

Walgreens Boots Alliance, Inc. (WBA) engages in the provision of drug store services. It operates through the following segments: Retail Pharmacy USA, Retail Pharmacy International, and Pharmaceutical Wholesale. The company was founded in 1901 and is headquartered in Deerfield, IL.

- **The Retail Pharmacy USA** segment consists of the Walgreens business, which includes the operation of retail drugstores, health and wellness services mail and central specialty pharmacy services.
- **The Retail Pharmacy International** segment consists of pharmacy-led health, beauty retail businesses and optical practices primarily through the Boots, a UK based pharmacy/retail operation.
- **The Pharmaceutical Wholesale** segment consists of the Alliance Healthcare pharmaceutical wholesaling, distribution businesses and an equity method investment in AmerisourceBergen. WBA completed the sale of the majority of the Alliance Healthcare business to AmerisourceBergen in June 2021 for \$6.275 Billion in cash (subject to adjustments) and 2 million shares of AmerisourceBergen. The cash is expected to be used to reduce debt and to accelerate growth in WBA's core retail pharmacy and healthcare businesses.

Thesis

WBA has had difficulty generating consistent (or any) growth in recent years. The reasons for this weakness include pressure in pharmacy margins from reimbursement reductions and a difficult operating environment in the UK. WBA is approaching this problem through the following initiatives:

- Creating neighborhood health destinations built around a more modern pharmacy
- Accelerating its digitalization strategy
- Implementing a multi-year cost reduction program

This change in the company's focus will be led by Rosalind Brewer, who started as WBA's new CEO on March 15, 2021. Ms. Brewer came from Starbucks where she was COO, Group President and member of the Board. She had previously served as the President and CEO of Sam's Club. She is currently doing an ongoing detailed review of the long-range business plans across the company. Stefano Pessina, WBA's previous CEO, remains as executive Chairman and continues to provide strategic advice for the company.

WBA is in the process of converting its community pharmacies into neighborhood health destinations by providing a greater array of health and wellness services. WBA has approached this by using alliances and joint ventures as opposed to acquisitions. While this is a lower risk and less capital-intensive approach, it also can result in a significantly slower transformation. In our opinion, the company's relationship with Village MD will be an essential component of this transformation. WBA recently made a \$1 billion investment with Village MD and expects to open 600 Village MD primary care focused clinics in Walgreen's locations during the next 5 years. A differentiating aspect of Village MD clinics is that they will be staffed with physicians unlike the clinics in many of WBA's competitors. The company believes that the ability to access doctors alongside pharmacists in a closer, more coordinated manner is the future of community healthcare.

WBA is modernizing and automating its pharmacies using products for iA Rx, a company in which WBA owns a majority interest that provides automated pharmacy solutions and enhanced workflow capabilities. This is expected to free up pharmacists' time, helping them to focus on adherence and healthcare services.

WBA's digitalization strategy includes mass personalization based on information gleaned from its 75 million member My-Walgreens, working with third party brand providers to better connect with its customers, and improving its omnichannel shopping experience. Walgreens has competed 6 million curbside, drive-thru and last mile delivery orders.

Other alliances are an important component of improved operational capabilities. Some of the more interesting nascent alliances include Kroger to manage a more robust grocery operation in Walgreen's stores, with Humana's senior-focused Partners in Primary Care that provides primary care, pharmacy, nutrition and wellness support for Medicare beneficiaries inside existing Walgreens locations.

Positives

- Some of the cash from the Alliance Healthcare scale will be used to accelerate the rollout of Village MD clinics. There are currently 46 Village MD clinics co-located in Walgreen's locations, with the next 35 locations to be completed by the end of calendar year 2021. The company also formed integrated virtual healthcare collaboration with Village MD in nine Walgreen's stores located in Phoenix and Houston.
- The company launched a Transformational Cost Management Program at the end of 2018. The program is expected to generate in excess of \$1 billion dollars in annual cost savings by the end 2021. The program included divisional optimization initiatives, streamlining the global organization and spending, and the digitalization of the enterprise. It is now expected to generate in excess of \$2 billion in annual savings by the end of 2022.
- The reopening of foot traffic in the UK is leading to a rebound in Boots retail sales. Discretionary categories are showing a strong rebound, particularly in Beauty.
- WBA generated significant free-cash flow even during the height of the Covid pandemic and has a history of dividend increases. WBA has been increasing dividends for 46 consecutive years and is a member of the Dividend Aristocrat Index. WBA's 3-year dividend growth rate is 19.35% and 5-year growth rate is 32.62% ending 2020.
- WBA's is a partner in GuoDa, a Chinese pharmacy. It currently has approximately 8,300 stores after adding over 2,500 locations in the last year
- Rosalind Brewer, WBA's new CEO, will bring a fresh perspective and significant retail and operational experience to the company.

Negatives

- The company could still be included in the ongoing Opioid lawsuits. While pharmacies prevailed in some earlier lawsuits, there is a possibility that they will be included in any major settlement.
- The company has distributed more than 25 million Covid vaccines and administered over 9 million tests. This has made a significant positive contribution to both revenues and margins. It will be difficult to replace this high margin revenue stream after Covid runs its course.
- Boots remains a weak link and its business is recovering more slowly than WBA's U.S. operations from Covid shutdowns. Approximately two thirds of Boots revenue come from non-pharmacy sales. If the rebound in discretionary sales, particularly Beauty, slows, Boots's ability to grow could be compromised.

- Significantly behind CVS in transformation of neighborhood pharmacies into neighborhood health centers. While we like WBA's strategy of strategic partnerships, they have yet to make a meaningful contribution to the company's growth.
- Regulatory changes to drug pricing and/or government purchasing rules for Medicare and Medicaid could limit both the profitability and the growth potential of the pharmacy operations, particularly in the US.
- A poor economy in the US could result in a higher level of unemployment, reducing individuals' access to health insurance. This could decrease the demand for pharmaceuticals.
- Individuals may not accept neighborhood health centers as replacements for their current method of accessing health services.
- WBA's new CEO has no pharmacy experience in her background (as noted above, this is also a positive).

	Current	5 Year Average			Vs Ind
		High	Low	Avg	
P/E (Last 12 Months)	17.6	107.1	9.3	22.4	130%
P/E (Expected Next 12 Months)	9.2	17.0	6.3	11.0	90%
Price to Book Value	1.8	3.2	1.4	2.3	110%
Price to Cash Flow	6.3	13.8	4.7	8.9	90%
Price to Sales	0.3	0.8	0.2	0.5	80%
Enterprise Value to EBITDA	8.2	12.2	7.0	9.4	90%
Dividend Yield	4.1	5.5	1.7	2.9	150%

Note:

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