

FIN-510 (Assignment-2)

General Information:

- Describe the capital structure of each company:

How many classes of stock is the company authorized to issue? What are the features of each class?

WALGREENS:

Walgreens Boots Alliance, Inc. registered the following four classes of securities as of August 31, 2020 in compliance with Section 12 of the Securities Exchange Act of 1934, as amended. Following our common stock are our €750,000,000 2.125% notes due 2026, £400,000,000 2.875% notes due 2020, and £300,000,000 3.600% notes due 2025. The Company notified the trustee and holders of its 2020 notes due on September 17, 2020, that the whole £400,000,000 aggregate principal amount of the notes due on October 20, 2020, will be redeemed.

CVS:

Class A common stock, Class B common stock, and Class C common stock are the three classes of common stock that we have. Except for voting, conversion, and transfer rights, the rights of holders of Class A common stock, Class B common stock, and Class C common stock are identical. Class A common stock has no voting privileges. As a result, anyone acquiring Class A common stock in this offering will not be able to vote. Each share of Class B common stock has one vote and can be converted into one share of Class A common stock. Each share of Class C common stock has 10 votes and can be converted into one share of Class B common stock.

How many shares of each class of stock are outstanding as of the date of the annual report?

WALGREENS:

Walgreens has a stellar track record from 2010 through 2022. Shares outstanding are the number of shares held by shareholders (including insiders) after all convertible debt, securities, warrants, and options have been converted. This statistic does not include treasury shares. Walgreens shares outstanding for the quarter ending August 31, 2022 were **0.866B**, a **0.06% decline** year-over-year.

- Walgreens 2022 shares outstanding were **0.866B**, a **0.06% decline** from 2021.
- Walgreens 2021 shares outstanding were **0.866B**, a **1.58% decline** from 2020.
- Walgreens 2020 shares outstanding were **0.88B**, a **4.68% decline** from 2019.

CVS:

CVS Health has a great track record between 2010 and 2022. Shares outstanding are the number of shares held by shareholders (including insiders) following the conversion of all convertible debt, securities, warrants, and options. This statistic excludes the corporation's treasury shares.

As of June 30, 2022, there were 1.321 billion shares of CVS Health outstanding, a 0.45% decrease from the previous year. As of June 30, 2021, there were 1.329 billion shares outstanding, a 1.14% rise from the previous year.

1.314 billion shares of CVS Health were outstanding as of 2020, up 0.69% over the previous year.

1.305 billion shares of CVS Health were outstanding in 2019, up 25% over the previous year.

How many stockholders does the company have?

WALGREENS

Walgreens Boots Alliance Inc (US:WBA) has 2055 institutional shareholders and owners that have filed 13D/G or 13F forms with the Securities and Exchange Commission (SEC). These institutions hold 548,139,660 shares in total. Vanguard Group Inc, BlackRock Inc., State Street Corp, VTSMX - Vanguard Total Stock Market Index Fund Investor Shares, Capital World Investors, VFINX - Vanguard 500 Index Fund Investor Shares, Fmr Llc, Geode Capital Management, Llc, Invesco Qqq Trust, Series 1, and Morgan Stanley are among the largest shareholders.

CVS

CVS Health Corp (US:CVS) institutional shareholders and owners have submitted 13D/G or 13F filings to the Securities and Exchange Commission (SEC). These institutions together own 1,276,005,352 shares. Among the largest shareholders are the BBCPX - Bridge Builder Core Plus Bond Fund, the VTSMX - Vanguard Total Stock Market Index Fund Investor Shares, the AWSHX - Washington Mutual Investors Fund Class A, Morgan Stanley, the VFINX - Vanguard 500 Index Fund Investor Shares, and Capital International Shareholders.

CVS Health Corp (NYSE:CVS) institutional ownership structure displays the institutions' and funds' current stakes in the company as well as the most recent changes to position size. Major shareholders include individual investors, mutual funds, hedge funds, and institutions.

Who are the largest shareholders? How much of the company does management own?

WALGREENS

56.74% institutional shareholders, 124.04% insiders of Walgreens Boots Alliance, and 0.00% retail investors own Walgreens Boots Alliance (NASDAQ: WBA). **Stefano Pessina** owns 637.30M shares, or 73.69% of Walgreens Boots Alliance, making him the company's largest individual shareholder.

CVS

CVS Health is not owned by hedge funds. The company's largest shareholder is The Vanguard Group, Inc., with ownership of 8.1%. In comparison, the second and third largest shareholders hold about 7.2% and 4.2% of the stock. A deeper look at our ownership data shows that the top 25 shareholders collectively hold less than half of the register, suggesting a large group of small holders where no single shareholder has a majority.

• What is management's compensation? How does it compare with the previous 2 years? Is overall compensation in line with the company's performance?

The discipline of compensation management determines the proper salary and benefits for employees. It uses monetary and intangible benefits to attract new employees, lower turnover, encourage performance, and enhances employee engagement. It is an important part of talent management and staff retention.

HR professionals are frequently in charge of compensation management, ensuring that pay and bonuses are competitive and that benefits are updated to match changing worker expectations. This role requires HR executives to gather and assess pay data both internally and externally, as well as relevant economic, demographic, and other data.

Why is this capital structure information important to an analyst?

A company with high debt can be regarded as a credit risk. Too much equity, on the other hand, may signal that the company is underutilizing its growth opportunities or overpaying for its cost of capital (as equity tends to be more costly than debt). Unfortunately, in the reality, there is no magic debt-to-equity ratio that can be utilized as a guide to arrive at an ideal capital structure. Depending on the sector a company works in, its stage of development, and external changes in interest rates and the regulatory environment, what constitutes a good balance of debt and equity might alter over time. Several indicators may be used to gauge the adequacy of a company's capital structure in addition to the weighted average cost of capital (WACC). One class of measures employed is the leverage ratio, which includes the debt-to-equity (D/E) ratio and the debt ratio. The D/E ratio is used by analysts to compare capital structures. By dividing total liabilities by total equity, it is determined. Smart businesses have mastered the art of combining finance and equity in their corporate plans. But occasionally, businesses could rely too much on debt and outside finance.

What is the company's stock price today? Its dividend ratio? Its current EPS? Its current P/E ratio? Its price to book, price to sales and price to cash flow ratios?

WALGREENS

Stock price: **34.30 USD**

Dividend ratio: The current dividend yield for Walgreens as of October 21, 2022 is **5.76%**.

EPS: **+0.94 (2.82%)**

P/E ratio: Walgreens PE ratio as of October 21, 2022, is **6.63**.

PRICE TO BOOK: current price to book ratio for Walgreens as of October 21, 2022 is **0.98**.

PRICE TO SALES : The price-to-sales ratio (TTM) for Walgreens Boots Alliance is now **0.217431** based on the company's most recent financial reports and stock price. The company's P/S ratio at the end of 2022 was **0.2816**.

PRICE TO CASH FLOW: Walgreens Boots Alliance's Price-to-Free-Cash-Flow Ratio for today is **13.34**.

Please focus on the Balance Sheet of each company only and perform the following tasks:

- **Please perform a common size balance sheet analysis for both companies for the most recent two FYs. How are they similar? Different? What difference, in your analysis, accounts for any difference income between the companies and why? Internally, how do the balance sheets compare FY to FY?**

The balance sheet provides creditors, investors, and analysts with information on the company's resources (assets) and financing sources (its equity and liabilities). Furthermore, it frequently illustrates the possible future cash flows that may occur from receivables and inventory, as well as information about a company's assets' future earning potential. Assets are things that the business controls because of previous occurrences and from which it anticipates future financial gains.

WALGREENS

current assets: total of all assets' carrying values as of the balance sheet date that are anticipated to be sold, used up, or realized in cash within a year (or the normal operating cycle, if longer). Assets are likely future financial gains acquired or under the control of an entity because of previous acts or occurrences.

property, plant and equipment net: Net Amount is the amount remaining after physical assets utilized in the regular course of business to create products and services and not intended for resale have accrued depreciation, depletion, and amortization. Land, buildings, machinery, office equipment, and furniture and fixtures are a few examples, but there are many more.

non current assets : total of all assets' carrying values as of the balance sheet date that are anticipated to be sold, consumed, or realized in cash after a year or, if longer, beyond the typical operating cycle. Non-current assets for Walgreens Boots Alliance Inc. rose from 2017 to 2018, but then significantly fell from 2018 to 2019.

total assets : sum of all recognized assets' carrying values as of the balance sheet date. Assets are likely future financial gains acquired or under the control of an entity as a result of previous acts or occurrences. The total assets of Walgreens Boots Alliance Inc. rose between 2017 and 2018, but then marginally dropped between 2018 and 2019.

CVS

Current assets: total of all assets' carrying values as of the balance sheet date that are anticipated to be sold, used up, or realized in cash within a year (or the normal operating cycle, if longer). Assets are likely future financial gains acquired or under the control of an entity as a result of previous acts or occurrences. Current assets of CVS Health Corp. rose in 2019 and in 2020 and 2021, respectively.

Property and equipment: - Amount remaining after totaling depreciation, wear and tear, and amortization of physical assets utilized in the regular course of business to create products and services but not intended for resale. Land, buildings, machinery, office equipment, and furniture and fixtures are a few examples, but there are many more. Property and equipment, net for CVS Health Corp. grew from 2019 to 2020 and from 2020 to 2021.

long term assets- total of all assets' carrying values as of the balance sheet date that are anticipated to be sold, consumed, or realized in cash after a year or, if longer, beyond the typical operating cycle. The long-term assets of CVS Health Corp. rose from 2019 to 2020, but then marginally dropped from 2020 to 2021, failing to achieve the level of 2019.

Total assets - sum of all recognized assets' carrying values as of the balance sheet date. Assets are likely future financial gains acquired or under the control of an entity as a result of previous acts or occurrences. The total assets of CVS Health Corp. rose from 2019 to 2020 and again from 2020 to 2021.

CVS AND WALGREENS COMPARISON - Unlike CVS, which has a convenient structure that promotes customer comfort (open aisles, low shelves), Walgreens pharmacies have larger spaces. Both companies are currently trying diligently to maintain their market share; they are up against severe competition from Wal-Mart and Target Stores, 2 major retailers.

In order to attract customers, business uses notable personalities such as Hollywood celebrities in their advertising efforts. Celine Dion is Walgreens' most well-known celebrity customer, but Al Gore, a politician, public figure, and Nobel laureate, shops at CVS.

For more than a decade, the two largest pharmaceutical companies in the United States have been at odds. Each company strives to be the top pharmaceutical service provider by introducing new technology and improving pharmacy and service quality. This is done in order to boost sales and popularity among Americans.

- Please calculate the following ratios: Current Ratio; Debt to Equity; Leverage; P/E Ratio; fully diluted EPS. Which company is a better long-term credit risk? Why?

WALGREENS:

Current ratio: From 2010 to 2022, Walgreens' (WBA) current ratio was both current and historical. A liquidity ratio that assesses a company's capacity to meet short-term obligations is the current ratio. For the three months ended August 31, 2022, Walgreens' current ratio was 0.75.

Debt to equity : It is computed by dividing the total current assets by the total current liabilities of the firm. For the six-month period that concluded in June 2022, CVS Health's current ratio was 0.91. The current ratio for CVS Health is 0.91.

Walgreens Boots Alliance Debt to Equity Ratio: 0.4619 for Aug. 31, 2022

Walgreens Boots Alliance EPS Diluted (TTM): 6.20 for May 31, 2022.

CVS:

The total stockholders' equity of CVS Health was \$75,184 million for the quarter that ended in June 2022. For the quarter that ended in June 2022, CVS Health's debt to equity was 0.99.

The most popular valuation metric is the PE ratio, which offers a straightforward approach to determine whether a company is fairly valued or not. As of October 21, 2022, Walgreens' PE ratio is 6.63.

As of October 21, 2022, CVS Health's PE ratio is 10.69.

CVS - EPS diluted- Additionally, the company will reiterate its adjusted EPS forecast range of \$8.10 to \$8.30 and its full year 2022 GAAP diluted EPS estimate range of \$7.04 to \$7.24.

Many income investors appreciate healthcare firms like CVS and Walgreens because of their consistent payouts. In reality, both stocks have demonstrated long-term dividend growth and stability, with Walgreens leading the group with 46 straight years of increases. Both have comparable financial stability and dividend security. Walgreens' dividend yield, on the other hand, is higher in absolute and relative terms than CVS', and its valuation discount is too enormous to ignore. While profit comparisons are ultimately arbitrary, I believe their profitability is roughly equivalent. WBA, for example, has a gross margin of 22%, which is nearly 5% more than CVS' 17.3%. Despite having a higher EBIT margin, EBITDA margin, and return on assets, WBA has a higher net margin of 4.6%, which is more than 2% more than CVS' 2.6%. The return on equity measurements are not truly appropriate in this situation due to the disparity in their capital structures.

Finally, keep in mind that WBA is outperformed by CVS in terms of sheer size (\$18.9 billion in operating cash flow) (by more than 3x). Naturally, a greater size provides an additional level of security.

- **How does each company calculate depreciation/amortization on its long-term assets? How does each account for doubtful/uncollectable receivables?**

A business just requires two data to do simple depreciation calculations: the asset's initial cost and its anticipated "useful life." Divide the starting cost by the asset's useful life to calculate depreciation in a straight line. Therefore, if a machine costs \$100,000 to purchase and has a 10-year useful life, it loses \$10,000 in value annually.

How does each company's balance sheet valuation compare to its market capitalization? How do you account for any difference?

What else besides financial data can the balance sheet tell you about each company? What questions should you ask yourself as you analyze the balance sheet?

The balance sheet contains many important facts, but some should be given more attention to acquire a broad picture of a company's solvency and financial activities. When considering an investment opportunity or valuing a company, fundamental analysts look at the balance sheet. A balance sheet is a snapshot of a company's assets and liabilities at a specific point in time. Mergers, asset liquidations, potential investments in the firm, and establishing if a company is strong enough to grow or pay off debt are the primary reasons why balance sheets are essential for assessing. Many analysts consider cash, accounts receivable, short-term investments, property, plant, and equipment, as well as other substantial liabilities, to be the most critical elements of a balance sheet.

- What is included in the total cash and cash equivalents?
- If this value has increased or decreased significantly from last month/year, why?
- Why does the organization have a loan/loans?
- When will the loan be re-paid?
- If this value has increased or decreased significantly from last month/year, why?
- Is the organization net worth increasing or decreasing? Why?
- Cash, unrestricted and internally restricted assets represent an organization's free and clear money. Does this equal 3 to 6 months of committed operating expenses?
- What is this revenue for?
- When will the funds be spent?
- What are the amounts owing and to whom?

Please compare the business descriptions for each company and respond to the following:

In what sense are these two companies competitors? Do they compete for the same customers; do they offer the same products/services; are they in the same industry; do they occupy different market niches; do they offer two different solutions to the same customer need or desire? What advantages/disadvantages does each company see relative to the other and to the overall competitive environment?

The rivalry is fierce, as both pharmacies try to gain a market edge by offering additional health services and specialized products such as cosmetics.

Walgreens and CVS are approaching changes in customer purchasing behavior and the pharmacy industry in various ways.

Walgreens and CVS compete for the same clients and provide the same services and goods to businesses in the same sector.

Fewer prescriptions are filled at Walgreens.

They both underwent mergers and acquisitions.

During the third quarter, CVS recorded financial gains of nearly \$1.5 billion. Walgreens' fourth quarter of its fiscal year had net earnings of \$677 million.

At periods of rising inventory costs, CVS utilizes a lower cost of goods sold, resulting in higher margins, as opposed to Walgreens, which uses a higher cost of goods sold due to its usage of the last-in, first-out (LIFO) method of inventory valuation. This demonstrates Walgreens' conservatism as well as CVS' liberal accounting practices.