

Financial Analysis of Walgreen Pharmacies

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Overview

Last year Walgreen Corporation merged with Rite Aid and so reduced the number of major pharmacy corporations in the US from four to three. Walgreen also merged with Boot Alliance last year which is a UK company that sells wholesale pharmaceuticals as well as health and beauty products. Walgreen/Rite Aid, CVS and Express Scripts together sold 57% of the prescription drugs bought in the US in 2013.

Walgreens/Rite Aid sells prescription medications almost entirely via retail pharmacy stores. CVS Caremark provides prescription drugs through both retail pharmacies and its pharmacy benefits manager service (Caremark) and Express Scripts is solely a Pharmacy Benefits Manager with a mail order prescription drug service.

All other prescription drugs in the US are sold either by small independent pharmacies, large retail stores for whom prescription drugs sales are a small portion of their overall revenue (like Walmart) or pharmacy benefit managers that act as a subdivision of a major health insurance company.

Walgreens Pharmacies

Walgreens pharmacies, along with CVS, have effectively dominated the retail pharmaceutical market in the US for the last several years. Walgreens has made roughly \$45 billion a year in prescription drug sales since 2013 which was roughly 20% of the total retail pharmacy sales in the US in 2013. Walgreens has been either the largest or second largest seller of retail prescription medications in the US for more than a decade.

Walgreen has also grown dramatically in the last two decades. They've quadrupled their prescription drug sales between 2000 and 2014 and more than quadrupled their number of retail pharmacies in the US since 1995.

The total executive compensation for Walgreens Boots Alliance executives in 2015 was \$78 million with \$20.1 million going to their CEO Gregory D. Wasson.

Sources: <http://truecostofhealthcare.net/pharmacy-financial-index/>

<http://truecostofhealthcare.net/wp-content/uploads/2014/12/LargestPharmacies2013.pdf>

<http://insiders.morningstar.com/trading/executive-compensation.action?t=0P000005UI&culture=en-US&cur=>

Total Number of Walgreens Pharmacies in the US Each Year

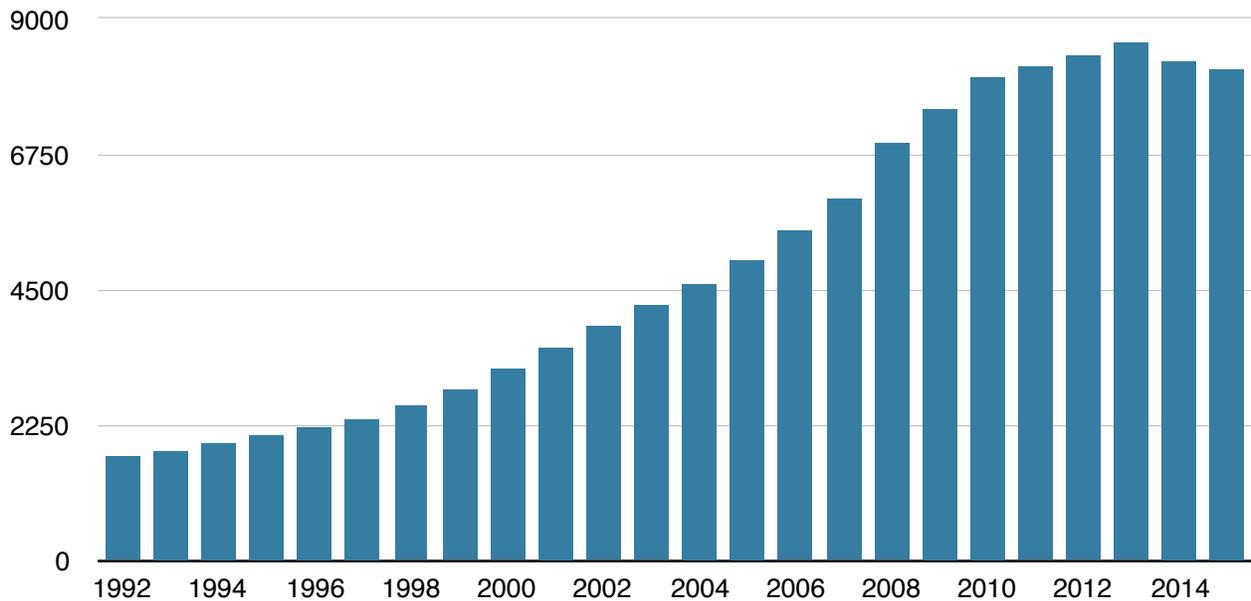


Figure 1: Walgreen increased their number of retail pharmacies in the US every year between 1992 and 2013. Over those 22 years the total number of Walgreens outlets increased roughly 400%. In 2014 the total number of Walgreens in the US decreased for the first time in more than two decades because they sold off their employer health and wellness division.

Total Annual Revenues for Walgreen Boots Alliance Corporation

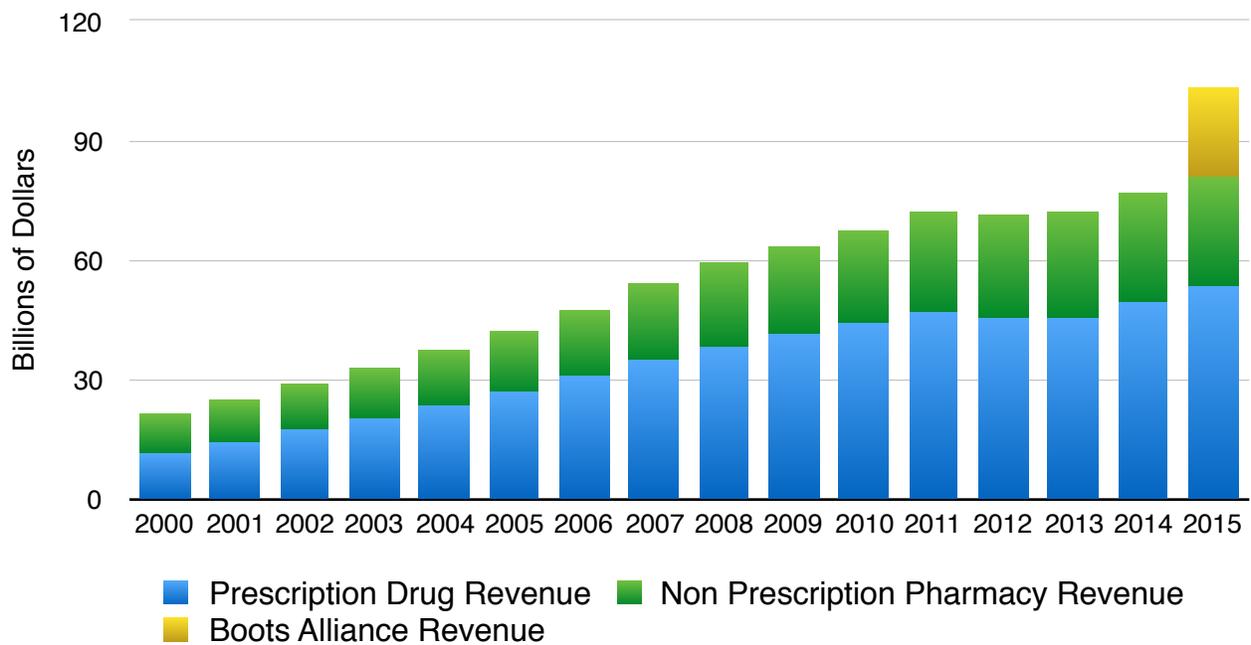


Figure 2: Walgreen saw a substantial growth in both their total revenue as well as their prescription drug revenue over the last 15 years. Since 2000, the total revenue for Walgreen has tripled and their prescription drug revenue has nearly quadrupled.

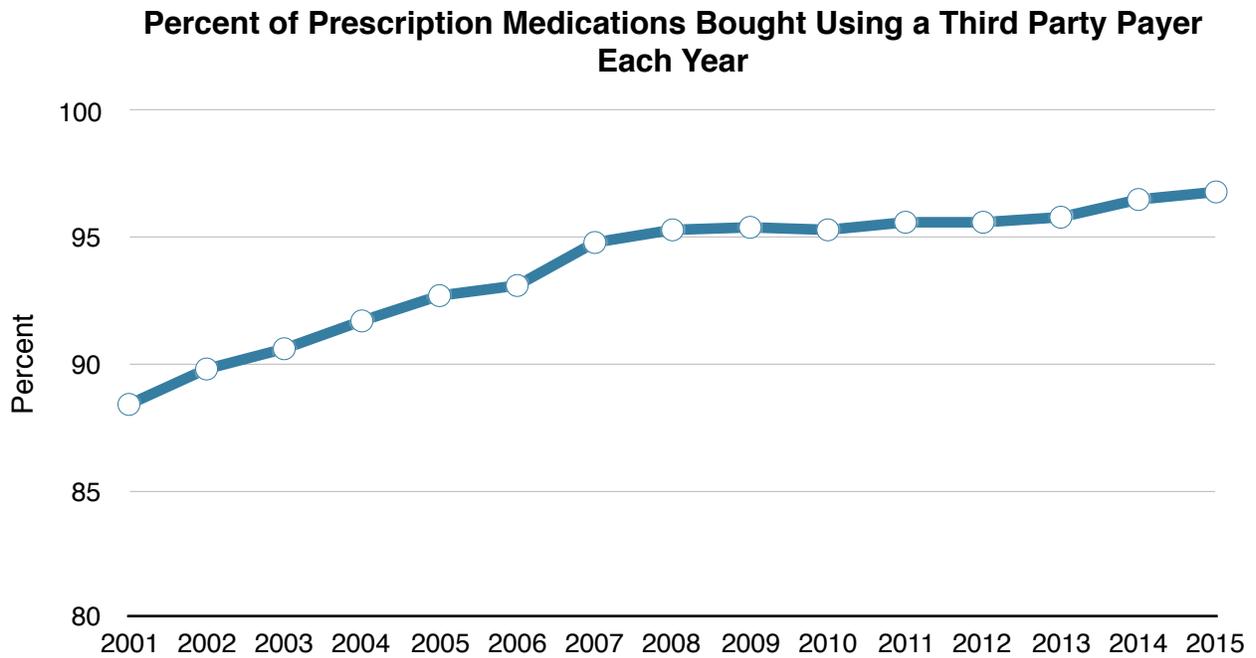


Figure 3: Walgreens, like most retail pharmacies, sells most of their prescription medications using a third party payer (insurance). In 2001 88% of prescriptions sold at Walgreens pharmacies went through a third party payer, but since 2007 that proportion has been more than 95%.

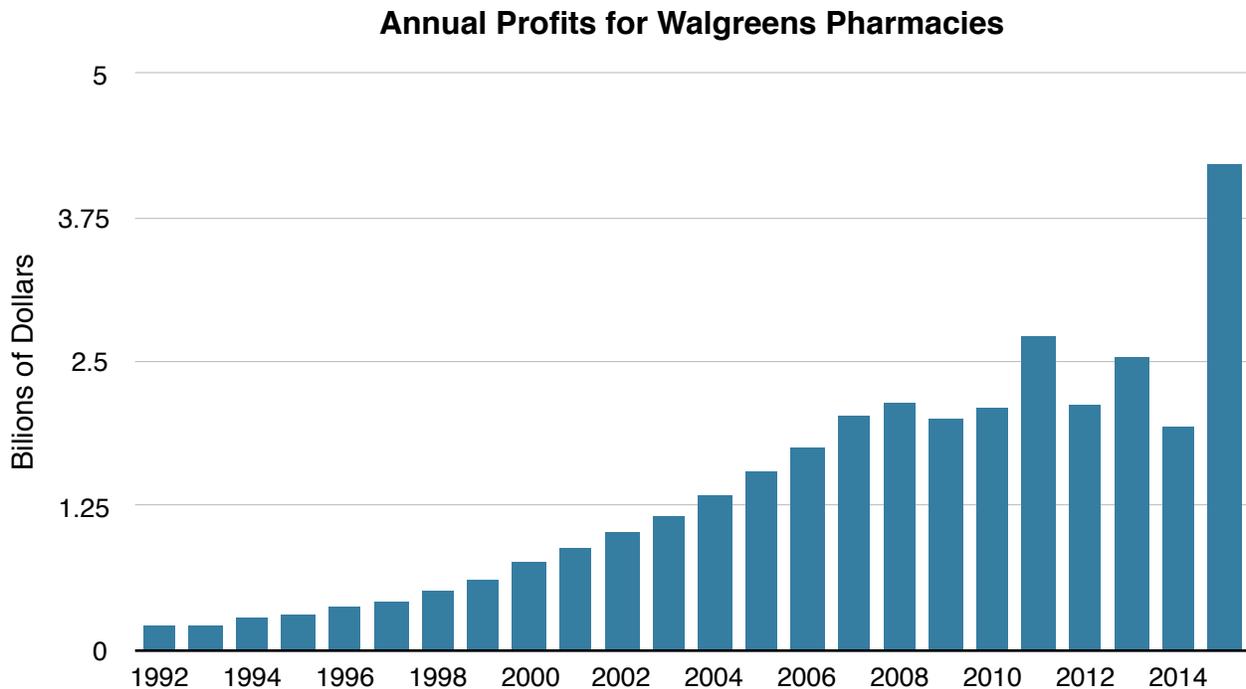


Figure 4: Annual profits for Walgreen have grown rather consistently with their revenue. It should be noted that, when an industry grows as quickly as the Walgreen Corporation has, the growth will diminish the companies profits each year. Buying new stores every year costs money and that money spent will result in a lower annual profit.