

M&A Deal of The Week

Sycamore and Walgreens



SYCAMORE
PARTNERS



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Executive Summary

M&A DEAL OF THE WEEK

Deal Summary

- Walgreens Boots Alliance (WBA) has been in talks for a sell-off for a decade and the Sycamore Partnership LLC (Sycamore) has now been finalized, marking one of the largest leveraged buyouts in 2025 so far. Initially thought to be "mostly dead," the deal faced multiple hurdles, including concerns over retail challenges, opioid litigation, and financing complexities. Despite these challenges, Sycamore persevered, and the final deal is valued at approximately \$10 billion, but including debt and potential future payouts has a total transaction value of \$23.7 billion with shareholders receiving \$11.45 per share in cash.
- Sycamore Partners will take over Walgreens' U.S. retail business, while Stefano Pessina, a major shareholder, is rolling his 17% stake into the transaction. The deal also includes a provision allowing investors to gain additional returns based on the future sale of Walgreens' VillageMD businesses.
- Sycamore Partners is making a bold bet on Walgreens, aiming to revamp its struggling U.S. retail business through cost-cutting, operational improvements, and selective asset sales. The firm plans to spin off the UK-based Boots business, allowing a sharper focus on domestic operations. While challenges remain such as Amazon's growing presence in healthcare and declining in-store traffic Walgreens' Shields asset stands out as a bright spot, with this though to be one of the leading reasons from Sycamore.
- The deal structure offers investors potential upside from future asset sales, with Pessina's continued involvement signalling confidence in a long-term turnaround.
- Walgreens enters a critical period of transformation. The deal's complexity, particularly the financing and asset divestiture components, presents both opportunities and risks. While Sycamore Partners has secured the financing and ownership structure, questions remain about whether they can successfully execute their turnaround plan. If the restructuring is effective, this deal could revitalize Walgreens and set a precedent for private equity investments in retail healthcare.
- However, industry experts remain cautious about whether the acquisition will ultimately deliver long-term shareholder value. The next few years will be crucial in determining Walgreens' trajectory under Sycamore's ownership.

Key Figures

- | | |
|--------------------------------|------------------------------------|
| • Deal Value: \$23.7 Bn | • WBA EV/S: 0.3x |
| • WBA EV/EBITDA: 13.1x | • WBA Market Cap: \$9.66 Bn |
| • WBA EV: \$41.5Bn | • Deal Premium: 13.6% |
| • WBA P/E: -1.1x | • WBA CEO: Tim Wentworth |
| • WBA D/E : 2.8x | • WBA Employees: 311,000 |



Company Information

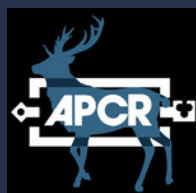
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Sycamore Partners (Private)

- Founded in 2011, Sycamore Partners is a private equity firm specialising in consumer, distribution and retail-related investments. The firm is known for acquiring and restructuring underperforming retail and consumer brands.
- Sycamore has built a portfolio of well-known brands, including Staples, The Limited, and Talbots, leveraging its expertise in operational improvements and strategic cost management.
- The firm typically targets companies with strong brand equity but financial or operational challenges, implementing turnaround strategies to enhance profitability.
- Sycamore manages approximately \$10 billion in aggregate committed capital, focusing on investments that align with its expertise in retail and consumer-driven sectors.
- Notable acquisitions include Staples (2017), Nine West (2014), and Loft (2021), demonstrating its track record in transforming retail brands under private ownership.

Walgreens Boots Alliance (NASDAQ: WBA)

- Founded in 1901, Walgreens Boots Alliance is a leading global pharmacy, health, and wellness retailer, operating thousands of stores across the U.S., Europe, and Latin America.
- Walgreens provides pharmaceutical and healthcare services, retail sales of health and beauty products, and speciality pharmacy solutions.
- The company operates in multiple segments, including U.S. retail pharmacy, international pharmacy, and wholesale distribution.
- Walgreens has faced challenges in recent years due to declining prescription reimbursements, increased competition, and a shift toward digital and e-commerce-driven health services.
- In fiscal year 2024, Walgreens reported a total profit of \$26.5 billion, a 1.32% year-over-year increase, but recorded an operating loss of \$6.9 billion, primarily due to pre-tax charges related to opioid-related claims and litigation.
- In their latest reported quarter (Q4 2024), Walgreens' revenue reached \$39.46 billion, reflecting a 7.5% year-over-year increase. EBITDA reached \$2.82 billion, while diluted earnings per share (EPS) is -\$10.24.



Deal Rationale and Risk

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Rationale - Restructuring, Portfolio Optimization and Operational Efficiency

Restructuring

The acquisition creates a transformational shift in the retail pharmacy industry by moving WBA into private ownership, gaining the strategic flexibility to create structural reforms without the fear of scrutiny from public markets. This aligns with Sycamore's strategy of revitalising underperforming retail brands. Another benefit of privatisation entails the shift in focus for long-term growth, with public companies having short-term earnings pressure. Under Sycamore, they can shift towards a multi-year strategic growth plan, with a directed focus on strategies like integrated healthcare delivery and digital transformation to mitigate the risk of disruptive competitors with more vertically integrated business models like Amazon Pharmacy.

Portfolio Optimisation

A paramount consideration for this acquisition is the potential profit for Sycamore through asset divestiture. Mirroring other private equity-led retail turnarounds, Sycamore can liquidate non-core and underperforming segments of WBA's portfolio, consisting of Cencora, BrightSpring and VillageMD and others, to unlock trapped capital and streamline their core operations.

Operational Efficiency

The acquisition provides an opportunity for Sycamore to implement thorough cost rationalisation, with one such focus on retail footprint, including store closures to increase operational density in high-margin areas. With Sycamore's private equity expertise and scale, they can also restructure supplier contracts including drug supplier agreements to improve gross margins in the pharmacy sector. Sycamore may also focus on WBA's high corporate overhead, by streamlining roles like HR, marketing and finance to eliminate redundant roles to create a leaner organisational structure.

Risk - Regulation, Execution and Reputation

Regulation and Competition

WBA's large market share in the US will likely cause significant regulatory review from agencies like the FTC, CMA and DOJ, which could lead to operational restrictions that would reduce the efficiencies produced from this acquisition. Competitors like CVS may lobby regulators to challenge the acquisition on the basis that it could lead to higher drug prices. This review could delay the timeline for the synergies and cost-saving realisation, decreasing ROI. These competitors may also respond to the efficiency strategies with a price war, in fear of losing customers. This increase in competition could erode their thin margins, making profitability on their investment more difficult.

Execution and Reputational Risks

Store closures and workforce reduction include layoffs and store closures, which may result in employee dissatisfaction, leading to fears of labour strikes. News of this to the public can lead to poor brand image, impacting sales. With WBA's IT infrastructure being outdated, planned investment and development could lead to service disruption, delaying fulfilment and reducing brand loyalty for customers as they may choose to switch to competitors due to lack of trust.



Industry Analysis

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The Retail Pharmacy Market

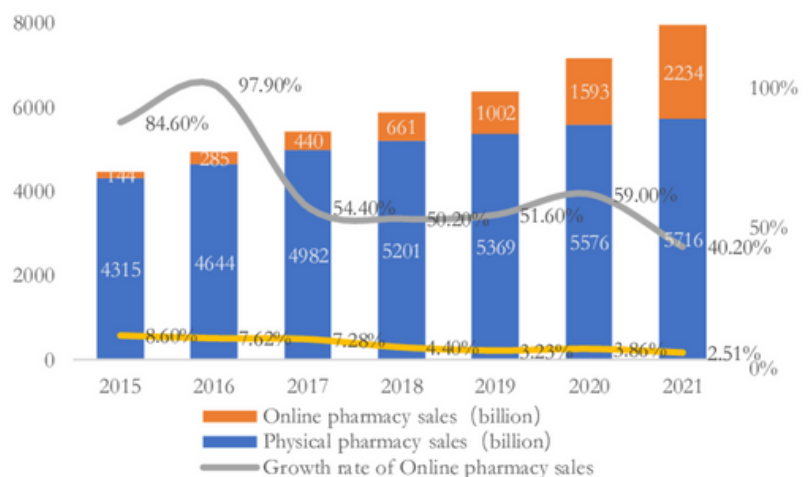
The retail pharmacy industry is a critical segment within the broader healthcare market, providing prescription drugs, over-the-counter medications, and health and wellness products to consumers. In the United States, the industry generates significant revenue, driven by factors such as an ageing population, rising chronic disease prevalence, and growing healthcare expenditure. The market is characterized by intense competition among national chains, regional pharmacies, independent stores, and emerging digital pharmacies. Dominant players include Walgreens, CVS Health, and Rite Aid, alongside newer digital entrants like Amazon Pharmacy.

Private Equity Dynamics

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Key Trends

1. Digital Transformation:
Rapid adoption of digital platforms and e-commerce channels as pharmacies respond to consumer demand for convenience and integrated service offerings.
2. Expansion of Healthcare Services:
Rising demand for eco-friendly equipment, including electric and hybrid models, is reshaping fleet compositions, driven by environmental regulations and customer preferences.



Emerging Trends and Insights

Consumer Behaviour Shifts

Consumer behaviour in pharmacy retail is evolving rapidly, influenced by demands for convenience, digital accessibility, and comprehensive healthcare services. Increasingly, consumers favour pharmacies that offer seamless integration between digital platforms and physical stores, driving demand for services such as mobile prescription ordering, curbside pickup, and home delivery. Additionally, pharmacies are transforming into community healthcare hubs, expanding into wellness consultations, vaccinations, and minor clinical services. Walgreens' extensive physical footprint combined with continued digital investment positions it effectively to capitalize on these evolving consumer preferences under Sycamore's ownership.

Policy Impact

The industry faces critical policy developments concerning drug pricing reforms, Medicare reimbursement policies and pharmacist provider status recognition. Potential reforms to Medicare drug price negotiations may compress pharmacy dispensing margins. Additionally, ongoing advocacy for pharmacist provider status recognition could significantly expand revenue-generating opportunities for Walgreens through enhanced clinical service provisions.

Final Thoughts

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Max Hanson

Sycamore Partners' acquisition of Walgreens's speciality pharmacy business aligns with its turnaround strategy for underperforming retail firms. While the deal helps Walgreens refocus on core operations, challenges like declining reimbursements and digital competition remain. Sycamore's restructuring efforts will be key to the business's long-term success.

Riccardo di Silvio

The acquisition of Walgreens by Sycamore Partners represents a significant shift in retail pharmacy. Walgreens' decision to go private reflects the industry's challenges, including declining prescription reimbursements and increased competition from e-commerce platforms. Sycamore's strategy to divide Walgreens into distinct entities, like Boots UK for example, aims to unlock value but introduces many uncertainties. The success of this acquisition depends on Sycamore's ability to balance cost-cutting measures with necessary investments in technology and customer experience to remain competitive in an evolving market.

Harsh Jain

Sycamore Partners' acquisition of WBA for over \$10 billion marks a significant shift in the retail pharmacy landscape, taking WBA private as it navigates mounting challenges such as reimbursement pressures and digital disruption. The deal underscores Sycamore's strategy of restructuring underperforming retail assets, with a focus on streamlining operations and enhancing profitability. While Sycamore aims to leverage WBA's strong brand and healthcare services, success will depend on its ability to drive operational efficiencies and adapt to an evolving market where vertically integrated competitors continue to gain ground.

Mihir Modi

Sycamore's acquisition is a pivotal moment in the future of Western retail pharmacy and healthcare. It's a risk-associated gamble if restructuring, asset divestiture and operational efficiency are enough to maintain competition in a dynamic business world, where digital disruption is leading to business insolvency and liquidation. If successful, Sycamore can reap the rewards of iconic and historical brands, with a focus on high-margin services and efficient store networks. If not, they will slowly fade into history to these vertically integrated competitors.



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