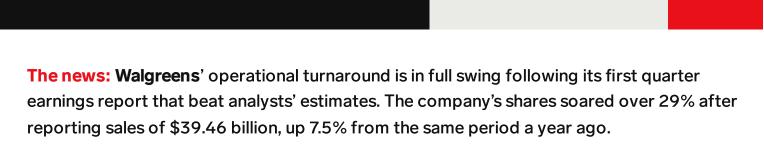


Walgreens shares surge 29% amid promising Q1 earnings report

Article



The outlier was a net loss of \$265 million for the quarter, which dwarfs the net loss of \$67 million it reported for the prior-year period.



- However, the loss is primarily attributed to higher operating losses stemming from the company's ongoing <u>closure of 1,200 stores</u>, or about 14% of its physical footprint, over the next three years.
- And investors are content with this cost-cutting strategy as part of Walgreens' financial plan to get back on track.

Digging into the details: All three of Walgreens' business segments experienced growth.

- Its US retail pharmacy division posted \$30.87 billion in sales, up 6.6% from the same period last year. The figure marks the highest sales for the segment dating back to Q4 2021, per Seeking Alpha.
- Sales from its US healthcare division surged to \$2.17 billion, up over 12% from the same period a year ago. The number reflects growth among the company's primary care provider <u>VillageMD</u> (which it's still exploring a sale of) and specialty pharmacy business <u>Shields Health</u> Solutions.
- Its international unit, which operates over 3,000 retail stores overseas, posted \$6.43 billion in sales for the quarter, an increase of 10.2% from the prior-year period.

Why it matters: The positive earnings come amid reports that Walgreens is <u>considering a sale</u> to private equity firm **Sycamore Partners**.

No mention of the potential sale was made in either the company's earnings report or call with analysts, telling us that Walgreens' commitment to its retail pharmacy-led performance turnaround is the more likely path forward for the company.

Our take: Early returns indicate that Walgreens is starting to steady its ship financially, but these alone don't signal long-term profitability.

To ensure long-term success, Walgreens needs to prioritize improving the customer experience for both its pharmacy and front-of-store.

- Walgreens noted during the call that it's planning on enabling virtual check-ins for pharmacy patients who can shop the store while waiting and avoid standing in line.
- We see this as a good start to competing with online giants like Amazon that are capturing more and more of Walgreens' customers.



Where US Adults Purchased Their Prescription Medications, April 2024

% of respondents

In-store pharmacy	88%
Online pharmacy	34%
-Club store pharmacy website/app	17%
-Mail-order pharmacy provided by their insurance	16%
—Amazon Pharmacy	13%
—Drug store chain pharmacy website/app	12%
-Mass merchandiser pharmacy website/app	6%
—Independent online pharmacy/app	4%
Note: among those who purchased any drugs for themselves in the past 12 Source: M3 MI/Kantar Media Healthcare Research, "2024 MARS Consume May 2024	
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