Taking Stock: Don't wig out over WAG

by Malcolm_Berko

Dear Mr. Berko: I've owned Walgreens since you recommended it at $18 in 1995 when I bought 300 shares for $5,400 plus commissions. Now I have 600 shares because it split 2-for-1 and it sells for $39 a share so I have a nice profit of about $19,000. But just a short while ago Walgreen was $49. What's wrong? My internist office tells me that they won't call prescriptions in to Walgreens and if I wanted Walgreens to fill my prescription that I could come in and pick it up and take it there myself. I asked the nurse why after nine years they won't do it; they will only tell me that it's the new office policy. Well last month, to my surprise, my cardiologist's office adopted the same policy. This is making me worry about my investment especially because the doctors won't give me any reason (except new office policy) for this change. Is this why the stock is down? Should I sell Walgreens? Are other doctors doing this and is this why Walgreen fell so much in one day?

Sign me

Nervous Nelly

Boca Raton, Fla.

Dear N.N.: Walgreen Co. (WAG-$35.80), which earlier this year nearly traded at $50 is now slogging and bumbling between $35 and $41. WAG's stumbled from $49 all the way down to $35.80 because it missed its earnings forecast by a lousy penny a share, reporting second quarter earnings of 40 cents a share vs. the Street's expectation of 41 cents a share. So the trigger-happy traders dropped the stock 7 points in a single day.

Meanwhile, WAG reported record revenues, continually raising same-store sales and a 25 percent rise in its pharmacy business which accounts for 64 percent of WAG's $54 billion in revenues.

I called four physicians in Boca Raton and only one of them is reluctant to call prescriptions into WAG. He told me a prescription call-in can take as long as 10 minutes for a WAG technician or pharmacist to answer the phone and record the information. His office calls in eight to 12 prescriptions daily (some call in many more) and that's over an hour of wasted time.

WAG has a high personnel turnover in their pharmacies and many of their people can't correctly take down the name of the drug, the correct dosage and proper dosage instructions. Meanwhile, pharmacy folks at WAG are grossly overworked. When you next wait in line at a WAG pharmacy note that the ambience may have a stressful feel and be mindful that stressed people are error prone.

WAG management in Deerfield, Ill., should increase the pharmacy staff in its many busy stores. An average pharmacy day for WAG is about 300 prescriptions and during a 10-hour day that's one prescription every two minutes. An impossible task for two pharmacists and three helpers most of whom can't spell Cialis or pronounce Pfizer. And when I watch technicians counting pills and putting them in a medicine bottle I get nervous. Perhaps those are the reasons your two docs won't call in a prescription at WAG.

WAG is the largest drug store in the nation with 5,700 locations, averaging about $9 million in revenues per unit. And WAG's long-term record of revenue growth is impressive. However, WAG's earnings disappointment does not indicate softness in its store traffic as some people believe. Its earnings miss was margin-related and those weak margins may persist for the next two or three quarters as management attempts to rein in its expenses. However, in the next four years, WAG expects to have 8,000 stores producing about $85 billion in revenues and earnings of $3.75 a share.

You also need to know that WAG owns some mighty impressive real estate, a result of management's decision to build larger free-standing stores on convenient, high-traffic corners. WAG now owns a strong real estate portfolio from internally generated funds with zero long-term debt. Not bad for a company with expected 2008 revenues of almost $61 billion.

Basically WAG is experiencing a few normal short-term blips and bleeps on its way to higher revenues and earnings. The large drop in WAG's share price could be an attractive buying opportunity and I'm stone ginger certain that management will have earnings back on track next year. So take some Xanax, Zoloft or Inderal to calm your nerves. Stay the course and hold your WAG. WAG just had a case of temporary hiccups and I believe management has the cure.

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