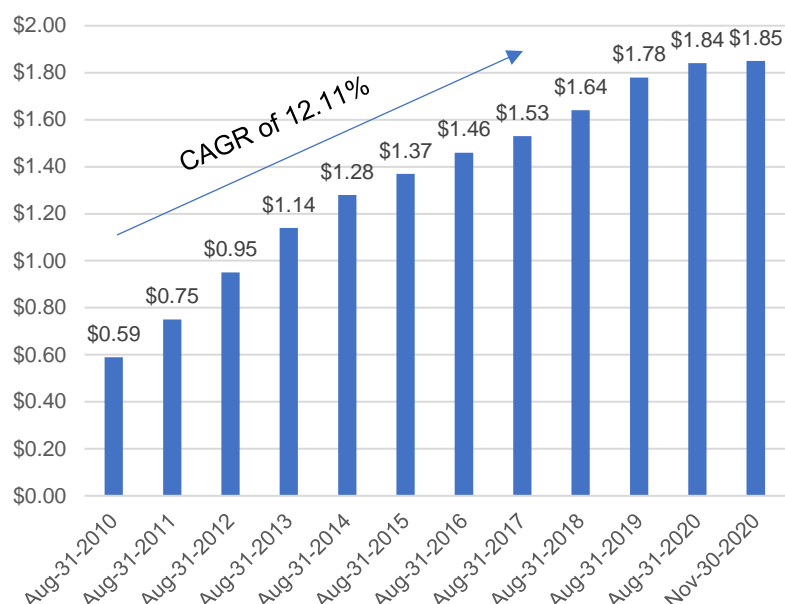
The return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested, showing the increase from 2014 to 2015 when it merged with Alliance. The negative means there was a loss in net income, this was due to the closure of stores due to regulations. But since Walgreens is restricting and not opening as many stores through the Transformational Cost Management Program, the ROE is expected to increase.

The return on assets has been pretty steady and consistent with the rest of the retail pharmacy industry. An ROA percentage over 5% is considered good. There is an obvious drop in 2020 due to COVID-19 and the closure of so many stores in the states and internationally. As more stores are opening back up in the US and internationally, the ROA is expected increase.

Gross Margin %



Dividends Per Share



The gross margin percent has been pretty stable with the pharmaceutical industry. Even though there is slight decrease over the last couple of years. The pharmaceutical industry has an average gross margin profit of 21.8% and it has been pretty consistent with that number.

The dividends per share seem to increase at the high rate with a CAGR of 12.11%. Because there is an increase in net profits out of which dividends are paid and there is more cash flow due to the higher revenues which were showed earlier in the revenue graph.

Comparable Company Analysis

When comparing Walgreens Boots Alliance among its competitors, it is the second smallest when looking at market cap. Yet its price to earnings and price to book are slightly higher than CVS, which is its most similar competitor. It also has a significantly higher price to free cash flow compared to all the other companies. I think even though Walgreens is smaller than the other companies they are living up to their competitors with their financials.

Ticker	Company	Market Cap	P/E	P/B	P/FCF
CVS	CVS Health	99.61 B	10.10	1.14	9.24
RAD	Rite Aid	1.32 B	-	2.16	20.63
WMT	Walmart	380.67 B	25.25	4.70	21.69
TGT	Target	100.20 B	23.47	6.94	11.61
PETS	PetMed Express Inc	677.46 B	19.76	4.87	6.20
WBA	Walgreens Boots Alliance	44.96 B	10.74	2.24	41.94

Valuation Dividend Discount Analysis

CASE 1	
Three Stage Growth Model	
Stage 1 Growth Rate	7.60%
Number of Years in Stage 1	1
Stage 2 Growth Rate	3.85%
Number of Years in Stage 2	5
Stage 3 Growth Rate	-1.00%
Growth Path	Linear
Cost of Equity Capital	3.52%
Dividends per share, LTM	\$1.86

k / terminal g	-2.50%	-2.00%	-1.50%	-1.00%	-0.50%	0.00%	0.50%
2.02%	\$54.03	\$59.50	\$66.53	\$75.89	\$88.95	\$108.48	\$140.84
2.52%	\$48.54	\$52.82	\$58.16	\$65.02	\$74.15	\$86.90	\$105.96
3.02%	\$44.05	\$47.47	\$51.64	\$56.86	\$63.55	\$72.46	\$84.91
3.52%	\$40.30	\$43.09	\$46.42	\$50.50	\$55.59	\$62.13	\$70.82
4.02%	\$37.13	\$39.43	\$42.15	\$45.41	\$49.39	\$54.36	\$60.74
4.52%	\$34.42	\$36.34	\$38.59	\$41.24	\$44.43	\$48.31	\$53.16
5.02%	\$32.06	\$33.70	\$35.58	\$37.77	\$40.36	\$43.47	\$47.26
Average	\$56.55						

CASE 2	
Three Stage Growth Model	
Stage 1 Growth Rate	2.00%
Number of Years in Stage 1	1
Stage 2 Growth Rate	1.50%
Number of Years in Stage 2	5
Stage 3 Growth Rate	-0.50%
Growth Path	Linear
Cost of Equity Capital	3.52%
Dividends per share, LTM	\$1.86

k / terminal g	-2.00%	-1.50%	-1.00%	-0.50%	0.00%	0.50%	1.00%
2.02%	\$53.35	\$59.63	\$67.99	\$79.67	\$97.13	\$126.07	\$183.39
2.52%	\$47.38	\$52.15	\$58.28	\$66.44	\$77.83	\$94.87	\$123.11
3.02%	\$42.59	\$46.32	\$50.98	\$56.96	\$64.93	\$76.05	\$92.68
3.52%	\$38.68	\$41.66	\$45.30	\$49.85	\$55.69	\$63.46	\$74.32
4.02%	\$35.42	\$37.84	\$40.75	\$44.31	\$48.75	\$54.45	\$62.03
4.52%	\$32.66	\$34.66	\$37.03	\$39.87	\$43.34	\$47.68	\$53.24
5.02%	\$30.29	\$31.97	\$33.93	\$36.24	\$39.02	\$42.40	\$46.63
Average	\$58.35						

Dividend Discount Analysis Explained

In the first case, I took the predicted growth rates from Yahoo Finance to calculate the average value using the dividend discount model. With the first year having a high growth rate due to COVID-19 vaccines and testing, I would expect a higher growth rate. Then in the next five years have a slower growth rate but still increasing, nonetheless. I wouldn't expect it increase forever and I predicted a slight decrease in stage 3. This average came out to be \$56.55. This is the price I chose to invest at because I do see the stock growing at a high rate and then slowing down. I did this again in the second case with more conservative numbers and for it to not increase as much. This averaged to be \$58.35.

Free Cash Flow Analysis

CASE 1	
Three Stage Growth Model	
Stage 1 Growth Rate	7.60%
Number of Years in Stage 1	1
Stage 2 Growth Rate	3.85%
Number of Years in Stage 2	5
Stage 3 Growth Rate	-1.00%
Growth Path	Linear
Cost of Equity Capital	3.52%
Free Cash Flow, LTM	\$746.00

	k / terminal g	-2.50%	-2.00%	-1.50%	-1.00%	-0.50%
	2.36%	\$50.02	\$52.16	\$54.86	\$58.37	\$63.09
	2.86%	\$47.80	\$49.50	\$51.60	\$54.23	\$57.65
	3.36%	\$45.96	\$47.34	\$49.00	\$51.04	\$53.62
	3.86%	\$44.41	\$45.55	\$46.89	\$48.51	\$50.51
	4.36%	\$43.09	\$44.04	\$45.14	\$46.46	\$48.04
	4.86%	\$41.95	\$42.75	\$43.67	\$44.75	\$46.03
	5.36%	\$40.95	\$41.63	\$42.41	\$43.31	\$44.37
Average	\$50.65					

CASE 2	
Three Stage Growth Model	
Stage 1 Growth Rate	2.00%
Number of Years in Stage 1	1
Stage 2 Growth Rate	1.50%
Number of Years in Stage 2	5
Stage 3 Growth Rate	-0.50%
Growth Path	Linear
Cost of Equity Capital	3.52%
Free Cash Flow, LTM	\$746.00

	k / terminal g	-2.00%	-1.50%	-1.00%	-0.50%	0.00%	0.50%	1.00%
	2.36%	\$53.03	\$55.44	\$58.57	\$62.79	\$68.80	\$78.05	\$94.09
	2.86%	\$50.65	\$52.52	\$54.87	\$57.93	\$62.05	\$67.91	\$76.94
	3.36%	\$48.72	\$50.20	\$52.03	\$54.32	\$57.30	\$61.32	\$67.05
	3.86%	\$47.11	\$48.32	\$49.76	\$51.55	\$53.79	\$56.70	\$60.62
	4.36%	\$45.76	\$46.75	\$47.93	\$49.34	\$51.08	\$53.27	\$56.11
	4.86%	\$44.61	\$45.44	\$46.40	\$47.55	\$48.93	\$50.62	\$52.76
	5.36%	\$43.62	\$44.31	\$45.12	\$46.06	\$47.18	\$48.52	\$50.18
Average	\$54.37							

Free Cash Flow Analysis Explained

In the first case, I took the predicted growth rates from Yahoo Finance to calculate the average value using the free cash flow analysis model. With the first year having a high growth rate due to COVID-19 vaccines and testing, I would expect a higher growth rate. Then in the next five years have a slower growth rate but still increasing, nonetheless. I wouldn't expect it increase forever and I predicted a slight decrease in stage 3. This average came out to be \$50.65. I did this again in the second case with more conservative numbers and for it to not increase as much. This averaged to be \$54.37.

Investment Risks



One of the risks that come with investing in Walgreens is business risks. These can include the company not being able to generate enough income to maintain expenses. There is also the risk of competition as Walgreens competes with various local, regional, national and global retailers, including chain and independent pharmacies, mail order prescription providers, grocery stores, convenience stores, mass merchants, online and omni-channel pharmacies and retailers, warehouse clubs, dollar stores and other discount merchandisers. Some mitigation strategies can include cutting down on spending to ensure that all debts can be paid off in due time and continuously looking for ways to stand out from competitors.



There are also technological risks that come with any big company. There is a lot of patient data and other confidential information stored in the Walgreen's database. It is essential that they are equipped to handle and IT or cybersecurity issues that arise. They also be able to handle any damage that could be done to the technology including failures, computer viruses, vandalism, theft, etc. Mitigation strategies can include allocating resources to make sure there are strong firewalls and making sure employees are trained properly when handling sensitive information.



There are legal and regulatory risks that can be a problem. Walgreens is governed by national, state and local laws of general applicability in the countries in which it does business, including laws regulating matters of working conditions, health and safety and equal employment opportunity. Also, there were government orders to shut down businesses and there were major stores in big cities in the US and internationally that were shut down which cost the company to lose a lot of money. This is a big factor to consider when investing in Walgreens. Some mitigation strategies that were implemented were the Transformational Cost Management Program that was put into place after the shutdowns began. Another strategy could include having a protocol to help navigate pandemics.



There are geopolitical risks that come with any international company. Walgreens needs to comply with a wide variety of foreign laws and regulations, including retail and wholesale pharmacy, licensing, tax, foreign trade, intellectual property, privacy and data protection, immigration, currency, political and other business restrictions and requirements and local laws and regulations, whose interpretation and enforcement vary significantly among jurisdictions and can change significantly over time. Mitigation strategy could be having people in place to keep up with foreign policies to stay on top of problems that could arise.

Sources

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Walgreens
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