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## **Walgreens' Deal Aversion Can't Last**

*Bloomberg Businessweek*

**By Max Nisen**

Its incremental approach is cheaper than a CVS-Aetna-style acquisition, but less rewarding.

CVS Health Corp. wasn't frequently mentioned on Walgreens Boots Alliance Inc.'s first quarter earnings call Thursday.

But CVS's \$69 billion deal for insurer Aetna Inc. loomed large as Walgreens reported mixed results—it beat analyst revenue estimates, but profit fell 22 percent from a year earlier due largely to an impairment charge. Shares fell as much as 6 percent Thursday morning.

Like CVS, Walgreens is trying to transform itself, but without a splashy deal. But unless its more modest efforts pay dividends soon, such ambition may be pushed upon it.

### **Falling Behind**

Walgreens shares fell a good ways behind the broader market in 2017

Walgreens's pharmacy business is the key to its U.S. performance. Comparable-store pharmacy sales grew by 7.4 percent in the quarter. Retail sales fell by 0.9 percent, the sixth straight quarter of decline. The company's acquisition last summer of Rite Aid Corp. stores will help boost growth of both pharmacy and retail sales in the year to come.

But regulatory intervention meant the Rite Aid deal was for a smaller number of stores than Walgreens hoped. And it likely marked the end of the company's ability to substantially expand its pharmacy and retail footprint in the U.S.

### **Problems Up Front**

Walgreens has had a hard time growing non-pharmacy sales

Neither Walgreens nor CVS can rely on torrid prescription growth forever. And retail success will be tough to achieve in an increasingly difficult environment for everything brick-and-mortar. Amazon.com Inc., already a competitor in retail, is reportedly considering getting into the pharmacy business too.

CVS's deal is a bet on providing more health care and squeezing more out of its pharmacy business. It's risky; CVS could alienate Aetna customers if it's too aggressive in pushing its own services, and it may irk competing insurance companies served by its pharmacy benefit management arm. CVS will have to take on a bunch of debt, which will constrain needed investment into expanding in-store clinics.

But the rewards could be substantial. Aetna enrollees are a large captive market for CVS offerings. Health care is increasingly moving away from traditional points of service and toward this kind of retail setting. And the combined company will have a stronger defense against Amazon, which isn't about to open clinics or start insuring people.

Walgreens is taking a different tack. CEO Stefano Pessina said on Thursday's call that he thinks partnerships—such as those it has with distributor AmerisourceBergen Corp. and lab-testing service Laboratory Corp. of America Holdings—are just as valuable as acquisitions.

Meanwhile, the company is focusing on geographic diversification and revamping its stores, with pilot programs testing new approaches to everything from its supply chain to beauty offerings.

While that approach is cheaper than an Aetna-style deal, there's arguably a ceiling on the benefits it can deliver. It's unlikely that even a radical, rapid, and flawlessly executed store redesign could do much to stop the general shift toward buying things elsewhere and online—let alone counter a more aggressive Amazon entry.

Don't expect Walgreens to stick to limited partnerships and internal reinvention for too much longer. [Link to Original](#)



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