



# Walgreens Boots Alliance 2Q16 Consolidated Financial Results Earnings conference call



Walgreens Boots Alliance

5 April 2016

# Agenda

## Topic

## Speaker

**Introduction & safe harbor**

**Gerald Gradwell**

Senior Vice President, Investor Relations and Special Projects of Walgreens Boots Alliance, Inc.

**Overview**

**Stefano Pessina**

Executive Vice Chairman and Chief Executive Officer of Walgreens Boots Alliance, Inc.

**Financial review**

**George Fairweather**

Executive Vice President and Global Chief Financial Officer of Walgreens Boots Alliance, Inc.

**Closing remarks**

**Stefano Pessina**

**Questions & answers**

**Stefano Pessina**

**George Fairweather**

**Alex Gourlay**

Executive Vice President of Walgreens Boots Alliance, Inc. and President of Walgreens



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# Safe harbor and non-GAAP

**Cautionary Note Regarding Forward-Looking Statements:** All statements in these materials and the related presentation that are not historical including, without limitation, estimates of and goals for future financial and operating performance as well as forward-looking statements concerning the expected execution of our business strategies, cost-savings and growth initiatives and restructuring activities and the amounts and timing of their expected impact, and regarding our pending agreement with Rite Aid and the transactions contemplated thereby and their possible effects, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as “expect,” “likely,” “outlook,” “forecast,” “preliminary,” “would,” “could,” “should,” “can,” “will,” “project,” “intend,” “plan,” “goal,” “guidance,” “target,” “aim,” “continue,” “sustain,” “synergy,” “on track,” “headwind,” “tailwind,” “believe,” “seek,” “estimate,” “anticipate,” “may,” “possible,” “assume,” and variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that could cause actual results to vary materially, including, but not limited to, those relating to the impact of private and public third-party payers’ efforts to reduce prescription drug reimbursements, the timing and severity of cough/cold and flu season, fluctuations in currency exchange rates, the timing and magnitude of the impact of branded to generic drug conversions, changes in generic drug prices, our ability to realize synergies and achieve financial, tax and operating results in the amounts and at the times anticipated, the occurrence of any event, change or other circumstance that could give rise to the termination, cross-termination or modification of any of our contractual obligations, the costs associated with and our ability to realize expected savings and benefits from cost-savings initiatives, restructuring activities and acquisitions in the amounts and at the times anticipated, the timing and amount of any impairment or other charges, changes in economic and business conditions generally or in markets in which we participate, changes in financial markets and interest rates, international business operations, unexpected costs, liabilities or delays, changes in vendor, customer and payer relationships and terms, including changes in network participation and reimbursement terms, risks of inflation, risks associated with acquisitions, divestitures, joint ventures and strategic investments, including our ability to satisfy the closing conditions and consummate the pending acquisition of Rite Aid and related financing matters on a timely basis or at all, the risks associated with the integration of complex businesses, outcomes of legal and regulatory matters, including regulatory review and actions in connection with the pending acquisition of Rite Aid, and changes in legislation, regulations or interpretations thereof. These and other risks, assumptions and uncertainties are described in Item 1A (Risk Factors) of our Form 10-K for the fiscal year ended 31 August 2015, which is incorporated herein by reference, and in other documents that we file or furnish with the SEC. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. Except to the extent required by law, we do not undertake, and expressly disclaim, any duty or obligation to update publicly any forward-looking statement after the date of this presentation.

**Non-GAAP Financial Measures:** Today’s presentation includes certain non-GAAP financial measures, and we refer you to the footnotes on page 21 and the Appendix to the presentation materials available on our investor relations website for reconciliations to the most directly comparable U.S. GAAP financial measures and related information.



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# Walgreens Boots Alliance Business overview

Stefano Pessina

Executive Vice Chairman and Chief Executive Officer



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# Walgreens Boots Alliance Financial review

George Fairweather

Executive Vice President, Global Chief Financial Officer



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# 2Q financials

\$ in millions (except EPS)	2Q16	Change vs. 2Q15
Net sales	\$30,184	+ 13.6%
Operating income	\$1,860	+ 35.1%
Adjusted operating income <sup>1</sup>	\$2,120	+ 15.2%
Net earnings <sup>2</sup>	\$930	(54.5)%*
Adjusted net earnings <sup>2,3</sup>	\$1,423	+ 14.4%
Net earnings per common share - diluted <sup>2</sup>	\$0.85	(56.0)%*
Adjusted net earnings per common share - diluted <sup>2,3</sup>	\$1.31	+ 11.0%



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\* Decrease due to 2Q15's non-cash gain of \$814 million, or \$0.77 cents per diluted share, associated with the re-measurement to fair value on 31 December 2014 of our previously-held equity investment in Alliance Boots, and fluctuations in the quarterly fair value adjustments of AmerisourceBergen warrants.

# First half FY16 financials

\$ in millions (except EPS)	YTD16	Change vs. YTD15
Net sales	\$59,217	+ 28.4%
Operating income	\$3,328	+ 36.9%
Adjusted operating income <sup>1</sup>	\$3,839	+ 29.8%
Net earnings <sup>2</sup>	\$2,040	(29.5)%*
Adjusted net earnings <sup>2,3</sup>	\$2,555	+ 28.2%
Net earnings per common share - diluted <sup>2</sup>	\$1.87	(35.1)%*
Adjusted net earnings per common share - diluted <sup>2,3</sup>	\$2.34	+ 18.2%

\* Decrease due to 2Q15's non-cash gain of \$814 million, or \$0.77 cents per diluted share, associated with the re-measurement to fair value on 31 December 2014 of our previously-held equity investment in Alliance Boots, and fluctuations in the fair value adjustments of AmerisourceBergen warrants.



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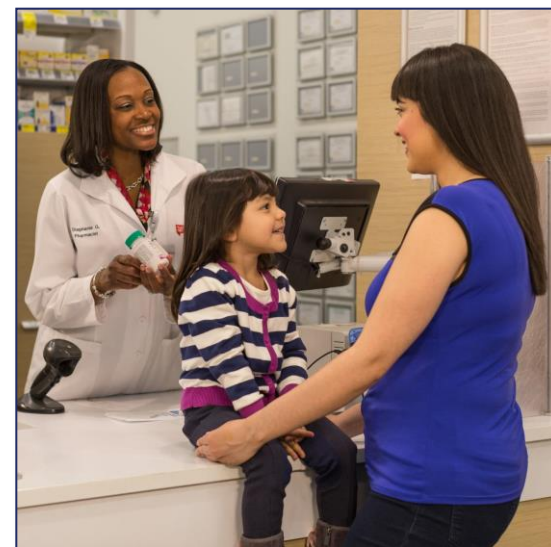
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# Retail Pharmacy USA – financials



\$ in millions (except margins and growth)	2Q16	Change vs. 2Q15
<b>Total sales</b>	<b>\$21,500</b>	<b>+ 2.1%</b>
<b>Comparable store sales<sup>4</sup></b>		<b>+ 2.2%</b>
<b>Adjusted gross profit<sup>5</sup></b>	<b>\$5,963</b>	<b>+ 2.8%</b>
<b>Adjusted gross margin<sup>5</sup></b>	<b>27.7%</b>	<b>+ 0.1%</b>
<b>Adjusted SG&amp;A<sup>6</sup></b>	<b>\$4,331</b>	<b>+ 0.3%</b>
<b>Adjusted operating income<sup>1</sup></b>	<b>\$1,632</b>	<b>+ 2.1%</b>
<b>Adjusted operating margin<sup>1</sup></b>	<b>7.6%</b>	<b>0.0%</b>
Adjusted operating income <sup>1</sup> excluding 2Q15 Alliance Boots equity earnings <sup>7</sup>		<b>+ 10.0%</b>
Adjusted operating margin <sup>1</sup> excluding 2Q15 Alliance Boots equity earnings <sup>7</sup>		<b>+ 0.6%</b>



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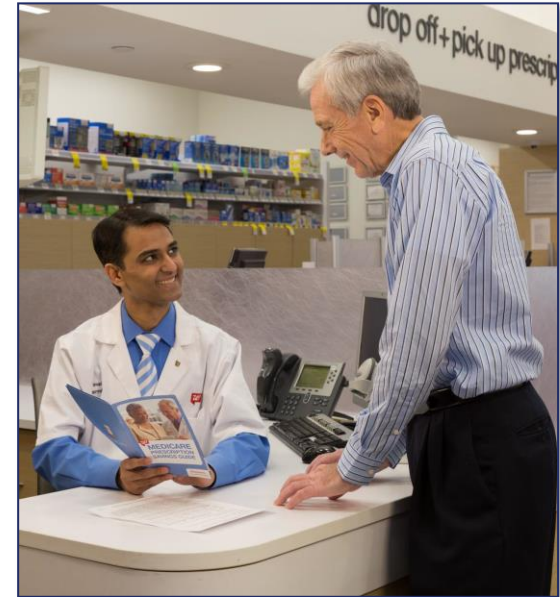
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# Retail Pharmacy USA – Pharmacy

*Walgreens*

- Pharmacy vs. 2Q15
  - Sales up 3.2%
  - Total prescriptions up 3.9%
  - Comparable sales up 3.7%<sup>4</sup>
  - Comparable prescriptions up 2.8%<sup>4,8</sup>
- Weak flu season
  - Estimated comparable script impact 30bps<sup>4</sup>
- Market share up approx. 20 bps to 19.5% vs. 2Q15<sup>9</sup>
- Growth in Medicare Part D market share
- Continued gross margin pressure, confident of business growth over time



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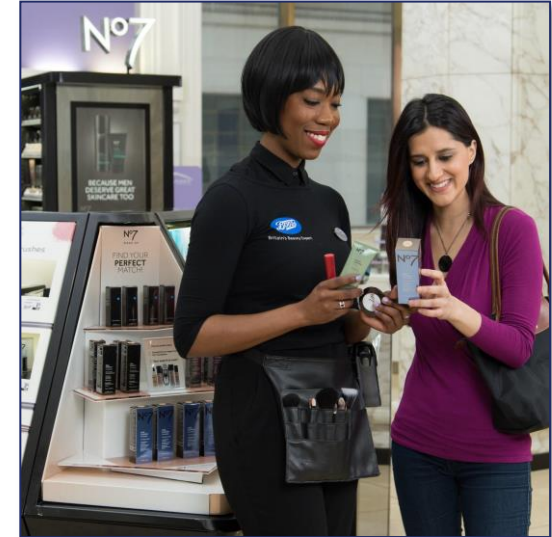
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# Retail Pharmacy USA – Retail Products

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- **Retail Products vs. 2Q15**
  - Sales up 0.3%
  - Comparable sales down 0.3%<sup>4</sup>
- **Weak flu season**
  - Estimated comparable sales impact 100bps<sup>4</sup>
- **Retail products transition continues to gain momentum**
  - Seasonal sales growth driven by giftables and candy categories
  - Health & Wellness strength in vitamins and first aid
  - Good performance from No7



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# Retail Pharmacy International – financials



\$ in millions (except margins and growth)	2Q16
Total sales	\$3,689
Comparable store sales <sup>4,11</sup>	+ 2.3%
Adjusted gross profit <sup>5</sup>	\$1,516
Adjusted gross margin <sup>5</sup>	41.1%
Adjusted SG&A <sup>6</sup>	\$1,181
Adjusted operating income <sup>1</sup>	\$335
Adjusted operating margin <sup>1</sup>	9.1%



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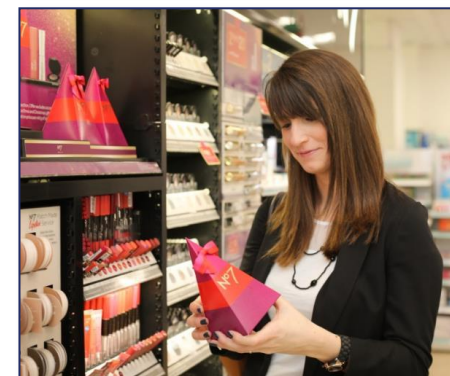
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# Retail Pharmacy International – commentary



- **Division vs. 2Q15<sup>11</sup>**
  - Comparable pharmacy sales up 2.6%<sup>4</sup>
  - Comparable retail sales up 2.1%<sup>4</sup>
- **Boots UK<sup>11</sup>**
  - Comparable pharmacy sales up 3.0%<sup>4</sup>
    - Increase in avg. item value and high value drugs dispensed in hospital pharmacies
  - Comparable retail sales up 1.8%<sup>4</sup>
    - Good performance during the holiday season
    - Continued growth in “Order & Collect service”
    - Strong sales from No7 and Soap & Glory
    - Expansion of Liz Earle and Sleek
- **Strong performance in the Republic of Ireland**



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# Pharmaceutical Wholesale – financials

\$ in millions (except margins and growth)	2Q16
Total sales	\$5,627
Comparable sales <sup>4,12</sup>	+ 1.6%
Adjusted gross profit <sup>5</sup>	\$535
Adjusted gross margin <sup>5</sup>	9.5%
Adjusted SG&A <sup>6</sup>	\$380
Adjusted operating income <sup>1</sup>	\$155
Adjusted operating margin <sup>1</sup>	2.8%



# AmerisourceBergen update



- **Exercised 1<sup>st</sup> of 2 warrant tranches on 18<sup>th</sup> March 2016**
- **Total ownership of 34.2 million shares following exercise<sup>13</sup>**
- **Equity method accounting following exercise**
  - **Two-month reporting lag**
  - **To be included in operating income of the Pharmaceutical Wholesale segment**
- **Funded from \$1.17 billion in existing cash resources**



# Synergies & cost savings update

- **Synergies<sup>10,14</sup>**
  - **\$329 million in 2Q16**
  - **\$617 million first half FY16**
  - **On track to deliver at least \$1 billion by end of FY16**
- **Cost savings program<sup>10</sup>**
  - **On track to deliver \$1.5 billion cost savings goal by end of FY17**



# Capital allocation

- **2Q16 operating cash flow \$2.4 billion**
  - Operational performance and cash conversion
- **2Q16 capital expenditure \$317 million**
  - Investing in key areas to develop our customer proposition<sup>10</sup>
- **2Q16 free cash flow<sup>15</sup> \$2.0 billion**
- **Remain committed to a solid investment grade rating<sup>10</sup>**





# Fiscal year 2016 guidance<sup>10</sup>

Metric	Guidance <sup>10</sup>
Adjusted EPS <sup>15</sup>	\$4.35 - \$4.55

- **Key assumptions include<sup>10</sup>:**
  - ~3 ½ months of AmerisourceBergen equity income
  - No material EPS accretion from Rite Aid
  - Maintain suspension of \$3 billion share buy back program
  - Continuation of normal share anti-dilution buy back program
  - No significant change in current currency exchange rates



# Building a platform for sustainable future growth<sup>10</sup>

- **Solidifying the base**
  - New mind-set
  - Challenging the 'norm'
- **Partnership / strategic relationship focus**
  - Valeant relationship
  - OptumRx Select 90
- **Pending Rite Aid acquisition**
- **Relevant to our valuable customers**
  - Service & offering



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# Appendix

*The following information provides reconciliations of the supplemental non-GAAP financial measures, as defined under SEC rules, presented in this presentation to the most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles in the United States (GAAP). The company has provided these non-GAAP financial measures in the presentation, which are not calculated or presented in accordance with GAAP, as supplemental information in addition to the financial measures that are calculated and presented in accordance with GAAP. These supplemental non-GAAP financial measures are presented because management has evaluated the company's financial results both including and excluding the adjusted items and believes that the non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of the company's business from period to period and trends in the company's historical operating results. The company does not provide a non-GAAP reconciliation for non-GAAP estimates on a forward-looking basis where it is unable to provide a meaningful or accurate calculation or estimation of reconciling items and the information is not available without unreasonable effort. The supplemental non-GAAP financial measures presented should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented in the presentation.*



# Footnotes

1. Non-GAAP financial measure – see Appendix. All periods presented as applicable adjusted for acquisition-related amortization, LIFO provision, acquisition-related costs and asset impairment. 2Q16 and YTD16 also adjusted for cost transformation. 2Q15 and YTD15 also adjusted for decrease (increase) in fair market value of warrants and store closures and other optimization costs.
2. Net Earnings and Net Earnings per common share - diluted figures are attributable to Walgreens Boots Alliance, Inc.
3. Non-GAAP financial measure – see Appendix. All periods presented as applicable adjusted for decrease (increase) in fair market value of warrants, acquisition-related amortization, LIFO provision, acquisition-related costs, asset impairment and adjusted tax rate true-up. 2Q16 also adjusted for cost transformation and net investment hedging gain. YTD16 also adjusted for cost transformation, United Kingdom tax rate change and net investment hedging gain. 2Q15 also adjusted for transaction foreign currency hedging loss, Alliance Boots equity method non-cash tax, store closures and other optimization costs, prefunded interest expenses and gain on previously held equity interest. YTD15 also adjusted for transaction foreign currency hedging loss, Alliance Boots equity method non-cash tax, store closures and other optimization costs, prefunded interest expenses, gain on previously held equity interest and release of capital loss valuation allowance.
4. All comparable sales and prescription figures compare 28 days in February 2015 to the first 28 days in February 2016.
5. Non-GAAP financial measure – see Appendix. All periods presented as applicable adjusted for LIFO provision. 2Q15 and YTD15 as applicable also adjusted for acquisition-related amortization.
6. Non-GAAP financial measure – see Appendix. All periods presented as applicable adjusted for acquisition-related amortization, acquisition-related costs and asset impairment. 2Q16 and YTD16 as applicable also adjusted for cost transformation. 2Q15 and YTD15 as applicable also adjusted for store closures and other optimization costs.
7. Non-GAAP financial measure – see Appendix. Retail Pharmacy USA 2Q15 adjusted to remove non comparable equity income from Alliance Boots.
8. Retail Pharmacy USA Pharmacy prescriptions filled at comparable stores (including immunizations) are reported on a 30 day adjusted basis.
9. Based on data from IMS Health (as of 29 February 2016).
10. Forward-Looking Statements – see cautionary note on slide 3.
11. Reported on a proforma constant currency basis.
12. Reported on a proforma constant currency basis and excluding acquisitions and dispositions.
13. Walgreens Boots Alliance ownership percent in AmerisourceBergen calculated based on the number of shares of AmerisourceBergen common stock outstanding as reported by AmerisourceBergen in its Form 8-K filed with the SEC on 18 March 2016, reflecting the number of shares outstanding as of 16 March 2016 adjusted to give effect to the 18 March 2016 exercise of warrants by Walgreens Boots Alliance. See the Schedule 13D/A filed by Walgreens Boots Alliance on 22 March 2016 for additional information.
14. Synergies exclude any benefits from the strategic long-term relationship with AmerisourceBergen, refinancing the legacy Alliance Boots indebtedness at a lower cost and the proposed Rite Aid acquisition.
15. Non-GAAP financial measure – see Appendix.



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# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

### Reconciliation of Net Earnings

(In millions)

	Three months ended				Six months ended			
	29 February 2016	28 February 2015	Change vs. 2Q15		29 February 2016	28 February 2015	Change vs. YTD15	
			Amount	Percent			Amount	Percent
<b>Net earnings attributable to Walgreens Boots Alliance, Inc. (GAAP)</b>	<b>\$ 930</b>	<b>\$ 2,042</b>	<b>\$ (1,112)</b>	<b>(54.5%)</b>	<b>\$ 2,040</b>	<b>\$ 2,892</b>	<b>\$ (852)</b>	<b>(29.5%)</b>
Decrease (increase) in fair market value of warrants	379	(376)			420	(655)		
Acquisition-related amortization	72	157			130	215		
Cost transformation	20	-			84	-		
LIFO provision	49	42			82	76		
Acquisition-related costs	24	43			48	59		
Asset impairment	21	78			21	78		
United Kingdom tax rate change	-	-			(178)	-		
Adjusted tax rate true-up	(40)	(69)			(60)	(69)		
Net investment hedging gain	(32)	-			(32)	-		
Transaction foreign currency hedging loss	-	70			-	166		
Alliance Boots equity method non-cash tax	-	38			-	71		
Store closures and other optimization costs	-	12			-	30		
Prefunded interest expenses	-	21			-	30		
Gain on previously held equity interest	-	(814)			-	(814)		
Release of capital loss valuation allowance	-	-			-	(86)		
<b>Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure)</b>	<b>\$ 1,423</b>	<b>\$ 1,244</b>	<b>\$ 179</b>	<b>14.4%</b>	<b>\$ 2,555</b>	<b>\$ 1,993</b>	<b>\$ 562</b>	<b>28.2%</b>



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# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

### Reconciliation of Earnings Per Share

	Three months ended				Six months ended			
	29 February 2016	28 February 2015	Change vs. 2Q15		29 February 2016	28 February 2015	Change vs. YTD15	
			Amount	Percent			Amount	Percent
<b>Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (GAAP)</b>	\$ 0.85	\$ 1.93	\$ (1.08)	(56.0%)	\$ 1.87	\$ 2.88	\$ (1.01)	(35.1%)
Decrease (increase) in fair market value of warrants	0.35	(0.35)			0.38	(0.65)		
Acquisition-related amortization	0.07	0.15			0.12	0.21		
Cost transformation	0.02	-			0.08	-		
LIFO provision	0.05	0.04			0.07	0.08		
Acquisition-related costs	0.02	0.04			0.04	0.06		
Asset impairment	0.02	0.07			0.02	0.08		
United Kingdom tax rate change	-	-			(0.16)	-		
Adjusted tax rate true-up	(0.04)	(0.07)			(0.05)	(0.07)		
Net investment hedging gain	(0.03)	-			(0.03)	-		
Transaction foreign currency hedging loss	-	0.07			-	0.16		
Alliance Boots equity method non-cash tax	-	0.04			-	0.07		
Store closures and other optimization costs	-	0.01			-	0.03		
Prefunded interest expenses	-	0.02			-	0.03		
Gain on previously held equity interest	-	(0.77)			-	(0.81)		
Release of capital loss valuation allowance	-	-			-	(0.09)		
<b>Adjusted net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (Non-GAAP measure)</b>	\$ 1.31	\$ 1.18	\$ 0.13	11.0%	\$ 2.34	\$ 1.98	\$ 0.36	18.2%



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# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

### Reconciliation of Interest Expense, net (In millions)

	Three months ended		Six months ended	
	29 February 2016	28 February 2015	29 February 2016	28 February 2015
Interest Expense, Net (GAAP)	\$ 140	\$ 144	\$ 278	\$ 199
Prefunded interest expenses	-	(28)	-	(42)
<b>Adjusted Interest Expense, Net (Non-GAAP measure)</b>	<b>\$ 140</b>	<b>\$ 116</b>	<b>\$ 278</b>	<b>\$ 157</b>



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# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

### Reconciliation of Adjusted Effective Tax Rate

(In millions)

	Three months ended, 29 February 2016			Three months ended, 28 February 2015		
	Earnings (Loss) Before Income Tax Provision	Income Tax Provision (Benefit)	Effective Tax Rate	Earnings Before Income Tax Provision	Income Tax Provision	Effective Tax Rate
<b>GAAP-measure</b>	\$ 1,224	\$ 301	24.6%	\$ 2,443	\$ 391	16.0%
Decrease (increase) in fair market value of warrants	529	150		(558)	(182)	
Acquisition-related amortization	101	29		217	60	
Cost transformation	28	8		-	-	
LIFO provision	68	19		55	13	
Acquisition-related costs	33	9		59	16	
Asset impairment	30	9		110	32	
United Kingdom tax rate change	-	-		-	-	
Adjusted tax rate true-up	-	40		-	69	
Net investment hedging gain	(33)	(1)		-	-	
Transaction foreign currency hedging loss	-	-		70	-	
Alliance Boots equity method non-cash tax	-	-		-	(38)	
Store closures and other optimization costs	-	-		16	4	
Prefunded interest expenses	-	-		28	7	
Gain on previously held equity interest	-	-		(706)	108	
Release of capital loss valuation allowance	-	-		-	-	
<b>Non-GAAP measure</b>	\$ 1,980	\$ 564	28.5%	\$ 1,734	\$ 480	27.7%



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# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

### Reconciliation of Adjusted Effective Tax Rate

(In millions)

	Six months ended, 29 February 2016			Six months ended, 28 February 2015		
	Earnings (Loss) Before Income Tax Provision	Income Tax Provision (Benefit)	Effective Tax Rate	Earnings Before Income Tax Provision	Income Tax Provision	Effective Tax Rate
<b>GAAP-measure</b>	\$ 2,497	\$ 468	18.7%	\$ 3,641	\$ 712	19.6%
Decrease (increase) in fair market value of warrants	586	166		(982)	(327)	
Acquisition-related amortization	182	52		306	91	
Cost transformation	118	34		-	-	
LIFO provision	114	32		107	31	
Acquisition-related costs	67	19		83	24	
Asset impairment	30	9		110	32	
United Kingdom tax rate change	-	178		-	-	
Adjusted tax rate true-up	-	60		-	69	
Net investment hedging gain	(33)	(1)		-	-	
Transaction foreign currency hedging loss	-	-		166	-	
Alliance Boots equity method non-cash tax	-	-		-	(71)	
Store closures and other optimization costs	-	-		44	14	
Prefunded interest expenses	-	-		42	12	
Gain on previously held equity interest	-	-		(706)	108	
Release of capital loss valuation allowance	-	-		-	86	
<b>Non-GAAP measure</b>	\$ 3,561	\$ 1,017	28.6%	\$ 2,811	\$ 781	27.8%



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# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

### Reconciliation of Gross Profit by Segment (In millions)

	Three months ended, 29 February 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Gross Profit (GAAP)	\$ 5,895	\$ 1,516	\$ 535	\$ (2)	\$ 7,944
LIFO provision	68	-	-	-	68
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 5,963</b>	<b>\$ 1,516</b>	<b>\$ 535</b>	<b>\$ (2)</b>	<b>\$ 8,012</b>
Total Sales	\$ 21,500	\$ 3,689	\$ 5,627	\$ (632)	\$ 30,184
Gross Margin (GAAP)	27.4%	41.1%	9.5%	0.3%	26.3%
Adjusted gross margin (Non-GAAP measure)	27.7%	41.1%	9.5%	0.3%	26.5%

	Three months ended, 28 February 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Gross Profit (GAAP)	\$ 5,746	\$ 753	\$ 387	\$ (4)	\$ 6,882
Acquisition-related amortization	-	100	6	-	106
LIFO provision	55	-	-	-	55
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 5,801</b>	<b>\$ 853</b>	<b>\$ 393</b>	<b>\$ (4)</b>	<b>\$ 7,043</b>
Total Sales	\$ 21,048	\$ 2,047	\$ 3,865	\$ (387)	\$ 26,573
Gross Margin (GAAP)	27.3%	36.8%	10.0%	1.0%	25.9%
Adjusted gross margin (Non-GAAP measure)	27.6%	41.7%	10.2%	1.0%	26.5%



Walgreens Boots Alliance

# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

### Reconciliation of Gross Profit by Segment (In millions)

	Six months ended, 29 February 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Gross Profit (GAAP)	\$ 11,340	\$ 3,021	\$ 1,092	\$ (7)	\$ 15,446
LIFO provision	114	-	-	-	114
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 11,454</b>	<b>\$ 3,021</b>	<b>\$ 1,092</b>	<b>\$ (7)</b>	<b>\$ 15,560</b>
Total Sales	\$ 41,870	\$ 7,220	\$ 11,423	\$ (1,296)	\$ 59,217
Gross Margin (GAAP)	27.1%	41.8%	9.6%	0.5%	26.1%
Adjusted gross margin (Non-GAAP measure)	27.4%	41.8%	9.6%	0.5%	26.3%

	Six months ended, 28 February 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Gross Profit (GAAP)	\$ 11,042	\$ 753	\$ 387	\$ (4)	\$ 12,178
Acquisition-related amortization	-	100	6	-	106
LIFO provision	107	-	-	-	107
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 11,149</b>	<b>\$ 853</b>	<b>\$ 393</b>	<b>\$ (4)</b>	<b>\$ 12,391</b>
Total Sales	\$ 40,602	\$ 2,047	\$ 3,865	\$ (387)	\$ 46,127
Gross Margin (GAAP)	27.2%	36.8%	10.0%	1.0%	26.4%
Adjusted gross margin (Non-GAAP measure)	27.5%	41.7%	10.2%	1.0%	26.9%



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# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

### Reconciliation of Selling, General and Administrative Expenses by Segment

(In millions)

	Three months ended, 29 February 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Selling, general and administrative expenses (GAAP)</b>	\$ 4,466	\$ 1,217	\$ 401	\$ -	\$ 6,084
Acquisition-related amortization	(47)	(33)	(21)	-	(101)
Cost transformation	(25)	(3)	-	-	(28)
Acquisition-related costs	(33)	-	-	-	(33)
Asset impairment	(30)	-	-	-	(30)
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 4,331</b>	<b>\$ 1,181</b>	<b>\$ 380</b>	<b>\$ -</b>	<b>\$ 5,892</b>
Total Sales	\$ 21,500	\$ 3,689	\$ 5,627	\$ (632)	\$ 30,184
SG&A percent to sales (GAAP)	20.8%	33.0%	7.1%	0.0%	20.2%
Adjusted SG&A percent to sales (Non-GAAP measure)	20.1%	32.0%	6.8%	0.0%	19.5%

	Three months ended, 28 February 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Selling, general and administrative expenses (GAAP)</b>	\$ 4,555	\$ 745	\$ 306	\$ -	\$ 5,606
Acquisition-related amortization	(59)	(17)	(27)	-	(103)
Acquisition-related costs	(52)	-	(7)	-	(59)
Asset impairment	(110)	-	-	-	(110)
Store closures and other optimization costs	(16)	-	-	-	(16)
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 4,318</b>	<b>\$ 728</b>	<b>\$ 272</b>	<b>\$ -</b>	<b>\$ 5,318</b>
Total Sales	\$ 21,048	\$ 2,047	\$ 3,865	\$ (387)	\$ 26,573
SG&A percent to sales (GAAP)	21.6%	36.4%	7.9%	0.0%	21.1%
Adjusted SG&A percent to sales (Non-GAAP measure)	20.5%	35.6%	7.0%	0.0%	20.0%



Walgreens Boots Alliance

# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

### Reconciliation of Selling, General and Administrative Expenses by Segment

(In millions)

	Six months ended, 29 February 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Selling, general and administrative expenses (GAAP)</b>	\$ 8,883	\$ 2,420	\$ 815	\$ -	\$ 12,118
Acquisition-related amortization	(97)	(41)	(44)	-	(182)
Cost transformation	(110)	(8)	-	-	(118)
Acquisition-related costs	(67)	-	-	-	(67)
Asset impairment	(30)	-	-	-	(30)
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 8,579</b>	<b>\$ 2,371</b>	<b>\$ 771</b>	<b>\$ -</b>	<b>\$ 11,721</b>
Total Sales	\$ 41,870	\$ 7,220	\$ 11,423	\$ (1,296)	\$ 59,217
SG&A percent to sales (GAAP)	21.2%	33.5%	7.1%	-	20.5%
Adjusted SG&A percent to sales (Non-GAAP measure)	20.5%	32.8%	6.7%	-	19.8%

	Six months ended, 28 February 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Selling, general and administrative expenses (GAAP)</b>	\$ 9,011	\$ 745	\$ 306	\$ -	\$ 10,062
Acquisition-related amortization	(126)	(17)	(27)	-	(170)
Acquisition-related costs	(76)	-	(7)	-	(83)
Asset impairment	(110)	-	-	-	(110)
Store closures and other optimization costs	(44)	-	-	-	(44)
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 8,655</b>	<b>\$ 728</b>	<b>\$ 272</b>	<b>\$ -</b>	<b>\$ 9,655</b>
Total Sales	\$ 40,602	\$ 2,047	\$ 3,865	\$ (387)	\$ 46,127
SG&A percent to sales (GAAP)	22.2%	36.4%	7.9%	0.0%	21.8%
Adjusted SG&A percent to sales (Non-GAAP measure)	21.3%	35.6%	7.0%	0.0%	20.9%



Walgreens Boots Alliance

# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

### Reconciliation of Operating Income by Segment

(In millions)

	Three months ended, 29 February 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Operating Income (GAAP)</b>	\$ 1,429	\$ 299	\$ 134	\$ (2)	\$ 1,860
Acquisition-related amortization	47	33	21	-	101
Cost transformation	25	3	-	-	28
LIFO provision	68	-	-	-	68
Acquisition-related costs	33	-	-	-	33
Asset impairment	30	-	-	-	30
<b>Adjusted Operating Income (Non-GAAP measure)</b>	<b>\$ 1,632</b>	<b>\$ 335</b>	<b>\$ 155</b>	<b>\$ (2)</b>	<b>\$ 2,120</b>
Total Sales	\$ 21,500	\$ 3,689	\$ 5,627	\$ (632)	\$ 30,184
Operating Margin (GAAP)	6.6%	8.1%	2.4%	0.3%	6.2%
Adjusted Operating Margin (Non-GAAP)	7.6%	9.1%	2.8%	0.3%	7.0%

	Three months ended, 28 February 2015				
	Retail Pharmacy USA <sup>1</sup>	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Operating Income (GAAP)</b>	\$ 1,292	\$ 8	\$ 81	\$ (4)	\$ 1,377
Decrease (increase) in fair market value of warrants	6	-	-	-	6
Acquisition-related amortization	67	117	33	-	217
LIFO provision	55	-	-	-	55
Acquisition-related costs	52	-	7	-	59
Asset impairment	110	-	-	-	110
Store closures and other optimization costs	16	-	-	-	16
<b>Adjusted Operating Income (Non-GAAP measure)</b>	<b>\$ 1,598</b>	<b>\$ 125</b>	<b>\$ 121</b>	<b>\$ (4)</b>	<b>\$ 1,840</b>
Total Sales	\$ 21,048	\$ 2,047	\$ 3,865	\$ (387)	\$ 26,573
Operating Margin (GAAP)	6.1%	0.4%	2.1%	1.0%	5.2%
Adjusted Operating Margin (Non-GAAP)	7.6%	6.1%	3.1%	1.0%	6.9%

<sup>1</sup> Operating income for Retail Pharmacy USA includes one month (December 2014) of equity earnings in Alliance Boots.



**Walgreens Boots Alliance**

# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

### Reconciliation of Operating Income by Segment (In millions)

	Six months ended, 29 February 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Operating Income (GAAP)</b>	\$ 2,457	\$ 601	\$ 277	\$ (7)	\$ 3,328
Acquisition-related amortization	97	41	44	-	182
Cost transformation	110	8	-	-	118
LIFO provision	114	-	-	-	114
Acquisition-related costs	67	-	-	-	67
Asset impairment	30	-	-	-	30
<b>Adjusted Operating Income (Non-GAAP measure)</b>	<b>\$ 2,875</b>	<b>\$ 650</b>	<b>\$ 321</b>	<b>\$ (7)</b>	<b>\$ 3,839</b>
Total Sales	\$ 41,870	\$ 7,220	\$ 11,423	\$ (1,296)	\$ 59,217
Operating Margin (GAAP)	5.9%	8.3%	2.4%	0.5%	5.6%
Adjusted Operating Margin (Non-GAAP)	6.9%	9.0%	2.8%	0.5%	6.5%

	Six months ended, 28 February 2015				
	Retail Pharmacy USA <sup>1</sup>	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Operating Income (GAAP)</b>	\$ 2,346	\$ 8	\$ 81	\$ (4)	\$ 2,431
Decrease (increase) in fair market value of warrants	(123)	-	-	-	(123)
Acquisition-related amortization	156	117	33	-	306
LIFO provision	107	-	-	-	107
Acquisition-related costs	76	-	7	-	83
Asset impairment	110	-	-	-	110
Store closures and other optimization costs	44	-	-	-	44
<b>Adjusted Operating Income (Non-GAAP measure)</b>	<b>\$ 2,716</b>	<b>\$ 125</b>	<b>\$ 121</b>	<b>\$ (4)</b>	<b>\$ 2,958</b>
Total Sales	\$ 40,602	\$ 2,047	\$ 3,865	\$ (387)	\$ 46,127
Operating Margin (GAAP)	5.8%	0.4%	2.1%	1.0%	5.3%
Adjusted Operating Margin (Non-GAAP)	6.7%	6.1%	3.1%	1.0%	6.4%

<sup>1</sup> Operating income for Retail Pharmacy USA includes four months (September through December 2014) of equity earnings in Alliance Boots.



**Walgreens Boots Alliance**



# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

<b>Equity Earnings in Alliance Boots</b> <i>(In millions)</i>	<u>Three months ended</u> 28 February 2015	<u>Six months ended</u> 28 February 2015
<b>Equity earnings in Alliance Boots (GAAP)</b>	\$ 101	\$ 315
Increase in fair market value of warrants	6	(123)
Acquisition-related amortization	8	30
<b><u>Adjusted Equity earnings in Alliance Boots (Non-GAAP measure)</u></b>	<b><u>\$ 115</u></b>	<b><u>\$ 222</u></b>



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# Reconciliation of Non-GAAP financial measures

## Walgreens Boots Alliance, Inc. and Subsidiaries Supplemental Information (unaudited)

Free Cash Flow <i>(In millions)</i>	Three months ended	Six months ended
	29 February 2016	29 February 2016
<b>Net cash provided by operating activities (GAAP)</b>	<b>\$ 2,353</b>	<b>\$ 3,085</b>
Less: Additions to property, plant and equipment	317	657
<b>Free cash flow (Non-GAAP measure)<sup>1</sup></b>	<b>\$ 2,036</b>	<b>\$ 2,428</b>

1) Free cash flow is defined as net cash provided by operating activities in a period minus additions to property, plant and equipment (capital expenditures) made in that period. This measure does not represent residual cash flows available for discretionary expenditures as the measure does not deduct the payments required for debt service and other contractual obligations or payments for future business acquisitions. Therefore, we believe it is important to view free cash flow as a measure that provides supplemental information to our entire statements of cash flows.



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# Certain assumptions and supplemental information

**Certain Assumptions:** Unless the context otherwise indicates or requires:

- This presentation assumes constant currency exchange rates after the date hereof based on current rates;
- All financial estimates and goals assume constant currency exchange rates after the date hereof based on current rates and no major mergers, acquisitions, divestitures or strategic transactions.

**Holding Company Reorganization.** On 31 December 2014, Walgreens Boots Alliance, Inc. became the successor of Walgreen Co. pursuant to a merger to effect a reorganization of Walgreen Co. into a holding company structure (the “Reorganization”), with Walgreens Boots Alliance, Inc. becoming the parent holding company. References in this presentation to the “Company,” “we,” “us” or “our” refer to Walgreens Boots Alliance, Inc. and its subsidiaries from and after the effective time of the Reorganization on 31 December 2014 and, prior to that time, to the predecessor registrant Walgreen Co. and its subsidiaries, and in each case do not include unconsolidated partially-owned entities, except as otherwise indicated or the context otherwise requires. Our fiscal year ends on 31 August, and references herein to “fiscal 2016” refer to our fiscal year ended 31 August 2016.

**Historical Alliance Boots Financial Information.** On 31 December 2014, Alliance Boots became a consolidated subsidiary and ceased being accounted for under the equity method. Please refer to Exhibits 99.1 and 99.2, respectively, to our fiscal 2015 Form 10-K for (1) Alliance Boots GmbH audited consolidated financial statements and accompanying notes (prepared in accordance with IFRS and audited in accordance with U.S. GAAS), including the statements of financial position at March 31, 2014 and 2013 of Alliance Boots and its subsidiaries (the Group) and the related Group income statements, Group statements of comprehensive income, Group statements of changes in equity and Group statements of cash flows for each of the years in the three-year period ended 31 March 2014 and (2) Alliance Boots GmbH unaudited interim condensed consolidated financial statements and accompanying notes (prepared in accordance with IFRS) including the Group statements of financial position at 31 December 2014 and 2013, and the related Group income statements, Group statements of comprehensive income, Group statements of changes in equity and Group statements of cash flows for each of the nine month periods then ended.

**AmerisourceBergen Information.** All descriptions in this presentation of the agreements relating to the strategic long-term relationship with AmerisourceBergen announced by the Company and Alliance Boots on 18 March 2013 and the arrangements and transactions contemplated thereby are qualified in their entirety by reference to the description and the full text of the agreements in the Company’s Form 8-K filing on 20 March 2013 and Schedule 13D filed on 15 April 2014, as amended on 16 January 2015, 25 January 2016 and 22 March 2016. We adjust for fluctuations in the fair value of our warrants to acquire AmerisourceBergen common stock in determining adjusted net earnings (non-GAAP). The initial tranche of these warrants was exercised on 18 March 2016, and following that transaction we account for our investment in AmerisourceBergen common stock using the equity method of accounting on a two-month lag. See slide 14 for additional information.



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