

Walgreens Boots Alliance

FY1Q EPS beat consensus with reiterated FY24 guide

Maintain Rating: UNDERPERFORM | PO: 22.00 USD | Price: 25.57 USD

FY1Q EPS, revenue, EBIT above consensus

Walgreens' FY1Q results came in below our estimates, but above consensus with management noting ongoing challenges in retail market trends and a 21 percentage point headwind from higher tax rate. This was driven by stronger US Pharmacy performance partially offset by pressured front-end. US Healthcare revenue was below consensus estimates, highlighting challenges in scaling assets within this segment, although EBIT came in above consensus. Notably, Walgreens announced a 48 percentage reduction in the quarter dividend payment while maintaining FY24 adj. EPS guidance. WBA is taking a number of steps to align its cost structure, improve cash flow, and balance capital allocation priorities. We look for continued progress on these efforts before becoming more constructive, particularly with the new CEO to facilitate changes to the enterprise strategy. While WBA reiterated FY24 guidance and US Healthcare targets, we remain cautious on WBA's longer-term EPS growth algorithm. We maintain our Underperform rating ahead on the 8:30AM ET call.

FY1Q EPS and EBIT above St., FY24 EPS maintained

Walgreens adj. EBIT of \$687MM was above the Street's estimate of \$652.5MM and missed BofA's estimate of \$735.4MM. Same store prescription comp was 1.3% growth y/y vs. our estimate of flat growth, with mgmt. noting a 1.8% growth excluding the impact from COVID-19 vaccinations. Total Rx of 311.6MM was above our estimate of 308.5MM. Comparable front store same-store sales decreased 5.0% vs. our estimate of 0.3%. Total revenues of \$36.70Bn were above our estimate of \$35.05Bn and Visible Alpha consensus estimates of \$35.13Bn. EPS came in at \$0.66, below our estimate of \$0.67 and above the Street's estimate of \$0.63. US Retail Pharmacy segment EBIT of \$694MM was below our estimate of \$846.8MM. US Healthcare segment EBIT of (\$96)MM was above our estimate of (\$172.6)MM. WBA maintained FY24 EPS guidance of \$3.20-\$3.50, reflecting a decrease of ~16% y/y at the midpoint. This compares to consensus estimates of \$3.36 and our estimate of \$3.25. WBA also maintained expectations for US Healthcare adj. EBITDA to now be breakeven at the midpoint of the guidance range of \$(50)-\$50MM.

Key topics for the call

While it is unclear if Walgreens will provide any details, any comments around CVS' newly proposed PBM-to-pharmacy reimbursement model would be highly relevant. Another key factor for the call will be on FY24 guidance and the build across each segment as well as non-operational items (interest expense, tax rate, and sale-leaseback activity). Any updates on the capital deployment strategy and capital allocation plans should also be key as the company balances funding costs for the US Healthcare segment, interest expense, and the dividend. We also look for updates on the broader Health strategy, including the drivers of performance in VillageMD/CareCentrix/Shields in the quarter and updated targets on care delivery following the Summit acquisition and synergy acceleration efforts.

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04 January 2024

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Stock Data

Price	25.57 USD
Price Objective	22.00 USD
Date Established	2-Jan-2024
Investment Opinion	B-3-7
52-Week Range	19.68 USD - 37.96 USD
Mrkt Val (mn) / Shares Out (mn)	22,090 USD / 863.9
Free Float	82.4%
Average Daily Value (mn)	329.65 USD
BofA Ticker / Exchange	WBA / NAS
Bloomberg / Reuters	WBA US / WBA.OQ
ROE (2024E)	10.1%
Net Dbt to Eqty (Aug-2023A)	29.2%
ESGMeter™	High

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Price objective basis & risk

Walgreens Boots Alliance (WBA)

Our \$22 price objective is based on about 6.5x our CY24E EPS. This multiple is below its five-year average on an absolute basis of around 11x. The discount to the five-year average reflects our view that Walgreens' core retail pharmacy business is under long-term structural pressure and must diversify into stable business lines to improve the growth outlook.

Upside risks are better-than-expected generic savings from new partnerships in healthcare and other areas that support long-term growth, contributions from additional new partnerships and strategic investments for Walgreens Health (including Summit Health), and faster recovery in overall script trends.

Downside risks to our PO are ongoing pricing and reimbursement pressure, higher prescription attrition from Part D relationships, uncertainty on front end and pharmacy sales during the Covid outbreak, ongoing growth and profitability pressure within the Retail International business, incremental spending tied to building out the Walgreens Health platform (including investments in Summit Health), the risk of a disruptive force entering the supply-chain market, a slowdown in 340B, various opioid trials that could include financial penalties, and lack of available/appealing attractive capital deployment opportunities.

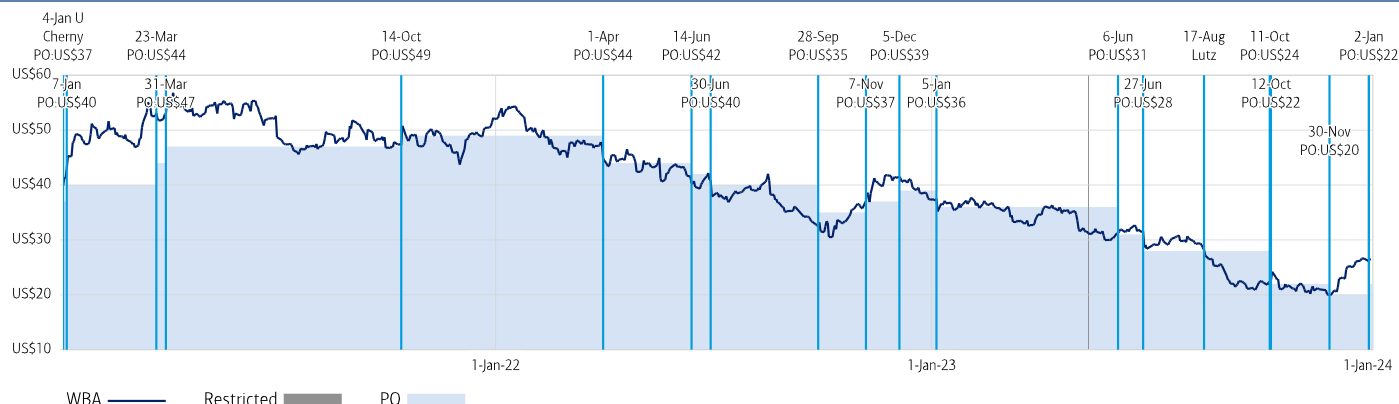
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Walgreens (WBA) Price Chart



WBA — Restricted PO
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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