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Walgreens' identity crisis: From pharmacy giant to distressed retailer

Article

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Once valued at $100 billion in 2015, Walgreens Boots Alliance has seen its market value plummet to approximately $10 billion today, with shares down 45% in the last 12 months—making it the worst-performing stock in the S&P 500 in 2024.

- The company recently agreed to be acquired by private equity firm Sycamore Partners after posting a nearly $9 billion net loss in fiscal 2024.

"The retail plus pharmacy model as we know it, which relies heavily on customer traffic in the front of the store, needs to be tweaked or modified," said our analyst Rajiv Leventhal on a recent episode of "Behind the Numbers."

Here are some of the factors that led to Walgreens' dramatic decline.

Failed healthcare investments

The primary culprit behind Walgreens' downfall has been its misguided investments in healthcare delivery services, accounting for approximately 60% of its troubles according to Leventhal.

"Shortly after COVID... Walgreens got this impression that they could be a medical care service destination for patients," said Leventhal. This led to a $6 billion investment in primary care company VillageMD, with plans to open clinics in or adjacent to Walgreens stores.

The strategy failed spectacularly. VillageMD struggled to attract both patients and doctors. Overall, Walgreens' healthcare services segment posted a staggering $14 billion loss last year, Leventhal said, largely tied to VillageMD.

Walgreens struggles reflect a broader trend of declining retail clinic visits.

- While patient numbers nearly doubled from 44 million to 84 million between 2017 and 2023 (boosted by pandemic-related services), they will fall to 73 million next year, according to our October 2024 forecast.

Anti-theft = anti-convenience

The second major factor in Walgreens' struggles is declining front-of-store sales.

"Walgreens are very convenient, but at this moment in time when people are feeling super pressed and cost conscious, they're pulling back on discretionary spend," said our analyst Zak Stambor on the episode. "You don't go to Walgreens for a deal, you go because it's convenient. So they're just deciding to go online to Amazon or go to Walmart, or go someplace where you can get stuff for cheaper."

Anti-theft measures have further eroded the convenience factor that was Walgreens' key value proposition.

- Nearly 4 in 5 (78%) of consumers say it's annoying when products are locked up or secured in cases, per a recent Zebra survey.
- One in five shoppers left a store because a retail associate wasn't available to help, per Zebra.

"If the stuff is locked up and I have to wait for somebody to open up the case so I can buy body wash or deodorant or whatever it is, then it isn't convenient," said Stambor. "I could just as easily pull out my phone and buy it online."

Pharmacy reimbursement pressures

The final piece of Walgreens' troubles stems from the core pharmacy business itself.

Pharmacy benefit managers (PBMs)—the middlemen between drug manufacturers and pharmacies—have been steadily lowering reimbursement rates to pharmacies like Walgreens, according to Leventhal. This has made it increasingly difficult for the company to turn a profit on certain medications.

"[Some medications] are too expensive to stock because they don't get reimbursed enough for dispensing it," said Leventhal.

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