Earnings Preview: Walgreen to report 4Q results

The Associated Press

Walgreen Co. reports earnings for its fiscal fourth quarter Tuesday, and investors will want to see how the nation's largest drugstore chain is managing a dispute with Express Scripts Inc. over a contract worth billions of dollars a year.

WHAT TO WATCH FOR: Any updates on the Express Scripts negotiations. Walgreen, based in Deerfield, Ill., said when it reported fiscal third-quarter results that it was ending its relationship worth $5.3 billion per year with Express Scripts.

Walgreen said that the St. Louis company was not paying it enough money to fill prescriptions. It also complained that Express Scripts was trying to dictate terms of the partnership.

The conflict intensified this month. Walgreen said it plans to stop filling prescriptions managed by Express Scripts Inc. on Jan. 1, saying contract renewal negotiations between the companies are stalled.

Express Scripts then announced that it was suing Walgreen. It argued that the drugstore chain is trying to lure away its customers.

Pharmacy benefits managers, or PBMs, like Express Scripts pay Walgreen to fill prescriptions. The PBMs make money by reducing the costs in prescription drug plans. Walgreen had a similar contract fight last year with CVS Caremark Corp. that was eventually resolved.

The price of Walgreen shares have fallen more than 18 percent in price since the company announced its split with Express Scripts.

Deutsche Bank analyst Ross Muken said in a Sept. 21 research note this contract dispute puts a significant amount of Walgreen earnings at risk, but he also is encouraged by the drugstore chain's disciplined capital deployment strategy and improving store efficiencies.

Walgreen said earlier this month sales at stores open at least a year climbed 4.3 percent, with pharmacy revenue up 4.2 percent and front-end revenue rising 4.7 percent.

Walgreen, which says it is the largest provider of flu shots other than the federal government, began administering the seasonal shots in August.

WHY IT MATTERS: With more than 7,700 stores, Walgreen is the largest drugstore chain in the United States and an indicator of health care spending and how consumers view the economy.

WHAT'S EXPECTED: Analysts surveyed by FactSet forecast, on average, earnings per share of 55 cents for the quarter ended in August.

The company reported earlier this month that quarterly sales rose 6.4 percent to $17.94 billion.

LAST YEAR'S QUARTER: Walgreen saw its fiscal fourth-quarter profit climb 8 percent as it increased sales by adding more than 500 stores. The company earned $470 million, or 49 cents per share, which included restructuring and acquisition-related charges.

Revenue rose 7 percent to $16.87 billion.

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