

Date: _____ March 20th _____

Analyst Name: _____ Jace Hochwalt _____

CIF Stock Recommendation Report (Spring 2013)

Company Name and Ticker: _____ Walgreen Co. (WAG) _____

Section (A) Summary

Recommendation Buy: Yes No		Target Price: N/A	Stop-Loss Price: N/A
Sector: Consumer Staples	Industry: Drug retailer	Market Cap (in Billions): \$40.242	# of Shrs. O/S (in Millions): 945.10 Million
Current Price: 46.49	52 WK Hi: 46.49	52 WK Low: 28.53	EBO Valuation: \$31.34
Morningstar (MS) Fair Value Est.: \$35.00	MS FV Uncertainty: Medium	MS Consider Buying: \$24.50	MS Consider Selling: \$47.25
EPS (TTM): 3.18	EPS (FY1): 3.24	EPS (FY2): 3.68	MS Star Rating: 2 star
Next Fiscal Yr. End "Year": "Month": Aug 2013	Last Fiscal Qtr. End: Less Than 8 WK: Y N	If Less Than 8 WK, next Earnings Ann. Date: Earnings just released	Analyst Consensus Recommendation: Outperform
Forward P/E: 11.53	Mean LT Growth: 14.58%	PEG: .79	Beta: 1.2
% Inst. Ownership: 61.9%	Inst. Ownership- Net Buy: Y N	Short Interest Ratio: 2.7	Short as % of Float: 1.92%
<u>Ratio Analysis</u>	<u>Company</u>	<u>Industry</u>	<u>Sector</u>
P/E (TTM)	19.09	19.81	27.49
P/S (TTM)	.57	.43	3.19
P/B (MRQ)	2.19	2.14	2.61
P/CF (TTM)	12.62	9.18	18.94
Dividend Yield	2.58	1.23	1.65
Total Debt/Equity (MRQ)	34.74	17.64	30.20
Net Profit Margin (TTM)	2.81	2.43	7.28
ROA (TTM)	6.34	5.17	4.32
ROE (TTM)	12.02	11.55	9.6

<u>Investment Thesis</u>	<u>Summary</u>
<p>After several hours of analysis, I believe that we should not purchase this stock. Walgreens is a great company that is expanding quickly, but I think the price is too high as of now.</p> <p>CONS: Morningstar thinks that the current stock price is overvalued and most analysts have given down revisions for revenue as of recently. Short interest is slightly higher than its closest competitor CVS.</p> <p>PROS: Their global expansion is expected to happen soon. They have recently made several acquisitions that investors have been optimistic about. They have good valuation multiples and a good long term growth rate. Walgreens has been given two upgrades in the last 2 months.</p> <p>I like this stock and if I would have recommended it a month or two ago, I would have said we should buy it. I feel that with the price well above the past 52 week high, this is a stock that is too expensive for the short time we have left in the CIF class.</p>	<p><u>Company Profile:</u> “Walgreens, incorporated on February 15, 1909, operates the drugstore chain in the United States. The Company provides its customers with access to consumer goods and services, pharmacy, and health and wellness services in communities across America. The Company sells prescription and non-prescription drugs, as well as general merchandises, including household items, convenience and fresh foods, personal care, beauty care, photofinishing and candy (reuters.com).”</p>
	<p><u>Fundamental Valuation:</u> Unfortunately the stock is much overvalued according to the fundamental valuation. I got a value of \$34.34, which is under the current price of \$46.49. This can be attributed to the high discount rate that I calculated.</p>
	<p><u>Relative Valuation:</u> The relative valuation for Walgreens is interesting. Walgreens main competitor is CVS Caremark, and based on the valuations with this competitor, Walgreens is accurately valuated. With other competitors however, valuations are a bit more extreme, and some of the competitors have much different multiples.</p>
	<p><u>Revenue and Earnings Estimates:</u> Revenue and earnings estimates for the future are promising and expected to increase. Although one negative thing is that revenue estimates have fallen slightly since a year ago. Earnings estimates also are expected to increase, and they are up significantly from a year ago.</p>
	<p><u>Analyst Recommendations:</u> Analysts are bullish about the Walgreens stock. The mean rating on Reuters.com is 2.14, and this rating has become more bullish over the last three months. This is a good sign for the stock. Most other websites have the same mentality on Walgreens.</p>
	<p><u>Institutional Ownership:</u> The institutional ownership of Walgreens is very interesting. There are over 1000 holders of the stock and a decrease in the last 3 months of a total of 5 net buyers which is not significant. There are no institutions that hold over 5 percent. The highest institutional holding is Vanguard with 4.8%.</p>

	<p><u>Short Interest:</u> Unfortunately, the short interest of Walgreens is not given on the NASDAQ website, so I checked with other resources. I got a short interest of 2.1, which falls in line with competition</p>
	<p><u>Stock Price Chart:</u> The stock chart for Walgreens is very impressive. It has outperformed the market in the last 3 months by a lot. In the 3 last year Walgreens has outperformed all competition and the market. In the last 5 years, Walgreens has kept up with the market and but underperformed in comparison with the sector.</p>

Section (B) Company Profile

Company Summary

“Walgreen Co. (Walgreens), incorporated on February 15, 1909, together with its subsidiaries, operates the drugstore chain in the United States. The Company provides its customers with access to consumer goods and services, pharmacy, and health and wellness services in communities across America. The Company offers its products and services through drugstores, as well as through mails, by telephone and online. The Company sells prescription and non-prescription drugs, as well as general merchandise, including household items, convenience and fresh foods, personal care, beauty care, photofinishing and candy. On August 2, 2012, it acquired 45% interest in Alliance Boots GmbH (Alliance Boots). In September 2012, the Company completed the purchase of a regional drugstore chain in the mid-South region of the United States that included 144 stores operated under the USA Drug, Super D Drug, May’s, Med-X and Drug Warehouse names. In September 2012, WP Carey & Co LLC acquired five retail stores leased to Walgreen Co. In December 2012, the Company completed a transaction giving company a ownership stake in Cystic Fibrosis Foundation Pharmacy LLC.

The Company's pharmacy, health and wellness services include retail, specialty, infusion and respiratory services, mail service, convenient care clinics and worksite health and wellness centers. These services help improve health outcomes and manage costs for payers including employers, managed care organizations, health systems, pharmacy benefit managers and the public sector. The Company's Take Care Health Systems subsidiary is a manager of worksite health and wellness centers and in-store convenient care clinics, with more than 700 locations throughout the United States. As of August 31, 2012, Walgreens operated 8,385 locations in 50 states, the District of Columbia, Guam and Puerto Rico (Reuters.com).”

Business Model, Competition, Environment and Strategy

Walgreens mission states, “To be the most trusted, convenient multichannel provider and advisor of innovative pharmacy, health and wellness solutions, and consumer goods and services in communities across America. A destination where health and happiness come together to help people get well, stay well and live well (Walgreens.com).” Walgreens only really operates in the

United States, and are planning to expand globally. Walgreens purchased 45% of Alliance Boots in the summer of 2012 and has the option to acquire the rest of the company in two years.

Walgreens also made a new partnership with AmerisourceBergen on March 20th, which caused a soar in their stock price. Alliance Boots is claimed to be the Walgreens of Europe, and AmerisourceBergen is a global company. "AmerisourceBergen Corporation is one of the world's largest pharmaceutical services companies serving global markets with a focus on the pharmaceutical supply chain. Servicing both pharmaceutical manufacturers and healthcare providers, the Company provides drug distribution and related services designed to reduce costs and improve patient outcomes (Amerisourcebergen.com)." If Walgreens does decide to acquire the rest of Alliance Boots they would have significant influence over AmerisourceBergen. This is part of Walgreen's plan to create a "global, pharmacy-led, health and well-being enterprise" -- an ambitious goal.

Walgreens also is implementing more Flagship stores. The company is planning three new flagship stores over the next couple of months, in addition to the current four, which offer, among other things, professional manicures, a cafe, a smoothie bar, and a selection of premium cheeses, fresh sushi, and organic food (. This will help keep customers in the store longer, and give Walgreens more diversified products. Although Walgreens has not discussed how the current flagship stores are doing as far as revenue, they must be doing satisfactory if Walgreens is deciding to open more of them.

Competition is very fierce for Walgreens. Competitors include CVS Caremark and Rite Aid. Both these companies are fairly big and have similar strategies as Walgreens. Both stores are both now trying to sell more diversified products to keep customers in the door longer. Overall, Walgreens seems to moving quicker and expanding more than both of them though. With the acquisition and partnership of Alliance Boots and AmerisourceBergen, Walgreens is expected to expand and grow faster than both of its main competitors.

Revenue and Earnings History

Revenue (In Millions USD)			
Periods	2010/2011	2011/2012	2012/2013
August	16,870	17,967	17,073
November	17,344	18,157	17,316
February	18,502	18,651	
May	18,371	17,752	
Total	71,087	72,527	34,389

Earnings			
Periods	2010/2011	2011/2012	2012/2013
August	.48	.89	.40
November	.62	.63	.44
February	.80	.79	.96
May	.66	.63	
Total	2.56	2.94	1.80

As you can see by the tables above, revenue and earnings have both increased over the last 3 years. Revenue increased by over a billion dollars between 2010/2011 and 2011/2012. There does not seem to be any trend for revenue or earnings for Walgreen Company. During the month of February, Walgreens does tend to have the highest revenue. Nothing is explicitly stated as to why they have increased revenue over this time, but I can make a guess that flu shots are very popular right before winter, so this could be the reason for their increased revenue.

Earnings, like stated above, don't really follow a trend. Earnings over the last 3 years have been sporadic. This information is from Morningstar, but some of it is different than information that I found on Reuters, which is a little concerning. Earnings in 2011/2012 and significantly higher than earnings in 2010/2011. Earnings this year do seem to be a bit lower, but

like I said, Reuters has higher numbers than Morningstar so it is tough to judge. The most recent quarter was Walgreens best quarter for earnings in the last three years, and like revenue, earnings tend to be up in the month of February.

Section (C) Fundamental Valuation (EBO)

VAG	PARAMETERS	FY1	FY2	Ltg									
	EPS Forecasts	3.24	3.68	13.40%									
	Book value/share (last fiscal year)	19.44											
	Discount Rate	11.00%											
	Dividend Payout Ratio (FY1)	45.66%											
	Next Fsc Year end	2013											
	Current Fsc Mth (1 to 12)	7											
	Target ROE (industry avg)	11.55%											
	Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Long-term EPS Growth Rate (Ltg)			0.1340	0.1340	0.1340	0.1340	0.1340					
	Forecasted EPS	3.24	3.68	4.17	4.73	5.37	6.09	6.90					
	Beg. of year BV/Shr	19.440	21.201	23.200	25.468	28.040	30.956	34.263					
	Implied ROE		0.174	0.180	0.186	0.191	0.197	0.201					
ROE	(Beg. ROE, from EPS forecast)	0.167	0.174	0.180	0.186	0.191	0.197	0.201	0.184	0.167	0.150	0.133	0.116
Abnormal ROE	(ROE-k)	0.057	0.064	0.070	0.076	0.081	0.087	0.091	0.074	0.057	0.040	0.023	0.005
growth rate for B	(1-PDR)*(ROE-1)	0.000	0.091	0.094	0.098	0.101	0.104	0.107	0.109	0.100	0.091	0.081	0.072
Compounded growth		1.000	1.091	1.193	1.310	1.442	1.592	1.762	1.955	2.151	2.346	2.537	2.720
growth*AROE		0.057	0.069	0.083	0.099	0.117	0.138	0.161	0.145	0.123	0.094	0.058	0.015
required rate (k)		0.110	0.110	0.110	0.110	0.110	0.110	0.110	0.110	0.110	0.110	0.110	0.110
Compound discount rate		1.110	1.232	1.368	1.518	1.685	1.870	2.076	2.305	2.558	2.839	3.152	3.498
div. payout rate (k)		0.457											
Add to P/B	PV(growth*AROE)	0.05	0.06	0.06	0.07	0.07	0.07	0.08	0.06	0.05	0.03	0.02	0.00
Cum P/B		1.05	1.11	1.17	1.23	1.30	1.38	1.45	1.52	1.57	1.60	1.62	1.62
Add: Perpetuity beyond current yr	(Assume this yr's AROE forever)	0.46	0.51	0.55	0.59	0.63	0.67	0.71	0.57	0.44	0.30	0.17	0.04
Total P/B	(P/B if we stop est. this period)	1.52	1.62	1.72	1.83	1.94	2.05	2.16	2.09	2.00	1.90	1.78	1.66
Implied price		31.34	33.49	35.64	37.83	40.07	42.35	44.69	43.24	41.41	39.27	36.88	34.34
Check:													
Beg. BV/Shr		19.44	21.20	23.20	25.47	28.04	30.96	34.26	38.01	41.82	45.61	49.33	52.89
Implied EPS		3.24	3.68	4.17	4.73	5.37	6.09	6.90	7.00	6.99	6.84	6.55	6.11
Implied EPS growth			0.136	0.134	0.134	0.134	0.134	0.134	0.015	-0.002	-0.021	-0.043	-0.067

Inputs (provide below input values used in your analysis)

EPS forecasts (FY1 & FY2): 3.24 and 3.68 respectively

Long-term growth rate: 13.4%

Book value /share (along with book value and number of shares outstanding):

Book value: 18.38 billion

of shares outstanding: 945.1 million

Book value / share: 19.4

Dividend payout ratio: 45.66%

Next fiscal year end: August 2013

Current fiscal month: 7

Target ROE: 11.55

Output

Above normal growth period chosen: 2

EBO valuation (Implied price from the spreadsheet): \$33.49

Sensitivity Analysis

EBO valuation would be (you can include more than one scenario in each of the following):

\$41.19 if changing above normal growth period to 5

\$33.49 if changing growth rate from mean (consensus) to the highest estimate 16%

\$33.49 if changing growth rate from mean (consensus) to the lowest estimate 10%

\$46.01 if changing discount rate to 8%

\$33.49 if changing target ROE to 8%

*All of the above changes apply to a 2 year growth period. So all the numbers in the last 4 questions have the implied price for the year 2014

Section (D) Relative Valuation

WAG													
Mean FY2													
Ticker	Name	Mkt Cap	Current Price	Earnings Estimate (next fiscal year)	Forward P/E	Mean LT Growth Rate	PEG	P/B (MRQ)	ROE 5 yr ave	Value Ratio	P/S TTM	P/CF TTM	
1	CVS	CVS Caremark Corp.	\$ 65,967.00	\$ 55.20	\$ 4.41	12.52	13.52%	0.93	1.75	9.89%	0.18	0.54	11.71
2	GNC	GNC Holdings Inc.	\$ 4,069.00	\$ 38.37	\$ 3.31	11.59	18.50%	0.63	4.60	0.00%	#DIV/0!	1.67	14.06
3	RAD	Rite Aid Corp	\$ 1,735.00	\$ 1.91	\$ 0.02	95.50	8.00%	11.94	0.00	0.00%	#DIV/0!	0.07	6.37
4	KR	Kroger Co.	\$ 16,392.00	\$ 32.40	\$ 2.73	11.87	8.20%	1.45	3.86	18.89%	0.20	0.17	5.19
	WAG	Walgreen Co	\$ 40,242.00	\$ 46.49	\$ 3.68	12.63	13.40%	0.94	2.19	15.59%	0.14	0.57	12.62
Implied Price based on:					P/E	PEG	P/B	Value	P/S	P/CF			
1	CVS	CVS Caremark Corp.				\$46.06		\$45.65	\$37.15		\$58.56	\$44.04	\$43.14
2	GNC	GNC Holdings Inc.				\$42.66		\$30.90	\$97.65		#DIV/0!	\$136.21	\$51.79
3	RAD	Rite Aid Corp				\$351.44		\$588.66	\$0.00		#DIV/0!	\$5.71	\$23.47
4	KR	Kroger Co.				\$43.67		\$71.37	\$81.94		\$67.63	\$13.87	\$19.12
		High				\$351.44		\$588.66	\$97.65		#DIV/0!	\$136.21	\$51.79
		Low				\$42.66		\$30.90	\$0.00		#DIV/0!	\$5.71	\$19.12
		Median				\$44.87		\$58.51	\$59.55		#DIV/0!	\$28.95	\$33.30

From the top panel

As you can see above, Walgreens has very similar multiples to most competitors. The company that Walgreens is most common to and competes the most with is CVS Caremark. CVS Caremark has ratios that are almost identical with those of Walgreens. This is the reason that most all the implied prices based on CVS are almost the same as the current Walgreens stock price.

The reason I have chosen CVS Caremark, GNC, and Rite Aid, was because they are all in the same market. GNC and Rite Aid both have significantly lower market caps and also have a negative ROE 5 year average though which makes them tough to compare with Walgreens for a few of the multiples. Like I said above, CVS has very similar multiples across the board. GNC has similar forward P/E and PEG ratios, but their long term growth rate is much higher. They also have a 5 year average ROE that is negative. Rite Aid has a much higher forward P/E and PEG ratio, and also has a negative 5 year average ROE. The reason I chose Kroger as a third competitor was because they had a higher market cap than GNC and Rite Aid. Kroger is not in direct competition with Walgreens, but they are definitely similar stores, and for that reason they have some similar ratios. Kroger has similar forward P/E, PEG and value ratios, but they do have a lower long term growth rate than Walgreens.

From the bottom panel

As you can see in the lower part of the table, implied prices are a bit sporadic. The prices of Walgreen stock based on CVS were good and very close to the current stock price across the board. The implied priced based on GNC, Rite Aid, and Kroger were a bit off though. GNC gave a similar price based on forward P/E, but gave a very high price based on the P/B and P/S. Rite Aid gave incredibly high prices for the forward P/E and the PEG, but very low prices for the P/B, P/S, and P/CF. Kroger gave a similar price for the forward P/E, but gave a very high price based on the PEG, P/B, and value ratios. Kroger also gave very low prices for the P/S and P/CF ratios.

The implied values of Walgreens do vary a lot based on the competitors they are compared with. I do believe that CVS is hands down the best company for comparison with Walgreens just because they are so similar in size and strategy with Walgreens. The great comparison shows in the relative valuation chart above.

Section (E) Revenue and Earnings Estimates

HISTORICAL SURPRISES

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Feb-13	18,728.20	18,647.00	– 81.18	– 0.43
Quarter Ending Nov-12	17,429.70	17,316.00	–113.66	– 0.65
Quarter Ending Aug-12	17,135.90	17,073.00	62.86	0.37
Quarter Ending May-12	17,868.50	17,752.00	–116.53	– 0.65
Quarter Ending Feb-12	18,520.00	18,651.00	131.01	0.71
Earnings (per share)				
Quarter Ending Feb-13	0.94	0.96	0.02	1.77
Quarter Ending Nov-12	0.70	0.58	– 0.12	– 17.30
Quarter Ending Aug-12	0.56	0.53	– 0.03	– 4.68
Quarter Ending May-12	0.62	0.63	0.01	1.32
Quarter Ending Feb-12	0.77	0.78	0.01	1.79

As seen from the chart above, there have been some hits, and also some misses in both revenue and earnings. In the last two quarters, revenue has missed, but by no more than a percent. In the last five quarters, revenue has negatively missed three times, and positively hit two times. These hits and misses however have been by no more than a percent in either direction. It does also look that the months of February have higher revenue than other months.

Earnings have been a bit different than revenue. In the last five quarters, earnings has positively hit three times, and negatively missed two times. In the quarter of November 2012, earnings missed by over 17% though which is very severe. Also, earnings in the quarter of August of the same year missed by over 4.5%. When earnings hit positively, they didn't exceed a 2 percent increase.

After looking at Walgreens stock chart in the last 18 months, I haven't noticed any extreme stock price falls or jumps that were only due to earnings or revenue. Most of the jumps

and falls were due to other factors including acquisitions, changes in management, etc. When earnings were released last week, the stock price jumped a significant amount (10%), but I think this was mainly due to their announcement of a joint venture with AmerisourceBergen. The stock tends to see some reaction when earnings and revenue are announced, but typically it is not by more than 3 or 4 percent.

CONSENSUS ESTIMATES ANALYSIS

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

	# of Estimates	Mean	High	Low	1 Year Ago
SALES (in millions)					
Quarter Ending May-13	16	18,558.90	18,866.10	17,999.00	18,869.20
Quarter Ending Aug-13	16	18,121.40	18,421.00	17,573.80	18,676.90
Year Ending Aug-13	20	72,646.40	73,250.00	71,869.10	73,120.50
Year Ending Aug-14	20	75,943.20	77,089.50	73,728.80	75,797.80
Earnings (per share)					
Quarter Ending May-13	18	0.92	0.97	0.84	0.76
Quarter Ending Aug-13	18	0.81	0.91	0.74	0.72
Year Ending Aug-13	18	3.27	3.37	3.15	2.92
Year Ending Aug-14	20	3.69	3.87	3.30	3.16
LT Growth Rate (%)	6	13.40	16.00	10.00	9.82

The chart above shows analyst estimates for the upcoming quarters and year end for Walgreens. For sales, the difference between the high estimate and the low estimate is about 5

percent, with the mean estimate right in the middle for the quarter ending May 2013. For the quarter ending in August of 2013, the difference between the high estimate and the low estimate is about 6 percent, with the mean estimate right in the middle. For the year ending in 2013, there is a bit lower of a margin. The difference between the high estimate and the low estimate is almost 2% with the mean estimate right in the middle. For the year ending in 2014, the margin is a bit larger however. The difference between the high and low estimate is about 4.5 percent. I think there is a bigger margin for 2014 because it is tough to judge what Walgreens will do next as far as acquisitions and structuring. Unfortunately, the sales are down from a year ago, but they are not down by much. No more than 2 percent across the board.

Earnings per share estimates seem to range a little more than the sales estimates. For the quarter ending May 2013, the difference between the high estimate and the mean is about 4.5%, and the difference between the low estimate and the mean is about 9.5%. For the quarter ending August of 2013, the difference between the high estimate and the mean is about 12%, and the difference between the low estimate and mean is about 9%. For the year ending in 2013, the difference between the high estimate and the mean is only about 3%, whereas the difference between the low estimate and the mean is about 4%. For the year ending 2014, the difference between the high estimate and the mean is about 5%, and the difference between the low estimate and the mean is about 12%. Good news about earnings per share estimates for Walgreens is that they have all gone up within the last year.

Another value that this chart mentions is the long term growth percentage. The mean is 13.4%, but there are only 6 analysts that give there estimation for the long term growth rate. The low estimate is 10% and the high estimate is 16%. These are significantly different, but they are still very high growth rates in comparison with the industry and close competitors. It is worrisome that only 6 analysts have estimated this variable, and makes me wonder how realistic the estimate actually is.

CONSENSUS ESTIMATES TREND

Sales and Profit Figures in US Dollar (USD)
Earnings and Dividend Figures in US Dollar (USD)

	Current	1 Week Ago	1 Month Ago	2 Month Ago	1 Year Ago
SALES (in millions)					
Quarter Ending May-13	18,558.90	18,666.10	18,782.40	18,794.10	18,869.20
Quarter Ending Aug-13	18,121.40	18,158.80	18,246.50	18,256.00	18,676.90
Year Ending Aug-13	72,646.40	72,879.20	73,364.40	73,408.60	73,120.50
Year Ending Aug-14	75,943.20	76,108.30	76,647.00	76,671.60	75,797.80
Earnings (per share)					
Quarter Ending May-13	0.92	0.92	0.93	0.93	0.76
Quarter Ending Aug-13	0.81	0.82	0.82	0.82	0.72
Quarter Ending Aug-13	3.27	3.24	3.28	3.28	2.92
Quarter Ending Aug-14	3.69	3.68	3.69	3.67	3.16

The chart above shows the consensus estimate trend within the last 2 months, as well as last year at this time. If you look above, you will be able to notice that one week, one month, two months, and even one year ago, analyst recommendations have slightly decreased. The earnings on the other hand have not really changed at all within the last two months, but are incredibly high in comparison to the estimates a year ago. The chart sends bullish messages, yet at the same time, sends bearish messages. Earnings are up a lot from a year ago, but sales are slightly down.

ESTIMATES REVISIONS SUMMARY

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
Revenue				
Quarter Ending May-13	2	10	0	13
Quarter Ending Aug-13	5	7	3	11
Year Ending Aug-13	3	14	2	16
Year Ending Aug-14	5	11	2	16
Earnings				
Quarter Ending May-13	7	8	6	10
Quarter Ending Aug-13	8	9	6	10
Year Ending Aug-13	11	2	6	10
Year Ending Aug-14	10	3	6	3

The Chart above shows when and how revisions have taken place within the last week and the last 4 weeks. As you can see, there have been several revisions in the last week, and the last 4 weeks. This could be due to the fact that Walgreens just released their quarterly report less than a week ago.

For revenue, there have been mainly down revisions. For the quarter ending May, in the last 4 weeks, 13 analysts have revised down and none have revised upward. In the last week, 10 have revised down, and 2 have revised up. For the quarter ending in August there are similar results, with slightly more analysts giving up revisions in the last 4 weeks and the last week. For the year ending in 2013, in the last 4 weeks, there have been 16 down revisions, and 2 up revisions. In the last week, there have been 14 down revisions, and 3 up revisions. The year ending in 2014 is very similar as far as analyst revisions.

For earnings, analyst revisions are a bit different. For the quarters ending in May and August of 2013, in the last 4 weeks 10 analysts have revised down with 6 revised up. In the last week, there have been about even up and down revisions. For the year ending in 2013, in the last 4 weeks, 10 analysts have given down revisions and 6 have given up revisions. However, in the last week, 10 analysts gave up revisions, while only 2 gave down revisions. For the year ending in 2014, 4 week ago 3 analysts gave a down revision, and 6 gave an up revision. However, in the last week, 10 analysts have given an up revision, and only 3 have given down revision. This can be attributed to the November quarter beating earnings estimates.

Walgreens has increasing revenue and earnings every year, yet they have scattered estimates that sometimes hit, and sometimes miss. Overall this stock is said to outperform the market by every website I have looked at. Some analysts say this is a stock that should be shorted now that it is very high, while others say that this stock will outperform the market and grow at a rapid pace. Morningstar overall claims that the stock is a little overvalued, but there is room for massive growth mainly overseas. Morningstar seems to be more bullish on CVS over Walgreens, but I disagree. I think with all the acquisitions and events happening with Walgreens, Walgreens will expand better and faster than CVS.

Honestly what it comes down to with the purchase of Walgreens stock is the price. The stock does not have a lot of associated risk and has a fairly regular beta. This stock is at its 52 week high though and I don't want to buy it at the peak price. The joint ventures and acquisitions have showed a positive reaction by investors, but will investors keep showing this optimism in the next few months?

Section (F) Analysts' Recommendations

ANALYST RECOMMENDATIONS AND REVISIONS

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	6	5	5	4
(2) OUTPERFORM	9	7	6	6
(3) HOLD	5	8	10	12
(4) UNDERPERFORM	2	2	2	2
(5) SELL	0	1	1	1
No Opinion	0	0	0	0
Mean Rating	2.14	2.43	2.50	2.60

The chart above shows the overall recommendations of analysts and their revisions within the last three months. As you can see, the mean rating has actually dropped in the last three months which is a bullish sign among these analysts. Three months ago 15 analysts out of 25 said to either hold, sell, or underperform on Walgreens, giving the stock a rating of 2.6. Two months ago were similar, with 13 analysts saying to hold, sell or underperform, with 11 saying to buy or outperform, giving the stock a rating of 2.5. One month ago, analysts had a similar opinion and the stock had a mean rating of 2.43. The most fascinating thing to me is the amount of analysts that have switched their recommendation to a buy or outperform. Out of a total of 22 analysts, 15 recommend a buy or outperform, with 5 saying to hold, 2 saying outperform, and 0 saying sell.

Overall it seems that analysts have become more bullish about Walgreens, especially in the last month. Other websites including Yahoo! Finance also give similar recommendations to the ones above.

Revision Date	Upgrade or Downgrade	Current Recommendation	Previous Recommendation	Firm	Last Revision
The most recent revision date					
3/20/2013	Upgrade	Strong Buy	Sell	Smith	1 Year ago
2/12/2013	Upgrade	Buy	Hold	Mizusec	1 Year ago
The earliest revision date in the last two months					

Above are the upgrades and downgrades that Walgreens did get in the last two months according to CNBC.com. In the last 2 months, 2 firms have upgraded the stock. One firm upgraded Walgreens from a sell to a strong buy, the other upgraded Walgreens from a hold to a buy. This is a very bullish sign for Walgreens. Both firms made their last revision a year ago, but they both seem very optimistic about the future of the stock.

Section (G) Institutional Ownership

WAG				
Ownership Activity	# of Holders	% Beg. Holders	Shares	% Shares
Shares Outstanding			945,091,240	100.00%
# of Holders/Tot Shares Held	1,195	102.93%	596,069,045	63.07%
# New Positions	112	9.65%		
# Closed Positions	78	6.72%		
# Increased Positions	522	44.96%		
# Decreased Positions	527	45.39%		
Beg. Total Inst. Positions	1,161	100.00%	587,566,458	62.17%
# Net Buyers/3 Mo. Net Chg	-5	49.76%	8,502,587	0.90%
Ownership Information		% Outstanding		
Top 10 Institutions % Ownership	22.30%			
Mutual Fund % Ownership	0.91%			
Float %	99.19%			
> 5% Ownership				
Holder Name	% Outstanding	Report Date		
The Vanguard Group, Inc	4.8	12/31/2012		

The chart above explains the ownership of Walgreens. Overall this chart sends a mixed signal to investors. Overall there are negative 5 net sellers and a 3 month net change of -.9% in Walgreens shares. There are a total of 1195 share holders and they make a total of 63.07% of Walgreens stock. There have been 112 new positions, but 78 closed positions. This is a good sign that there are more new positions than closed positions however. There have also been 522 increased positions, but there have been 527 decreased positions. For top 10 institutions holding, they hold about 22.3% of Walgreens stock. This number is a bit lower than most other stocks I've seen. The mutual fund ownership is minimal at less than a percent. This is a somewhat negative sign in my opinion. There is no single company that holds over 5 percent ownership, but the highest percent holder is the Vanguard Group at 4.8%.

Section (H) Short Interest (two pages)

NO SHORT INTEREST INFORMATION FOR WALGREENS ON NASDAQ.COM

I am unsure why, but there was no short interest table on Nasdaq.com for Walgreens. I did look on other sites to see if there were any tables, but I could not find any. From other websites, I did find out the current short interest however. The days to cover is about 3 and the percentage float is about 1.92%. This is down slightly from two weeks prior, but by no more than .5 days to cover. I got this information from Barrons.com.

CVS Short interest table

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
2/28/2013	10,981,322	5,243,938	2.094098
2/15/2013	9,921,536	5,800,074	1.710588
1/31/2013	9,604,726	5,955,370	1.612784
1/15/2013	11,874,629	6,122,851	1.939395
12/31/2012	9,673,217	5,673,921	1.704856
12/14/2012	13,721,596	7,341,309	1.869094
11/30/2012	13,327,448	6,454,917	2.064697
11/15/2012	13,113,560	7,870,399	1.666187
10/31/2012	12,994,946	6,166,658	2.107292
10/15/2012	16,520,020	5,642,080	2.928002
9/28/2012	23,687,571	6,050,467	3.914999
9/14/2012	13,246,037	5,332,501	2.484020
8/31/2012	13,981,845	5,245,915	2.665282
8/15/2012	12,740,880	9,296,646	1.370481
7/31/2012	14,194,688	9,850,802	1.440968
7/13/2012	14,648,218	6,960,489	2.104481
6/29/2012	13,981,339	7,115,610	1.964883
6/15/2012	14,355,718	6,739,966	2.129939
5/31/2012	12,964,415	8,501,745	1.524912
5/15/2012	12,882,712	8,242,803	1.562904
4/30/2012	11,397,358	8,279,251	1.376617
4/13/2012	10,165,526	7,067,063	1.438437
3/30/2012	10,936,256	6,480,071	1.687675
3/15/2012	11,829,203	6,180,898	1.913832

GNC Short Interest Table

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
2/28/2013	9,516,839	2,627,874	3.621497
2/15/2013	9,327,821	3,735,901	2.496806
1/31/2013	8,826,959	1,483,027	5.951988
1/15/2013	9,086,350	2,131,576	4.262738
12/31/2012	9,352,437	1,264,467	7.396347
12/14/2012	9,848,847	1,282,660	7.678455
11/30/2012	9,719,371	1,909,571	5.089819
11/15/2012	9,373,635	3,066,383	3.056903
10/31/2012	8,516,204	1,402,065	6.074044
10/15/2012	7,902,507	1,175,599	6.722111
9/28/2012	7,621,265	1,502,983	5.070759
9/14/2012	8,432,994	1,388,908	6.071672
8/31/2012	7,990,014	2,365,302	3.378010
8/15/2012	7,756,987	2,653,241	2.923589
7/31/2012	7,850,268	2,750,228	2.854406
7/13/2012	9,131,605	2,389,660	3.821299
6/29/2012	9,356,160	3,410,847	2.743061
6/15/2012	9,406,131	2,110,404	4.457029
5/31/2012	7,841,492	1,732,007	4.527402
5/15/2012	5,729,737	2,089,273	2.742455
4/30/2012	3,665,789	2,537,484	1.444655
4/13/2012	4,274,197	1,402,230	3.048143
3/30/2012	4,383,276	1,479,536	2.962602
3/15/2012	4,569,576	2,458,102	1.858986

Complete the following table with information from the *“share statistics” table*.

Avg Vol (3 month)	Avg Vol (10 day)	Shares Outstanding	Float
6,741,650	9,551,820	945.4 million	871.74 million
Shares Short (Most recent date)	Short Ratio (Most recent date)	Short % of Float (Most recent date)	Shares Short (2 weeks prior)
16.59 million	2.7	1.9%	16.26 million

It is very unfortunate that Nasdaq.com did not have a short interest table available for Walgreens. I still can compare their short interest with competitors however. Walgreens has about 3 days to cover currently. Compared to CVS, this number is a little high, but compared with GNC, this number is fairly low. Now since CVS is more of a direct competitor, this makes me think Walgreens has a short interest ratio that is a bit high, however I can't get a historical comparison unfortunately.

Section (I) Stock Charts

A three months price chart



In this graph, I compare Walgreens between its competitors, the sector, and the S&P 500. As you can see, there is a lot of difference between stocks in the last three months. Walgreens has gone up 27%, but has been outperformed by Rite Aid. GNC seems to be very sporadic, but has ended up in line with the sector and the market. CVS has followed the sector and the market very closely in the last 3 months. Walgreens was following the market, and then when earnings were announced along with a new partnership, the stock price took off.

A one year price chart



This is a one year stock chart comparing Walgreens to the competitors, the sector, and the S&P 500. This graph is a little different than the three month graph. Walgreens starts off slowly but then they announce a 49% buyout of Alliance Boots to gain some ground in the international market. Investors liked this idea and the stock popped up and maintained above the market. Walgreens kept with the market up until the end of December, where it has taken off and outperformed all competitors and the market and sector. After looking at the chart, I have determined that Rite Aid and GNC seem to fluctuate more and are not nearly as good of competitors as CVS. CVS has stayed with the sector and the market in the last year. They shot up like Walgreens in the last three months, but not to the extent that Walgreens has.

A five year price chart



This stock chart compares Walgreens to its competitors, the sector, and the S&P 500 over the last 5 years. As you can see, Walgreens has basically followed the market and the sector in the last 5 year. Also, it stays right in line with its close competitor CVS. The stock to note are GNC and RAD. These stocks again seem to be on extremes compared with Walgreens. Rite Aid

is far below the performance of the market, while GNC is far above the performance of the market. This is the least impressive stock chart as far as growth for Walgreens, but it does show that overall, the stock does follow the sector, the market, and its close competitor CVS very closely when looking long-term.

Additional price chart

50 day vs. 200 day moving average



The graph shows the 50 day moving average compared to the 200 day moving average of Walgreens. This chart is very interesting to me. A death cross takes place back in August of 2011, but the golden cross comes in September of 2012. Since the golden cross, there was one price drop in November, but since then, the stock has taken off. Since July of 2012, the stock is up over 45%. It seems that Walgreens is continuing to go up but this makes me question when the stock will drop, or if it will.

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