

Walgreen to spend about \$429M for drugstore.com

The Associated Press

Drugstore operator Walgreen Co. said Thursday it will spend about \$429 million to buy online retailer drugstore.com in a deal that gives it access to 3 million online customers.

The largest U.S. drugstore operator will give drugstore.com shareholders \$3.80 in cash for each share of stock — more than double the \$1.79 closing price of drugstore.com's stock on Wednesday. In early trading Thursday, the stock jumped \$2 to \$3.79.

The acquisition will add about 60,000 products to Walgreen's online offerings, and the Deerfield, Ill., company said it will significantly speed up its online strategy. Drugstore.com's websites include Beauty.com, SkinStore.com and VisionDirect.com.

Walgreen, like most retailers, is trying to develop an online presence, something that is imperative going forward, said Scotia Capital analyst Patricia A. Baker.

"People are shifting their behaviors," she said. "The brick-and-mortar store's not going to die, but it's certainly going to be augmented by the convenience of being able to shop for stuff online."

Earlier this month, Walgreen said it is selling its pharmacy benefits management operation to Catalyst Health Solutions Inc. for \$525 million in order to focus more on core businesses.

Morningstar analyst Matthew Coffina said it seems like the money from that deal is "burning a hole" in Walgreen's pocket, and they want to spend it on something. He said e-commerce has growth potential, but he's not sure the drugstore operator will get a very good return on its drugstore.com investment.

"The question is how much money can you make when you're selling low-end drugstore-type products and have to pay shipping costs on that," he said. "There's not a huge value proposition there, I don't think."

The price Walgreen pays will total about \$409 million, as it picks up drugstore.com's \$20 million in cash. Walgreen will fund the deal with existing cash.

Drugstore.com shareholders still must approve the acquisition, but the Bellevue, Wash., company's board has already unanimously approved it.

Walgreen said the deal, which is expected to close by the end of June, will dilute fourth-quarter earnings per share for fiscal 2011 by about 3 cents due to one-time

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costs.

Walgreen said Tuesday its fiscal second-quarter earnings climbed 10 percent. The drugstore operator earned \$739 million, or 80 cents per share, in the quarter that ended Feb. 28. Revenue climbed 9 percent to \$18.5 billion.

But analysts said the company's relatively flat gross profit margin — which had expanded in recent quarters — left them disappointed, and the stock tanked after earnings were released.

Walgreen shares fell 10 cents Thursday morning to \$39.73.

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