

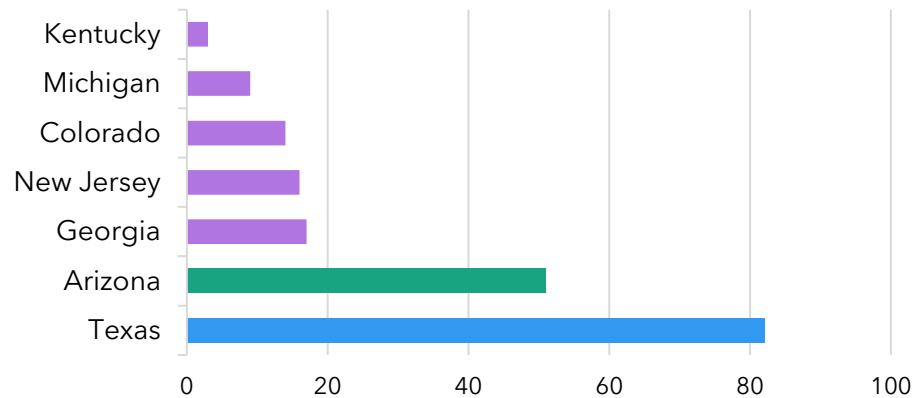
Walgreens lowers bets on VillageMD

Market Event Summary

Walgreens reevaluates primary-care portfolio

Walgreens seeks to 'unlock liquidity'

Significant operating losses attributable to VillageMD, despite strong sales performance, have led to an uncertain future for Walgreens' primary-care component. Walgreens CEO Tim Wentworth told analysts during Walgreens' third-quarter earnings call in June 2024 that Walgreens was "collaborating with leadership toward an endpoint to rapidly unlock liquidity, enhance optionality, and position them [VillageMD, SummitHealth, and CityMD] for additional growth."



of remaining stand-alone VillageMD locations, (excluding Summit Health and other subsidiaries like CT-based Starling Physicians) as of July 5, 2024.

Background and context

- After initially investing \$1 billion in primary-care partner VillageMD in 2020, Walgreens increased its ownership stake to 63 percent in October 2021 and announced an aggressive expansion plan to open 1,000 co-located clinics in more than 30 U.S. markets by 2027.
- In October 2022, Walgreens attributed its top line growth to VillageMD and stated that the company was "leading the way in value-based care for the nation." Amid significant primary-care momentum, including CVS Health's acquisition of Oak Street Health, Walgreens decreased its ownership stake to 53 percent in 2023 to help fund VillageMD's \$8.9 billion acquisition of Summit Health, a multispecialty group and parent company of urgent-care chain CityMD.
- Walgreens may have grown too quickly. In late 2023, just before Mary Langowski became president of the company's healthcare division, Walgreens initiated an intense review of assets and in 2024 announced it would shed about 160 underperforming VillageMD sites to reduce losses, including a full departure from Florida, Indiana, Illinois, Rhode Island, and other markets.

Walgreens reevaluates primary-care portfolio (cont.)



Patients

VillageMD may struggle finding a new partner or majority owner if Walgreens bows out, which ultimately could bring additional closures. This could impact the quality of care for the 77,000 Medicare patients currently managed by care coordination teams under VillageMD's risk-bearing contracts.



Pharma

Clinic closures and the associated removal of on-site prescribers means missed opportunities for drug sales and disruptions in population health management and associated medication adherence.



Providers

VillageMD provides employment opportunity for physicians, midlevel providers, and medical assistants and currently manages more than 680 primary-care practices across 26 markets. The potential loss of Walgreens as a majority investor could mean massive layoffs.



Payers

Through health services arm Evernorth, Cigna invested \$2.5 billion into VillageMD during VillageMD's 2022 acquisition of Summit Health. While Cigna still intends to leverage VillageMD to build high-performing physician networks in "go-deep markets" the payer wrote off \$1.8 billion of its VillageMD investment as a loss in May 2024, and future profitability is uncertain.

Walgreens may leave healthcare delivery to competitors

Strategic implications

Industry norm

Walgreens' efforts to right size its VillageMD investment comes on the heels of Walmart's April 2024 announcement to abandon its Walmart Health strategy, painting an overall bleak outlook for retail health. In addition to VillageMD losses, Walgreens may be feeling pressure from competitor CVS Health, which acquired senior-centered primary-care subsidiary Oak Street Health in May 2023 and now is reportedly seeking a private equity partner to fuel growth.

Patient behavior

Walgreens' patients may instead turn to CVS' Oak Street Health or one of Walgreens' many remaining IDN-owned and operated healthcare clinics, like Advocate Clinic at Walgreens in Chicago. They may also opt to try out Walgreens' telehealth services, which just launched in October 2023 in select states, including Florida and Illinois.

Pharma perception & reaction

Unlike Walgreens and Walmart, CVS enjoys the benefit of integrating primary-care solutions with its Aetna payer component to manage population health and claims costs. Walgreens may therefore find greater competitive value, with both CVS and megaplayer Amazon, in reinforcing and expanding its retail pharmacy core rather than delivering healthcare services. Walgreens may also expand efforts with its growing specialty pharmacy business, Shields Health Solutions.

Walgreens may leave healthcare delivery to competitors (cont.)

Factors for consideration

- VillageMD is not Walgreens' only victim of cost-cutting. Wentworth told analysts that 25 percent of Walgreens stores "do not currently contribute to our long-term strategy" and are therefore on the chopping block during the next three years. The closure of underperforming Walgreens stores will limit access to prescription drugs, immunizations, and tools like glucose devices that help chronic disease patients stay adherent to medication regimens.
- Among other factors, VillageMD's overall lack of performance suggests unsustainable levels of competition from more established primary-care competitors, unsustainable Medicare reimbursements for primary-care services, and patient and provider retention headwinds, including limited exam space and offerings from the smaller size of co-located VillageMD clinics compared with stand-alone VillageMD centers. Wall Street analyst Brian Tanquilut of investment banking firm Jefferies first noted that size limitations could dampen profitability. These challenges raise questions over long-term sustainability of retail healthcare as a whole.

Open questions

- Alongside Walgreens' de-acceleration in healthcare delivery, and in the wake of Walmart shuttering its own telehealth services, what is the future for Walgreens Virtual Healthcare? At the time of launch, Walgreens announced it was "testing out additional telehealth solutions" in other regions.
- Texas is one of VillageMD's largest remaining markets. Here, Texas' largest payer, Health Care Service Corp., is in the process of buying Cigna's Medicare Advantage business and other assets for \$3.7 billion. Cigna is a minority investor in VillageMD. Would Health Care Service Corp. have any interest in VillageMD to better compete against UnitedHealthcare, including its powerful Optum division, and Aetna/CVS Health in Texas?

About the author



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Michelle La Vone has been with Clarivate Market Access Insights (formerly Decision Resources Group) since 2013. She analyzes the Texas and Georgia healthcare markets and tracks the rapidly evolving convenient care industry. She has been interviewed by [HealthLeaders Media](#), [Specialty Pharmacy Continuum](#), and [The Tennessean](#).

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- **Did you know?**

Michelle initiated tracking of retail clinics in 2015, a year after Rite Aid acquired the now-defunct RediClinic. The effort has since evolved into a robust database in collaboration with colleague Renée Burnham that includes thousands of payer-owned providers and retail health locations across the country.



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