



# Walgreens Boots Alliance 3Q16 Consolidated Financial Results Earnings conference call



Walgreens Boots Alliance

6 July 2016

# Agenda

## Topic

## Speaker

**Introduction & safe harbor**

**Gerald Gradwell**

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

**Opening remarks**

**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.

**Questions & answers**

**Stefano Pessina**

**George Fairweather**

**Alex Gourlay**

Co-Chief Operating Officer of Walgreens Boots Alliance, Inc.



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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 and effect of our business strategies, our cost-savings and growth initiatives and restructuring activities and the amounts and timing of their expected impact, and 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, known or unknown, 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, fluctuations in foreign currency exchange rates, the timing and magnitude of the impact of branded to generic drug conversions and 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, 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, the timing and severity of cough, cold and flu season, changes in economic and business conditions generally or in particular markets in which we participate, changes in financial markets and interest rates, the risks associated with international business operations, including the risks associated with the proposed withdrawal of the United Kingdom from the European Union, the risk of 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 those relating to our ability to satisfy the closing conditions and consummate the pending acquisition of Rite Aid and related matters on a timely basis or at all, the risks associated with the integration of complex businesses, outcomes of legal and regulatory matters, including with respect to 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 16 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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# Highlights

- **Solid 3Q performance**
- **Continuing to build strong business partnerships<sup>1</sup>**
- **Proposed Rite Aid acquisition progressing as planned<sup>1</sup>**
- **\$1 billion combined net synergy goal for fiscal 2016 achieved in June<sup>2</sup>**
- **Management structure changes to support future growth<sup>1</sup>**



# 3Q financial highlights

\$ in millions (except EPS and % change)	3Q16	Δ vs. 3Q15	Constant currency Δ vs. 3Q15 <sup>3</sup>
Net sales	\$29,498	+2.4%	+3.3%
Operating income	\$1,533	+9.4%	
Adjusted operating income <sup>4</sup>	\$1,814	+3.7%	+4.7%
Net earnings <sup>5</sup>	\$1,103	(15.3)%	
Adjusted net earnings <sup>5,6</sup>	\$1,288	+14.7%	
Net earnings per common share – diluted <sup>5</sup>	\$1.01	(14.4)%	
Adjusted net earnings per common share – diluted <sup>5,6</sup>	\$1.18	+15.7%	



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# Fiscal year to date financial highlights

\$ in millions (except EPS and % change)	YTD16	Δ vs. YTD15	Constant currency Δ vs. YTD15 <sup>3</sup>
Net sales	\$88,715	+18.4%	+21.2%
Operating income	\$4,861	+26.9%	
Adjusted operating income <sup>4</sup>	\$5,653	+20.1%	+21.6%
Net earnings <sup>5</sup>	\$3,143	(25.1)%	
Adjusted net earnings <sup>5,6</sup>	\$3,843	+23.3%	
Net earnings per common share – diluted <sup>5</sup>	\$2.88	(28.7)%	
Adjusted net earnings per common share – diluted <sup>5,6</sup>	\$3.52	+17.3%	



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# Retail Pharmacy USA – financials

*Walgreens*

\$ in millions (except % change)	3Q16	Δ vs. 3Q15
Total sales	\$21,185	+3.7%
Comparable store sales		+3.9%
Adjusted gross profit <sup>7,8</sup>	\$5,695	+1.8%
Adjusted SG&A <sup>8,9</sup>	\$4,313	+1.1%
Adjusted operating margin <sup>4,8</sup>	6.5%	-
Adjusted operating income <sup>4,8</sup>	\$1,382	+4.1%



**\$1.5 billion cost transformation program well on track<sup>1</sup>**



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# Retail Pharmacy USA – pharmacy

*Walgreens*

- **Pharmacy vs. 3Q15**
  - Total pharmacy sales up 5.8%
  - Total prescriptions up 3.9%
  - Comparable pharmacy sales up 6.0%
  - Comparable prescriptions up 4.5%<sup>10</sup>
- **Market share 19.6%**
  - Up approximately 30 bps vs. 3Q15<sup>11</sup>
- **Pharmacy gross margin pressure**
  - Reimbursement rates and changes in mix
  - Partially offset by procurement efficiencies



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# Retail Pharmacy USA – retail products

*Walgreens*

- **Retail products vs. 3Q15**
  - Comparable sales up 0.1%
- **Continuing to focus on profitable growth**
  - Expanding gross margins
- **Differentiated beauty offering**
  - Starting expansion to over 1,800 stores



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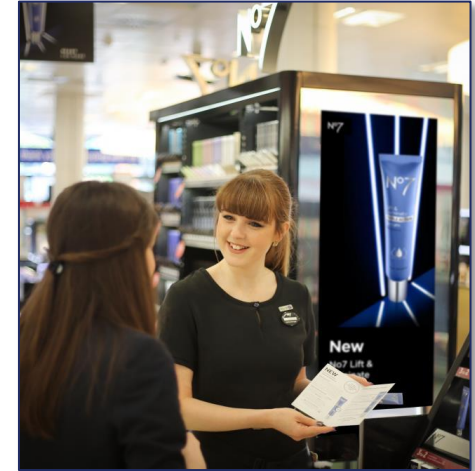
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# Retail Pharmacy International – financials



\$ in millions (except % change)	3Q16	Δ vs. 3Q15	Constant currency Δ vs. 3Q15 <sup>3</sup>
Total sales	\$3,194	(2.3%)	+3.4%
Comparable store sales <sup>12</sup>			+0.2%
Adjusted operating margin <sup>4,12</sup>	8.1%	+0.5%p	+0.4%p
Adjusted operating income <sup>4,12</sup>	\$258	+3.6%	+8.0%



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# Retail Pharmacy International – commentary



- **Comparable pharmacy sales down 0.7%**<sup>\*,3,12</sup>
  - Loss of contracts in Chile
  - Boots UK down 1.0%<sup>\*,3,12</sup>
    - Reduction in government funding
- **Comparable retail sales up 0.7%**<sup>\*,3,12</sup>
  - Strong performances from Republic of Ireland and Thailand
  - Boots UK up 0.6%<sup>\*,3,12</sup>
    - Good performance from Sleek and No7



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\*all comparable sales figures for the division are presented in constant currency

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# Pharmaceutical Wholesale – financials



\$ in millions (except % change)	3Q16	Δ vs. 3Q15	Constant currency Δ vs. 3Q15 <sup>3</sup>
<b>Total sales</b>	<b>\$5,748</b>	<b>+0.7%</b>	<b>+2.4%</b>
<b>Comparable sales<sup>13,14</sup></b>			<b>+6.3%</b>
<b>Adjusted operating margin<sup>4,15</sup></b>	<b>3.0%</b>	<b>-</b>	<b>-</b>
<b>Adjusted operating income<sup>4,14</sup></b>	<b>\$179</b>	<b>+4.7%</b>	<b>+7.6%</b>



- Strong sales growth in emerging markets



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# Synergies update

- **Combined net synergies from the strategic combination with Alliance Boots<sup>2</sup>**
  - **\$330 million in 3Q16**
  - **\$947 million in fiscal year to date**
- **\$1 billion combined net synergy goal for fiscal 2016**
  - **Achieved in June<sup>2</sup>**



# 3Q capital allocation

- **Operating cash flow \$2.1 billion**
  - Solid profit performance
  - Favorable working capital cash flows
- **Cash capital expenditure \$247 million**
- **Free cash flow<sup>16</sup> \$1.9 billion**



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# Fiscal year 2016 guidance<sup>1</sup>

Metric	Guidance <sup>1</sup>
Adjusted EPS <sup>16</sup>	\$4.45 - \$4.55

- Raised low end of guidance by ten cents
- Key assumptions include<sup>1</sup>:
  - No impact from proposed acquisition of Rite Aid and related financing
  - Current exchange rates for rest of fiscal year



# Footnotes

1. Forward-Looking Statements – see cautionary note on slide 3.
2. 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.
3. Presented on a constant currency basis. Non-GAAP financial measure – see Appendix. As a global company, the operating results reported in U.S. dollars are affected by foreign currency exchange rate fluctuations. The term “constant currency” to represent results that have been adjusted to exclude foreign currency impact. Foreign currency impact represents the difference in results that are attributable to fluctuations in the currency exchange rates used to convert the results for businesses where the functional currency is not the U.S. dollar. This impact is calculated by translating current period results at the currency exchange rates used in the comparable period in the prior year, rather than the exchange rates in effect during the current period.
4. Non-GAAP financial measure – see Appendix. All periods presented as applicable adjusted for acquisition-related amortization, LIFO provision, cost transformation and acquisition-related costs. 3Q15 and YTD15 also adjusted for store closures and other optimization costs and loss on sale of business. YTD15 also adjusted for decrease (increase) in fair market value of AmerisourceBergen warrants and asset impairment.
5. Net Earnings and Net Earnings per common share - diluted figures are attributable to Walgreens Boots Alliance, Inc.
6. Non-GAAP financial measure – see Appendix. All periods presented as applicable adjusted for decrease (increase) in fair market value of AmerisourceBergen warrants, acquisition-related amortization, LIFO provision, cost transformation, acquisition-related costs and tax impact of adjustments. 3Q16 and YTD16 also adjusted for impact of change in accounting method for AmerisourceBergen equity investment and net investment hedging gain. YTD16 also adjusted for asset impairment and United Kingdom tax rate change. 3Q15 and YTD15 also adjusted for store closures and other optimization costs, loss on sale of business and release of capital loss valuation allowance. YTD15 also adjusted for asset impairment, transaction foreign currency hedging loss, Alliance Boots equity method non-cash tax, and prefunded interest expense.
7. Non-GAAP financial measure – see Appendix. All periods presented as applicable adjusted for LIFO provision. YTD15 also adjusted for acquisition-related amortization.
8. Retail Pharmacy USA segment GAAP 3Q16 results, dollars in millions: gross profit \$5,603, selling general and administrative expenses \$4,434 and operating income \$1,169 – see Appendix.
9. Non-GAAP financial measure – see Appendix. All periods presented as applicable adjusted for acquisition related amortization, cost transformation and acquisition related costs. YTD16 also adjusted for an asset impairment. 3Q15 and YTD15 also adjusted for store closures and other optimization costs and loss on sale of business. YTD15 also adjusted for an asset impairment.
10. Retail Pharmacy USA Pharmacy prescriptions filled at comparable stores (including immunizations) are reported on a 30 day adjusted basis.
11. Based on data from IMS Health (as of 31 May 2016).
12. Retail Pharmacy International segment GAAP 3Q16 results, dollars in millions: operating income \$223 – see Appendix. Compared to the prior year quarter, comparable store sales on a reported currency basis decreased 5.4%, comparable pharmacy sales on a reported currency basis decreased 6.6%, comparable retail sales on a reported currency basis decreased 4.6%, Boots UK comparable pharmacy sales on a reported currency basis decreased 6.0% and Boots UK comparable retail sales on a reported currency basis decreased 4.5%.
13. Reported on a constant currency basis and excluding acquisitions and dispositions.
14. Pharmaceutical Wholesale segment GAAP 3Q16 results, dollars in millions: operating income \$146 – see Appendix. Compared to the prior year quarter, comparable sales excluding acquisitions and dispositions on a reported currency basis increased 4.6%.
15. Pharmaceutical Wholesale operating income for the three and nine month periods ended May 31, 2016 includes \$3 million of equity earnings in AmerisourceBergen. Pharmaceutical Wholesale operating margin for the three and nine month periods ended May 31, 2016 has been calculated excluding equity earnings in AmerisourceBergen. Pharmaceutical Wholesale adjusted operating income for the three and nine month periods ended May 31, 2016 includes \$8 million of adjusted equity earnings in AmerisourceBergen. The adjustments include \$4 million of acquisition-related amortization and \$1 million of LIFO provision. Pharmaceutical Wholesale adjusted operating margin for the three and nine month periods ended May 31, 2016 has been calculated excluding adjusted equity earnings in AmerisourceBergen.
16. Non-GAAP financial measure – see Appendix.





# 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). As a global company, the company's operating results reported in U.S. dollars are affected by foreign currency exchange rate fluctuations because the underlying foreign currencies in which it transacts change in value over time compared to the U.S. dollar; accordingly, the company presents certain constant currency financial information to provide a framework to assess how its businesses performed excluding the impact of foreign currency exchange rate fluctuations. The company has provided the non-GAAP financial measures in this presentation, which are not calculated or presented in accordance with GAAP, as supplemental information and 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 or the effects of foreign currency translation, as applicable, and believe that the supplemental 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. These supplemental non-GAAP financial measures 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 this presentation. The company does not provide a reconciliation for non-GAAP estimates on a forward-looking basis (including the information under "Fiscal Year 2016 guidance") 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. This is due to the inherent difficulty of forecasting the timing or amount of various items that would impact net earnings per diluted share, the most directly comparable forward-looking GAAP financial measure, including, for example, decreases (increases) in fair market value of warrants and changes in the LIFO provision, that have not yet occurred, are out of the company's control and/or cannot be reasonably predicted. For the same reasons, the company is unable to address the probable significance of the unavailable information. Forward-looking non-GAAP financial measures provided without the most directly comparable GAAP financial measures may vary materially from the corresponding GAAP financial measures.*



# Reconciliation of Non-GAAP financial measures

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

### Reconciliation of Net Earnings

(in millions)

	Three months ended				Nine months ended			
	May 31, 2016	May 31, 2015 <sup>(1)</sup>	Change vs. 3Q15		May 31, 2016	May 31, 2015 <sup>(1)</sup>	Change vs. YTD15	
			Amount	Percent			Amount	Percent
<b>Net earnings attributable to Walgreens Boots Alliance, Inc. (GAAP)</b>	\$ 1,103	\$ 1,302	\$ (199)	(15.3%)	\$ 3,143	\$ 4,194	\$ (1,051)	(25.1%)
Decrease (increase) in fair market value of AmerisourceBergen warrants <sup>(1)</sup>	259	(454)			845	(1,436)		
Impact of change in accounting method for AmerisourceBergen equity investment <sup>(1)</sup>	(268)	-			(268)	-		
Acquisition-related amortization <sup>(1)</sup>	100	96			282	402		
LIFO provision <sup>(1)</sup>	93	69			207	176		
Cost transformation <sup>(1)</sup>	73	160			191	160		
Acquisition-related costs <sup>(1)</sup>	19	4			86	87		
Asset impairment <sup>(1)</sup>	-	-			30	110		
United Kingdom tax rate change <sup>(2)</sup>	-	-			(178)	-		
Net investment hedging gain <sup>(1)</sup>	(4)	-			(37)	-		
Transaction foreign currency hedging loss <sup>(1)</sup>	-	-			-	166		
Alliance Boots equity method non-cash tax <sup>(2)</sup>	-	-			-	71		
Store closures and other optimization costs <sup>(1)</sup>	-	7			-	51		
Prefunded interest expenses <sup>(1)</sup>	-	-			-	42		
Loss on sale of business <sup>(1)</sup>	-	12			-	12		
Gain on previously held equity interest <sup>(1)</sup>	-	-			-	(706)		
Release of capital loss valuation allowance <sup>(2)</sup>	-	(129)			-	(215)		
Tax impact of adjustments <sup>(3)</sup>	(87)	56			(458)	2		
<b>Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure)</b>	<b>\$ 1,288</b>	<b>\$ 1,123</b>	<b>\$ 165</b>	<b>14.7%</b>	<b>\$ 3,843</b>	<b>\$ 3,116</b>	<b>\$ 727</b>	<b>23.3%</b>

1. Presented on a pre-tax basis. The comparable prior periods have been recast accordingly to reflect the tax impact of adjustments as a single adjustment. There has been no change in net earnings attributable to Walgreens Boots Alliance, Inc., net earnings per share attributable to Walgreens Boots Alliance, Inc., adjusted net earnings attributable to Walgreens Boots Alliance, Inc. or adjusted net earnings per share attributable to Walgreens Boots Alliance, Inc. from those previously reported.
2. Discrete tax-only item.
3. Represents the adjustment to the GAAP basis tax provision commensurate with non-GAAP adjustments



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# Reconciliation of Non-GAAP financial measures

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

### Reconciliation of Net Earnings Per Share

	Three months ended				Nine months ended			
	May 31, 2016	May 31, 2015	Change vs. 3Q15		May 31, 2016	May 31, 2015	Change vs. YTD15	
			Amount	Percent			Amount	Percent
<b>Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (GAAP)</b>	\$ 1.01	\$ 1.18	\$ (0.17)	(14.4%)	\$ 2.88	\$ 4.04	\$ (1.16)	(28.7%)
Decrease (increase) in fair market value of AmerisourceBergen warrants <sup>(1)</sup>	0.24	(0.41)			0.77	(1.38)		
Impact of change in accounting method for AmerisourceBergen equity investment <sup>(1)</sup>	(0.25)	-			(0.25)	-		
Acquisition-related amortization <sup>(1)</sup>	0.09	0.08			0.26	0.39		
LIFO provision <sup>(1)</sup>	0.09	0.06			0.19	0.17		
Cost transformation <sup>(1)</sup>	0.07	0.15			0.17	0.15		
Acquisition-related costs <sup>(1)</sup>	0.02	-			0.08	0.08		
Asset impairment <sup>(1)</sup>	-	-			0.03	0.11		
United Kingdom tax rate change <sup>(2)</sup>	-	-			(0.16)	-		
Net investment hedging gain <sup>(1)</sup>	-	-			(0.03)	-		
Transaction foreign currency hedging loss <sup>(1)</sup>	-	-			-	0.16		
Alliance Boots equity method non-cash tax <sup>(2)</sup>	-	-			-	0.07		
Store closures and other optimization costs <sup>(1)</sup>	-	0.01			-	0.05		
Prefunded interest expenses <sup>(1)</sup>	-	-			-	0.04		
Loss on sale of business <sup>(1)</sup>	-	0.01			-	0.01		
Gain on previously held equity interest <sup>(1)</sup>	-	-			-	(0.68)		
Release of capital loss valuation allowance <sup>(2)</sup>	-	(0.12)			-	(0.21)		
Tax impact of adjustments <sup>(3)</sup>	(0.09)	0.06			(0.42)	-		
<b>Adjusted net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (Non-GAAP measure)</b>	<b>\$ 1.18</b>	<b>\$ 1.02</b>	<b>\$ 0.16</b>	<b>15.7%</b>	<b>\$ 3.52</b>	<b>\$ 3.00</b>	<b>\$ 0.52</b>	<b>17.3%</b>

1. Presented on a pre-tax basis. The comparable prior periods have been recast accordingly to reflect the tax impact of adjustments as a single adjustment. There has been no change in net earnings attributable to Walgreens Boots Alliance, Inc., net earnings per share attributable to Walgreens Boots Alliance, Inc., adjusted net earnings attributable to Walgreens Boots Alliance, Inc. or adjusted net earnings per share attributable to Walgreens Boots Alliance, Inc. from those previously reported.
2. Discrete tax-only item.
3. Represents the adjustment to the GAAP basis tax provision commensurate with non-GAAP adjustments



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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 May 31, 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Gross Profit (GAAP)</b>	\$ 5,603	\$ 1,362	\$ 537	\$ (5)	\$ 7,497
LIFO provision	92	-	-	-	92
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 5,695</b>	<b>\$ 1,362</b>	<b>\$ 537</b>	<b>\$ (5)</b>	<b>\$ 7,589</b>
Total Sales	\$ 21,185	\$ 3,194	\$ 5,748	\$ (629)	\$ 29,498
Gross Margin (GAAP)	26.4%	42.6%	9.3%	NMF	25.4%
Adjusted gross margin (Non-GAAP measure)	26.9%	42.6%	9.3%	NMF	25.7%

	Three months ended May 31, 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Gross Profit (GAAP)</b>	\$ 5,527	\$ 1,393	\$ 560	\$ 1	\$ 7,481
LIFO provision	69	-	-	-	69
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 5,596</b>	<b>\$ 1,393</b>	<b>\$ 560</b>	<b>\$ 1</b>	<b>\$ 7,550</b>
Total Sales	\$ 20,425	\$ 3,268	\$ 5,708	\$ (606)	\$ 28,795
Gross Margin (GAAP)	27.1%	42.6%	9.8%	NMF	26.0%
Adjusted gross margin (Non-GAAP measure)	27.4%	42.6%	9.8%	NMF	26.2%



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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)

	Nine months ended May 31, 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Gross Profit (GAAP)	\$ 16,943	\$ 4,383	\$ 1,629	\$ (12)	\$ 22,943
LIFO provision	206	-	-	-	206
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 17,149</b>	<b>\$ 4,383</b>	<b>\$ 1,629</b>	<b>\$ (12)</b>	<b>\$ 23,149</b>
Total Sales	\$ 63,055	\$ 10,414	\$ 17,171	\$ (1,925)	\$ 88,715
Gross Margin (GAAP)	26.9%	42.1%	9.5%	NMF	25.9%
Adjusted gross margin (Non-GAAP measure)	27.2%	42.1%	9.5%	NMF	26.1%

	Nine months ended May 31, 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Gross Profit (GAAP)	\$ 16,569	\$ 2,146	\$ 947	\$ (3)	\$ 19,659
Acquisition-related amortization	-	100	6	-	106
LIFO provision	176	-	-	-	176
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 16,745</b>	<b>\$ 2,246</b>	<b>\$ 953</b>	<b>\$ (3)</b>	<b>\$ 19,941</b>
Total Sales	\$ 61,027	\$ 5,315	\$ 9,573	\$ (993)	\$ 74,922
Gross Margin (GAAP)	27.2%	40.4%	9.9%	NMF	26.2%
Adjusted gross margin (Non-GAAP measure)	27.4%	42.3%	10.0%	NMF	26.6%



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# Reconciliation of Non-GAAP financial measures

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

### Reconciliation of Selling, General & Administrative Expenses by Segment (in millions)

	Three months ended May 31, 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Selling, general and administrative expenses (GAAP)</b>	\$ 4,434	\$ 1,139	\$ 394	\$ -	\$ 5,967
Acquisition-related amortization	(46)	(29)	(21)	-	(96)
Cost transformation	(60)	(6)	(7)	-	(73)
Acquisition-related costs	(15)	-	-	-	(15)
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 4,313</b>	<b>\$ 1,104</b>	<b>\$ 366</b>	<b>\$ -</b>	<b>\$ 5,783</b>
Total Sales	\$ 21,185	\$ 3,194	\$ 5,748	\$ (629)	\$ 29,498
SG&A percent to sales (GAAP)	20.9%	35.7%	6.9%	NMF	20.2%
Adjusted SG&A percent to sales (Non-GAAP measure)	20.4%	34.6%	6.4%	NMF	19.6%

	Three months ended May 31, 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Selling, general and administrative expenses (GAAP)</b>	\$ 4,494	\$ 1,188	\$ 398	\$ -	\$ 6,080
Acquisition-related amortization	(52)	(35)	(9)	-	(96)
Cost transformation	(151)	(9)	-	-	(160)
Acquisition-related costs	(4)	-	-	-	(4)
Store closures and other optimization costs	(7)	-	-	-	(7)
Loss on sale of business	(12)	-	-	-	(12)
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 4,268</b>	<b>\$ 1,144</b>	<b>\$ 389</b>	<b>\$ -</b>	<b>\$ 5,801</b>
Total Sales	\$ 20,425	\$ 3,268	\$ 5,708	\$ (606)	\$ 28,795
SG&A percent to sales (GAAP)	22.0%	36.4%	7.0%	NMF	21.1%
Adjusted SG&A percent to sales (Non-GAAP measure)	20.9%	35.0%	6.8%	NMF	20.1%



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# Reconciliation of Non-GAAP financial measures

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

### Reconciliation of Selling, General & Administrative Expenses by Segment (in millions)

	Nine months ended May 31, 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Selling, general and administrative expenses (GAAP)</b>	\$ 13,317	\$ 3,559	\$ 1,209	\$ -	\$ 18,085
Acquisition-related amortization	(143)	(70)	(65)	-	(278)
Cost transformation	(170)	(14)	(7)	-	(191)
Acquisition-related costs	(82)	-	-	-	(82)
Asset impairment	(30)	-	-	-	(30)
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 12,892</b>	<b>\$ 3,475</b>	<b>\$ 1,137</b>	<b>\$ -</b>	<b>\$ 17,504</b>
Total Sales	\$ 63,055	\$ 10,414	\$ 17,171	\$ (1,925)	\$ 88,715
SG&A percent to sales (GAAP)	21.1%	34.2%	7.0%	NMF	20.4%
Adjusted SG&A percent to sales (Non-GAAP measure)	20.4%	33.4%	6.6%	NMF	19.7%

	Nine months ended May, 31 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Selling, general and administrative expenses (GAAP)</b>	\$ 13,505	\$ 1,933	\$ 704	\$ -	\$ 16,142
Acquisition-related amortization	(178)	(52)	(36)	-	(266)
Cost transformation	(151)	(9)	-	-	(160)
Acquisition-related costs	(80)	-	(7)	-	(87)
Asset impairment	(110)	-	-	-	(110)
Store closures and other optimization costs	(51)	-	-	-	(51)
Loss on sale of business	(12)	-	-	-	(12)
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 12,923</b>	<b>\$ 1,872</b>	<b>\$ 661</b>	<b>\$ -</b>	<b>\$ 15,456</b>
Total Sales	\$ 61,027	\$ 5,315	\$ 9,573	\$ (993)	\$ 74,922
SG&A percent to sales (GAAP)	22.1%	36.4%	7.4%	NMF	21.5%
Adjusted SG&A percent to sales (Non-GAAP measure)	21.2%	35.2%	6.9%	NMF	20.6%



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# 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 May 31, 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale <sup>(1)(2)(3)</sup>	Eliminations and Other	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 1,169	\$ 223	\$ 146	\$ (5)	\$ 1,533
Acquisition-related amortization <sup>(3)</sup>	46	29	25	-	100
LIFO provision <sup>(3)</sup>	92	-	1	-	93
Cost transformation	60	6	7	-	73
Acquisition-related costs	15	-	-	-	15
<b>Adjusted Operating Income (Non-GAAP measure)</b>	<b>\$ 1,382</b>	<b>\$ 258</b>	<b>\$ 179</b>	<b>\$ (5)</b>	<b>\$ 1,814</b>
Total Sales	\$ 21,185	\$ 3,194	\$ 5,748	\$ (629)	\$ 29,498
Operating Margin (GAAP) <sup>(2)</sup>	5.5%	7.0%	2.5%	NMF	5.2%
Adjusted Operating Margin (Non-GAAP) <sup>(3)</sup>	6.5%	8.1%	3.0%	NMF	6.1%

	Three months ended May 31, 2015				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
Operating Income (GAAP)	\$ 1,033	\$ 205	\$ 162	\$ 1	\$ 1,401
Acquisition-related amortization	52	35	9	-	96
LIFO provision	69	-	-	-	69
Cost transformation	151	9	-	-	160
Acquisition-related costs	4	-	-	-	4
Store closures and other optimization costs	7	-	-	-	7
Loss on sale of business	12	-	-	-	12
<b>Adjusted Operating Income (Non-GAAP measure)</b>	<b>\$ 1,328</b>	<b>\$ 249</b>	<b>\$ 171</b>	<b>\$ 1</b>	<b>\$ 1,749</b>
Total Sales	\$ 20,425	\$ 3,268	\$ 5,708	\$ (606)	\$ 28,795
Operating Margin (GAAP)	5.1%	6.3%	2.8%	NMF	4.9%
Adjusted Operating Margin (Non-GAAP)	6.5%	7.6%	3.0%	NMF	6.1%

- Operating income for Pharmaceutical Wholesale includes equity earnings in AmerisourceBergen. As a result of the two month reporting lag, operating income for the three and nine month periods ended May 31, 2016 includes AmerisourceBergen equity earnings for the period of March 18, 2016 through March 31, 2016.
- Pharmaceutical Wholesale operating income for the three and nine month periods ended May 31, 2016 includes \$3 million of equity earnings in AmerisourceBergen. Pharmaceutical Wholesale operating margin for the three and nine month periods ended May 31, 2016 has been calculated excluding equity earnings in AmerisourceBergen.
- Pharmaceutical Wholesale adjusted operating income for the three and nine month periods ended May 31, 2016 includes \$8 million of adjusted equity earnings in AmerisourceBergen. The adjustments include \$4 million of acquisition-related amortization and \$1 million of LIFO provision. Pharmaceutical Wholesale adjusted operating margin for the three and nine month periods ended May 31, 2016 has been calculated excluding adjusted equity earnings in AmerisourceBergen.
- Retail Pharmacy USA operating income for the nine month period ended May 31, 2015 includes \$315 million of equity earnings in Alliance Boots. Retail Pharmacy USA operating margin for the nine month period ended May 31, 2015 has been calculated excluding equity earnings in Alliance Boots.
- Retail Pharmacy USA adjusted operating income for the nine month period ended May 31, 2015 includes \$222 million of adjusted equity earnings in Alliance Boots. The adjustments include \$123 million related to an increase in fair market value of AmerisourceBergen warrants and \$30 million of acquisition-related amortization. Retail Pharmacy USA adjusted operating margin for the nine month period ended May 31, 2015 has been calculated excluding adjusted equity earnings in Alliance Boots.



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# Reconciliation of Non-GAAP financial measures

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

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

	Nine months ended May 31, 2016				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale <sup>(1)(2)(3)</sup>	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Operating Income (GAAP)</b>	\$ 3,626	\$ 824	\$ 423	\$ (12)	\$ 4,861
Acquisition-related amortization <sup>(3)</sup>	143	70	69	-	282
LIFO provision <sup>(3)</sup>	206	-	1	-	207
Cost transformation	170	14	7	-	191
Acquisition-related costs	82	-	-	-	82
Asset impairment	30	-	-	-	30
<b>Adjusted Operating Income (Non-GAAP measure)</b>	<b>\$ 4,257</b>	<b>\$ 908</b>	<b>\$ 500</b>	<b>\$ (12)</b>	<b>\$ 5,653</b>
Total Sales	\$ 63,055	\$ 10,414	\$ 17,171	\$ (1,925)	\$ 88,715
Operating Margin (GAAP) <sup>(2)</sup>	5.8%	7.9%	2.4%	NMF	5.5%
Adjusted Operating Margin (Non-GAAP) <sup>(3)</sup>	6.8%	8.7%	2.9%	NMF	6.4%

	Nine months ended May 31, 2015				
	Retail Pharmacy USA <sup>(4)(5)</sup>	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Operating Income (GAAP)</b>	\$ 3,379	\$ 213	\$ 243	\$ (3)	\$ 3,832
Decrease (increase) in fair market value of AmerisourceBergen warrants <sup>(5)</sup>	(123)	-	-	-	(123)
Acquisition-related amortization <sup>(5)</sup>	208	152	42	-	402
LIFO provision	176	-	-	-	176
Cost transformation	151	9	-	-	160
Acquisition-related costs	80	-	7	-	87
Asset impairment	110	-	-	-	110
Store closures and other optimization costs	51	-	-	-	51
Loss on sale of Business	12	-	-	-	12
<b>Adjusted Operating Income (Non-GAAP measure)</b>	<b>\$ 4,044</b>	<b>\$ 374</b>	<b>\$ 292</b>	<b>\$ (3)</b>	<b>\$ 4,707</b>
Total Sales	\$ 61,027	\$ 5,315	\$ 9,573	\$ (993)	\$ 74,922
Operating Margin (GAAP) <sup>(4)</sup>	5.0%	4.0%	2.5%	NMF	5.1%
Adjusted Operating Margin (Non-GAAP) <sup>(5)</sup>	6.3%	7.0%	3.1%	NMF	6.3%

- Operating income for Pharmaceutical Wholesale includes equity earnings in AmerisourceBergen. As a result of the two month reporting lag, operating income for the three and nine month periods ended May 31, 2016 includes AmerisourceBergen equity earnings for the period of March 18, 2016 through March 31, 2016.
- Pharmaceutical Wholesale operating income for the three and nine month periods ended May 31, 2016 includes \$3 million of equity earnings in AmerisourceBergen. Pharmaceutical Wholesale operating margin for the three and nine month periods ended May 31, 2016 has been calculated excluding equity earnings in AmerisourceBergen.
- Pharmaceutical Wholesale adjusted operating income for the three and nine month periods ended May 31, 2016 includes \$8 million of adjusted equity earnings in AmerisourceBergen. The adjustments include \$4 million of acquisition-related amortization and \$1 million of LIFO provision. Pharmaceutical Wholesale adjusted operating margin for the three and nine month periods ended May 31, 2016 has been calculated excluding adjusted equity earnings in AmerisourceBergen.
- Retail Pharmacy USA operating income for the nine month period ended May 31, 2015 includes \$315 million of equity earnings in Alliance Boots. Retail Pharmacy USA operating margin for the nine month period ended May 31, 2015 has been calculated excluding equity earnings in Alliance Boots.
- Retail Pharmacy USA adjusted operating income for the nine month period ended May 31, 2015 includes \$222 million of adjusted equity earnings in Alliance Boots. The adjustments include \$123 million related to an increase in fair market value of AmerisourceBergen warrants and \$30 million of acquisition-related amortization. Retail Pharmacy USA adjusted operating margin for the nine month period ended May 31, 2015 has been calculated excluding adjusted equity earnings in Alliance Boots.



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# Reconciliation of Non-GAAP financial measures

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

Equity Earnings in AmerisourceBergen <i>(In millions)</i>	Three months ended	Nine months ended
	May 31, 2016	May 31, 2016
Equity earnings in AmerisourceBergen (GAAP)	\$ 3	\$ 3
LIFO Provision	1	1
Acquisition-related amortization	4	4
<b>Adjusted Equity earnings in AmerisourceBergen (Non-GAAP measure)</b>	<b>\$ 8</b>	<b>\$ 8</b>



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# Reconciliation of Non-GAAP financial measures

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

Equity Earnings in Alliance Boots <i>(in millions)</i>	Three months ended	Nine months ended
	May, 31 2015	May, 31 2015
Equity earnings in Alliance Boots (GAAP)	\$ -	\$ 315
Decrease (increase) in fair market value of AmerisourceBergen warrants	-	(123)
Acquisition-related amortization	-	30
<b>Adjusted Equity earnings in Alliance Boots (Non-GAAP measure)</b>	<b>\$ -</b>	<b>\$ 222</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, 31 May, 2016			Three months ended, 31 May, 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>	\$ 1,414	\$ 322	22.8%	\$ 1,711	\$ 408	23.8%
Decrease (increase) in fair market value of AmerisourceBergen warrants	259	66		(454)	(134)	
Impact of change in accounting method for AmerisourceBergen equity investment	(268)	(99)		-	-	
Acquisition-related amortization	100	25		96	28	
LIFO provision	93	25		69	20	
Cost transformation	73	18		160	46	
Acquisition-related costs	19	5		4	1	
Asset impairment	-	-		-	-	
United Kingdom tax rate change	-	-		-	-	
Net investment hedging gain	(4)	-		-	-	
Transaction foreign currency hedging loss	-	-		-	-	
Alliance Boots equity method non-cash tax	-	-		-	-	
Store closures and other optimization costs	-	-		7	2	
Prefunded interest expenses	-	-		-	-	
Loss on sale of business	-	-		12	-	
Gain on previously held equity interest	-	-		-	-	
Release of capital loss valuation allowance	-	-		-	129	
Adjusted tax rate true-up	-	47		-	(19)	
<b>Non-GAAP measure</b>	\$ 1,686	\$ 409	24.4%	\$ 1,605	\$ 481	30.0%



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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)

	Nine months ended, 31 May, 2016			Nine months ended, 31 May, 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>	\$ 3,911	\$ 790	20.2%	\$ 5,352	\$ 1,120	20.9%
Decrease (increase) in fair market value of AmerisourceBergen warrants	845	232		(1,436)	(461)	
Impact of change in accounting method for AmerisourceBergen equity investment	(268)	(99)		-	-	
Acquisition-related amortization	282	77		402	119	
LIFO provision	207	57		176	51	
Cost transformation	191	52		160	46	
Acquisition-related costs	86	24		87	25	
Asset impairment	30	8		110	32	
United Kingdom tax rate change	-	178		-	-	
Net investment hedging gain	(37)	(1)		-	-	
Transaction foreign currency hedging loss	-	-		166	-	
Alliance Boots equity method non-cash tax	-	-		-	(71)	
Store closures and other optimization costs	-	-		51	16	
Prefunded interest expenses	-	-		42	12	
Loss on sale of business	-	-		12	-	
Gain on previously held equity interest	-	-		(706)	108	
Release of capital loss valuation allowance	-	-		-	215	
Adjusted tax rate true-up	-	108		-	50	
<b>Non-GAAP measure</b>	\$ 5,247	\$ 1,426	27.2%	\$ 4,416	\$ 1,262	28.6%



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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	Nine months ended
	May 31, 2016	May 31, 2016
Net cash provided by operating activities (GAAP)	\$ 2,104	\$ 5,189
Less: Additions to property, plant and equipment	(247)	(904)
Free cash flow (Non-GAAP measure) <sup>(1)</sup>	\$ 1,857	\$ 4,285

- 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.



Walgreens Boots Alliance

# 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 filed on 20 March 2013 and Schedule 13D filed on 15 April 2014, as amended on 16 January 2015, 25 January 2016, 22 March 2016 and the Company’s Form 10-Q to be filed on 6 July 2016. We adjust for fluctuations in the fair value of our outstanding 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.



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