

Financial Analysis of Walgreen Pharmacies

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Overview

The four major pharmacy chains in the U.S. are Walgreens, CVS Caremark, Express Scripts and Rite Aid. Together, these four pharmacy chains sold over 50% of the prescription drugs purchased in the US in 2016. Walgreen corporation was expected to merge with Rite Aid in 2015, but that merger was cancelled a year later.

Walgreens pharmacies sell 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 Rite Aid is a retail pharmacy outlet that also recently began offering pharmacy benefit manager services. Express Scripts is solely a pharmacy benefit manager with a mail order prescription drug service.

All other prescription drugs in the U.S. 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 subdivisions of major health insurance companies.

Walgreens Pharmacies

Walgreens pharmacies, along with CVS, have effectively dominated the retail pharmaceutical market in the US for over a decade. Walgreens earned just over \$60 billion last year solely from retail prescription drug sales which was roughly 15% of the total retail pharmacy sales in the U.S. Walgreens has been either the largest or second largest provider of retail prescription medications in the U.S. for more than a decade.

Walgreen has also grown dramatically in the last two decades. They've quintupled their prescription drug revenue since 2000 and more than quadrupled their number of retail pharmacies in the U.S. since 1995. In 2015 Walgreen Corporation merged with Boot Alliance which is a UK company that sells wholesale pharmaceuticals as well as health and beauty products.

The total executive compensation for Walgreens Boots Alliance executives in 2017 was \$45.9 million with \$14.7 million going to their CEO Stefano Pessina.

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

<http://truecostofhealthcare.org/wp-content/uploads/2018/02/LargestPharmcies2016.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

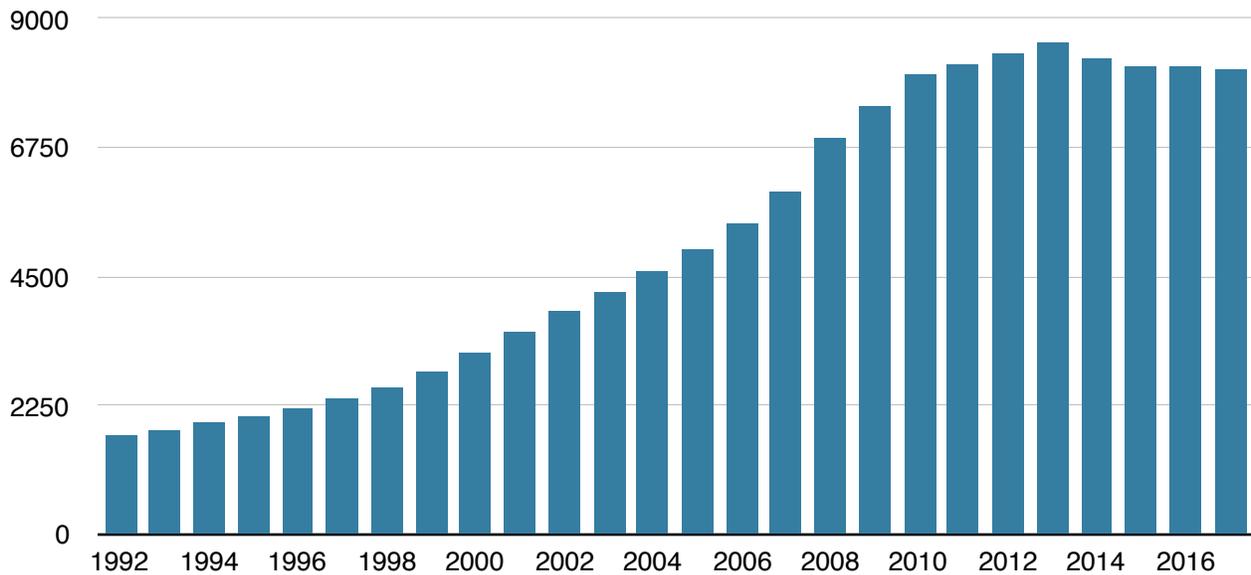


Figure 1: Walgreen increased their number of retail pharmacies in the US every year between 1992 and 2013. Over those 22 years the total number of Walgreens outlets increased roughly 400%. Since 2014 the total number of Walgreens in the U.S. dropped off somewhat after they sold off their employer health and wellness division.

Total Annual Revenues for Walgreen Corporation

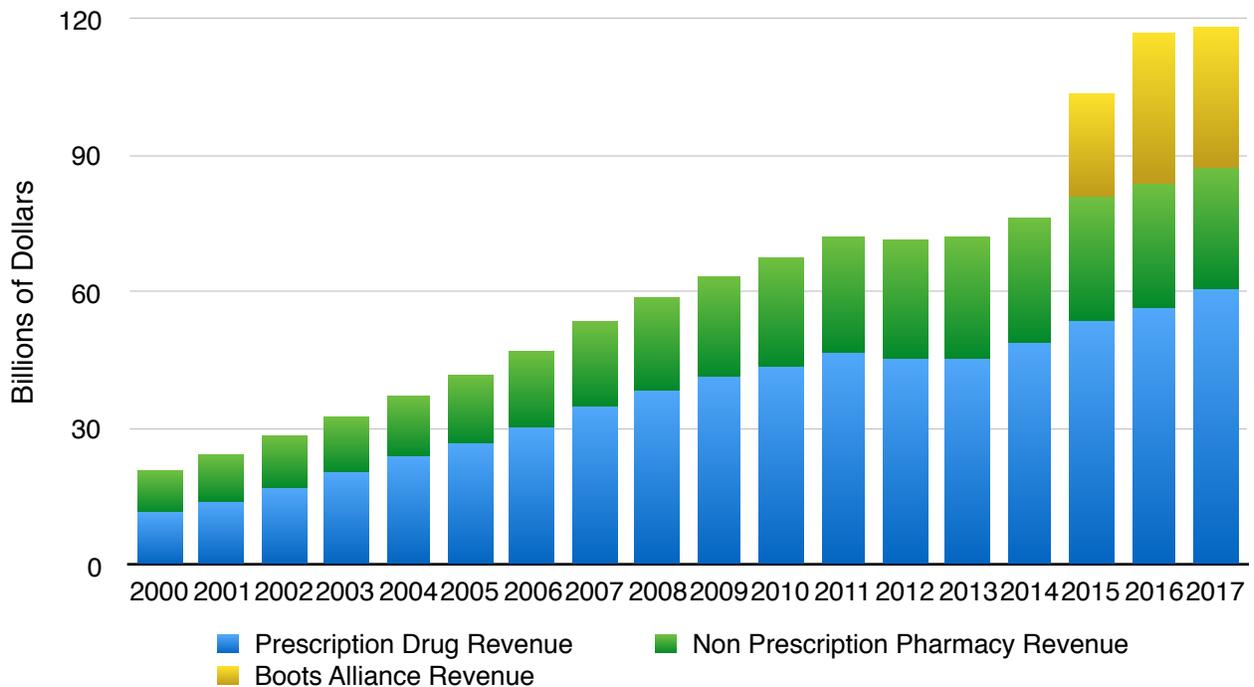


Figure 2: Walgreen saw a substantial growth in both their total revenue as well as their prescription drug revenue over the last 17 years. Since 2000, the total U.S. retail pharmacy revenue for Walgreen has quadrupled and their prescription drug revenue has quintupled.

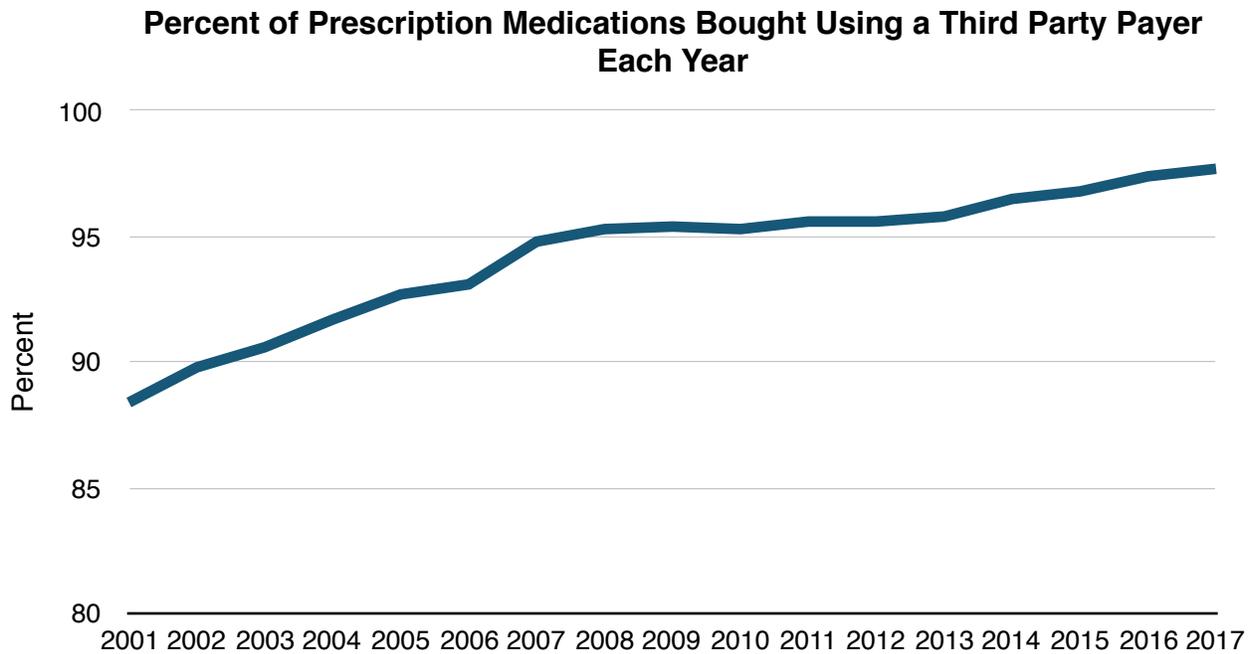


Figure 3: Walgreens, like most retail pharmacies, sells most of their prescription medications using a third party payer (insurance). In 2001 88% of prescriptions sold at Walgreens pharmacies went through a third party payer, but each year since 2007 that proportion has been more than 95%.

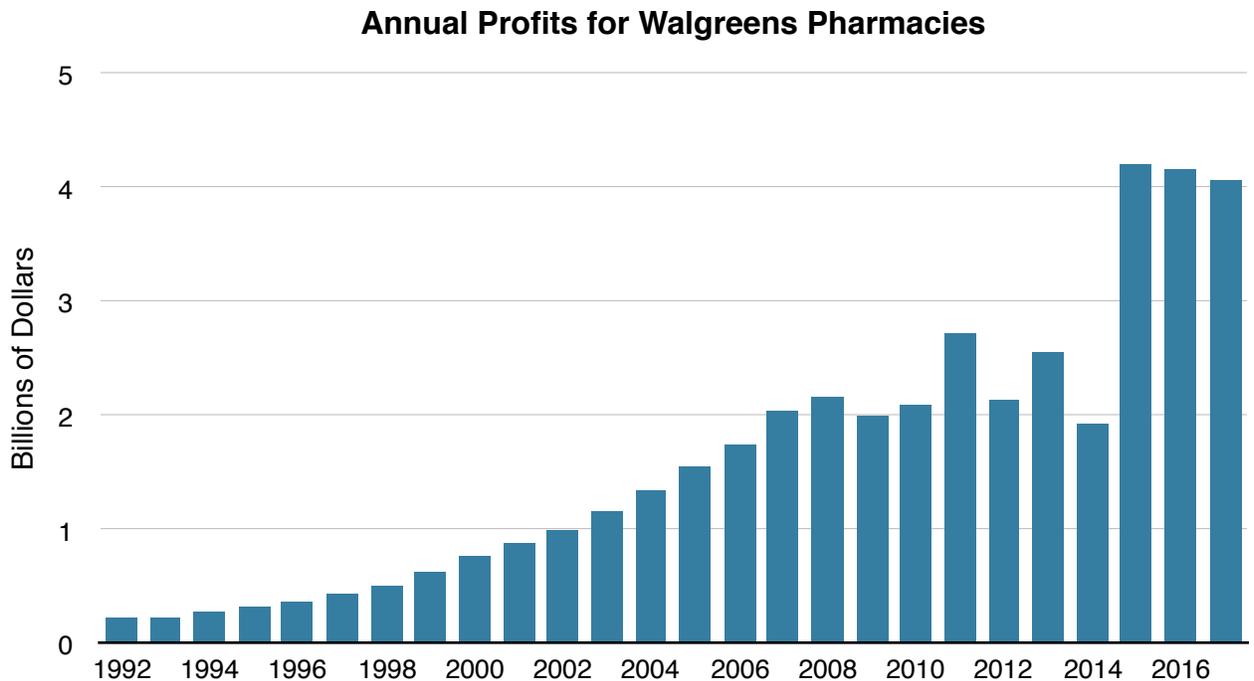


Figure 4: Annual profits for Walgreen have grown rather consistently with their revenue. It should be noted that, when an industry grows as quickly as the Walgreen Corporation has, the growth will diminish the companies profits each year. Buying new stores every year costs money and that money spent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