

Unit 2-2 fm

Finance



Problem solving Problem solving Walgreen is among the largest drug retailing companies in the United States of America. To wordsthe month of May 2014, the company had 8, 217 retail stores in 50 states in operation.

Walgreen was founded in the year 1901 by Charles R, Walgreen.

Walgreen has reported total;

RevenueUS\$ 72. 217 billion (2013)

Operating incomeUS\$ 3. 94 billion (2013)

Net incomeUS\$ 2. 45 billion (2013)

Total assetsUS\$ 35. 481 billion (2013)

Total equityUS\$ 19. 454 billion (2013)

Calculating the;

ROE, net assets/shareholders equity= 13%

ROA, net income/ average total assets = 7. 1%

The profit margin, total revenue/ gross profit = 3%

Total asset turnover, average assets/ total assets= 97. 2%

Equity multiplier, total assets/ stock equity= 1. 824

Walgreen has a great challenge handling its biggest rival CVS Caremark also a drug retailer in the US that operates over 7700 drugstores. Both of these companies are neck to neck in drug industry market share. CVS Caremark's retailers have a strategy where they are presenting prescription drugs at low a cost which brings them in great competition with Walgreen.

CVS Caremark's reported totals of:

RevenueUS\$ 126. 761 billion (2013)

Operating incomeUS\$ 8. 037 billion (2013)

Net incomeUS\$ 4. 592 billion (2013)

Total assetsUS\$ 71. 526 billion (2013)

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Total equity US\$ 37.938 billion (2013)

Calculating the;

ROE, net assets/shareholders equity = 12%

ROA, net income/ average total assets = 6.6%

The profit margin, total revenue/ gross profit = 5%

Total asset turnover, average assets/ total assets = 96.3%

Equity multiplier, total assets/ stock equity = 1.885

Walgreen has a higher return on equity thus more efficient in use of shareholders wealth in the generation of profits. Similarly, the Walgreen has a high return on asset that means the company can adequately utilize its asset better to generate profits. On the other hand, CVS Caremark's makes higher profits from its sales than Walgreen.

Common-size consolidated income statement analysis

Walgreen CVS Caremark's

12 months ended

Aug 31, 2013

Aug 31, 2012

Net sales

100.00%

100.00%

Cost of sales

-70.76%

-69.60%

Gross profit

29.24%

30.40%

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Selling, general and administrative expenses

-24.29%

-25.56%

Gain on sale of business

0.03%

-

Equity earnings in Alliance Boots

0.48%

-

Operating income

5.46%

4.84%

Interest expense, net

-0.23%

-0.12%

Other income (expense)

0.17%

-

Earnings before income tax provision

5.39%

4.71%

Income tax provision

-2.00%

-1.74%

Net earnings

3.39%

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2. 97%

Net earnings attributable to non-controlling interests

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Net earnings attributable to Co.

3. 39%

2. 97%

Walgreen has higher earnings attributable to its shareholders of 3. 39% of the total sales made by the company as compared to 2. 97 that CVS Caremark's attribute to their shareholders. This outcome may be due to the company's a low operating income and also low total sale made during the year. CVS Caremark's had a relatively higher expenditure as compared to Walgreen thus lowering its profits and returns to shareholders.

References

Bacon, John, U. (2004). Americas Corner Store: Walgreens Prescription for Success Hoboken, John Wiley & Sons: New York.