

# Walgreens

First Quarter 2009 Conference Call

**December 22, 2008**



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# First Quarter 2009 Agenda

- Introduction/Safe Harbor      Rick Hans  
Divisional VP - IR & Finance
- 1Q09 Highlights                  Greg Wasson  
President & COO
- 1Q09 Financial Review          Wade Miquelon  
Senior Vice President & CFO
- Summary                              Greg Wasson  
President & COO
- Questions & Answers              All



# Safe Harbor

- Certain statements and projections of future results made in this presentation constitute forward-looking information that is based on current market, competitive and regulatory expectations that involve risk and uncertainty.
- Please see our latest Form 10-K for a discussion of factors as they relate to forward-looking statements.



# 1Q09 Highlights

**Greg Wasson**

**President & COO**



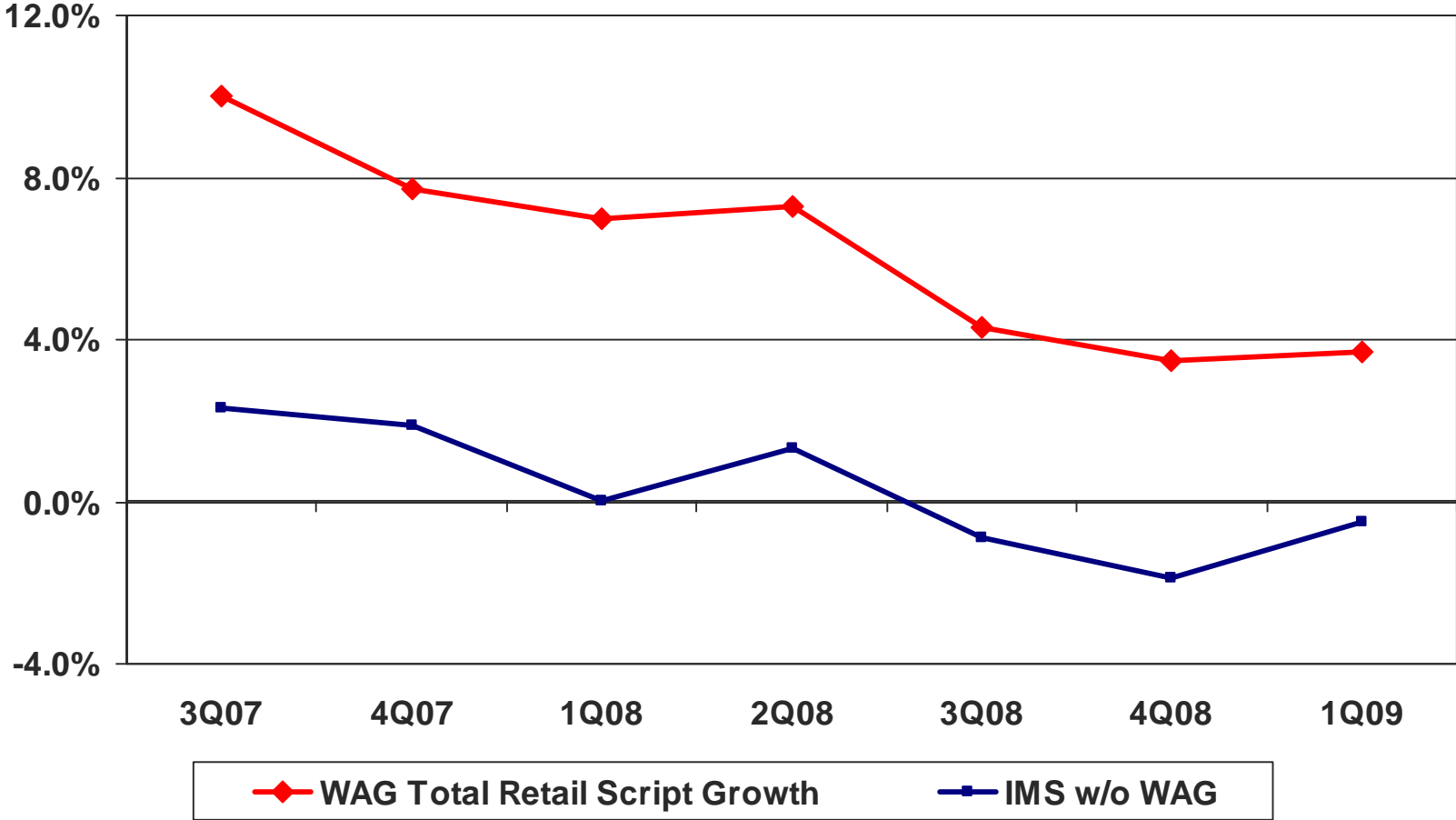
# First Quarter Highlights

- **Reducing new store openings to 2.5% - 3.0% by FY11**
  - Lowers capital expenditures by an additional \$500 million
- **Sales up 6.6% to \$14.9 billion**
- **Net earnings of \$408 million versus \$456 million a year ago**
- **Adjusted comparable prescriptions up 1.5%**

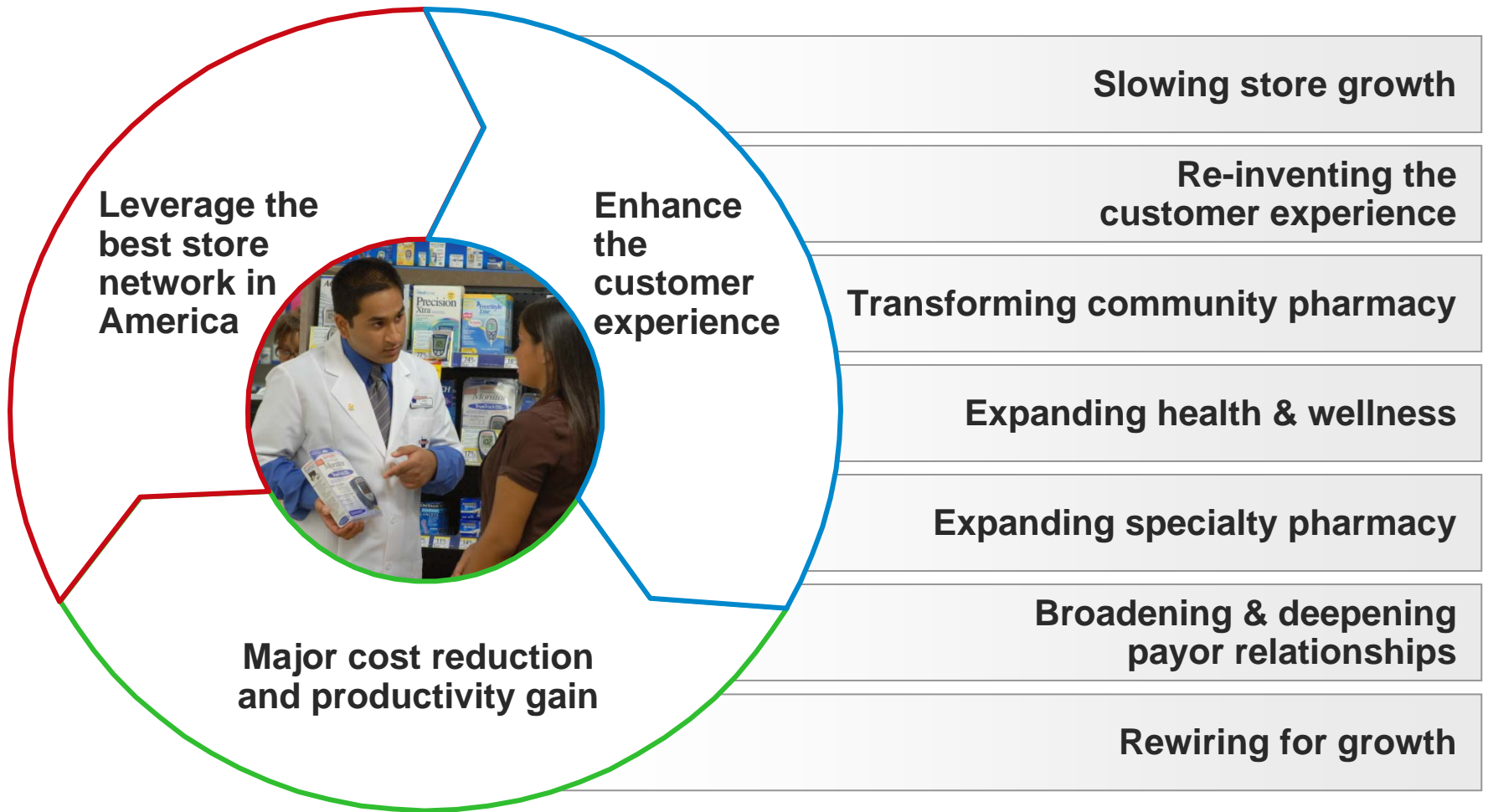


# Outperforming the Industry in Rx Growth

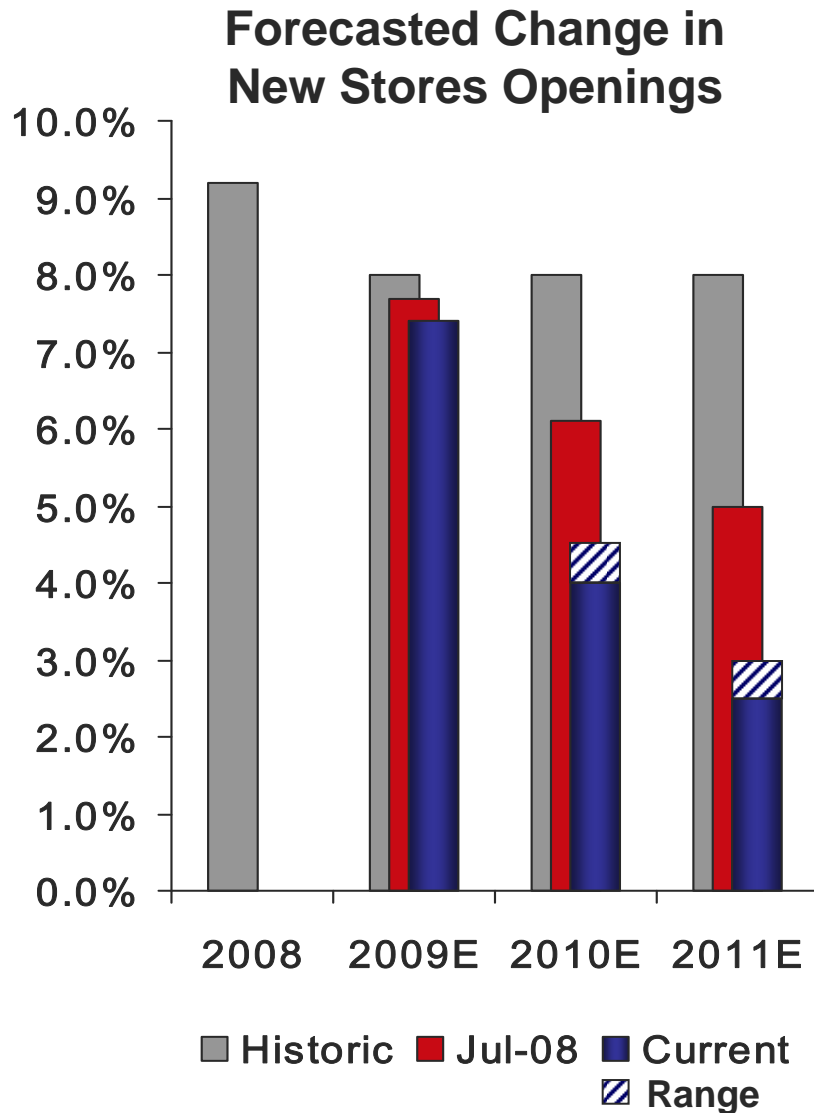
### WAG Script Growth vs. Industry



# Strategic Initiatives Update: Leverage and Enhance Our Core Business



# Slowing New Store Openings



- Supports customer-centric retailing initiatives
  - Refreshing existing stores and optimizing assortment
- Increases flexibility to invest opportunistically
  - Prescription file buys, expansion of retail and worksite clinics
- Saves an additional \$500 million over the next three years
- Drives greater value creation by enhancing the best community-based store network



# Enhancing the Customer Experience

- **Ensuring the most relevant customer shopping experience**
  - Efficient assortment
  - Efficient promotion
  - Refreshing existing stores
- **Providing value to our consumers through new programs**
  - “Affordable Essentials”
  - Prescription Savings Club
  - Private brand
- **Strong online momentum**
  - November traffic on walgreens.com up 45%
- **Testing and evaluating new store formats**



# POWER: Transforming Community Pharmacy

- Allows pharmacists to strengthen their role as trusted clinicians
- Reduces overall pharmacy costs
- Increases the breadth and depth of pharmacy services
- Fully implemented in 280 Florida stores
- In all Florida stores by fiscal year end, more than 10% of all drugstores



# Expanding Health & Wellness: Every Service Relates to the Core

## Community Pharmacy

Home Infusion



Online

Medical On-Site Pharmacy



Take Care Retail/Worksite Clinics<sup>SM</sup>

Specialty Pharmacy



Institutional Pharmacy

Mail Order Pharmacy



Pharmacy Benefit Solutions



# 1Q09 Financial Review

Wade Miquelon

Senior VP and CFO



# First Quarter Highlights

	Percentage Change	
	Three Months Ended Nov. 30	
	<u>2008</u>	<u>2007</u>
Net Sales	6.6%	10.4%
Net Earnings	-10.4%	5.5%
EPS (Diluted)	\$0.41	\$0.46
Prescription Sales	6.2%	11.1%
Total Prescription (Units)	3.5%	7.2%
<b>Comparable</b>		
Drugstore Sales	1.7%	5.4%
Front-End Sales	0.0%	4.6%
Prescription Sales	2.6%	5.9%
Prescriptions (Units)	-0.1%	3.7%
Adjusted Prescriptions (Units)	1.5%	



# Gross Profit

- **Gross profit dollars increased 5.9% to \$4.2 billion**
- **Gross margin of 27.8% in 1Q09 versus 28.0% 1Q08**
- **Gross margin impacted by:**
  - Non-retail businesses
  - Higher provision for LIFO
  - Partially offset by higher retail pharmacy margins

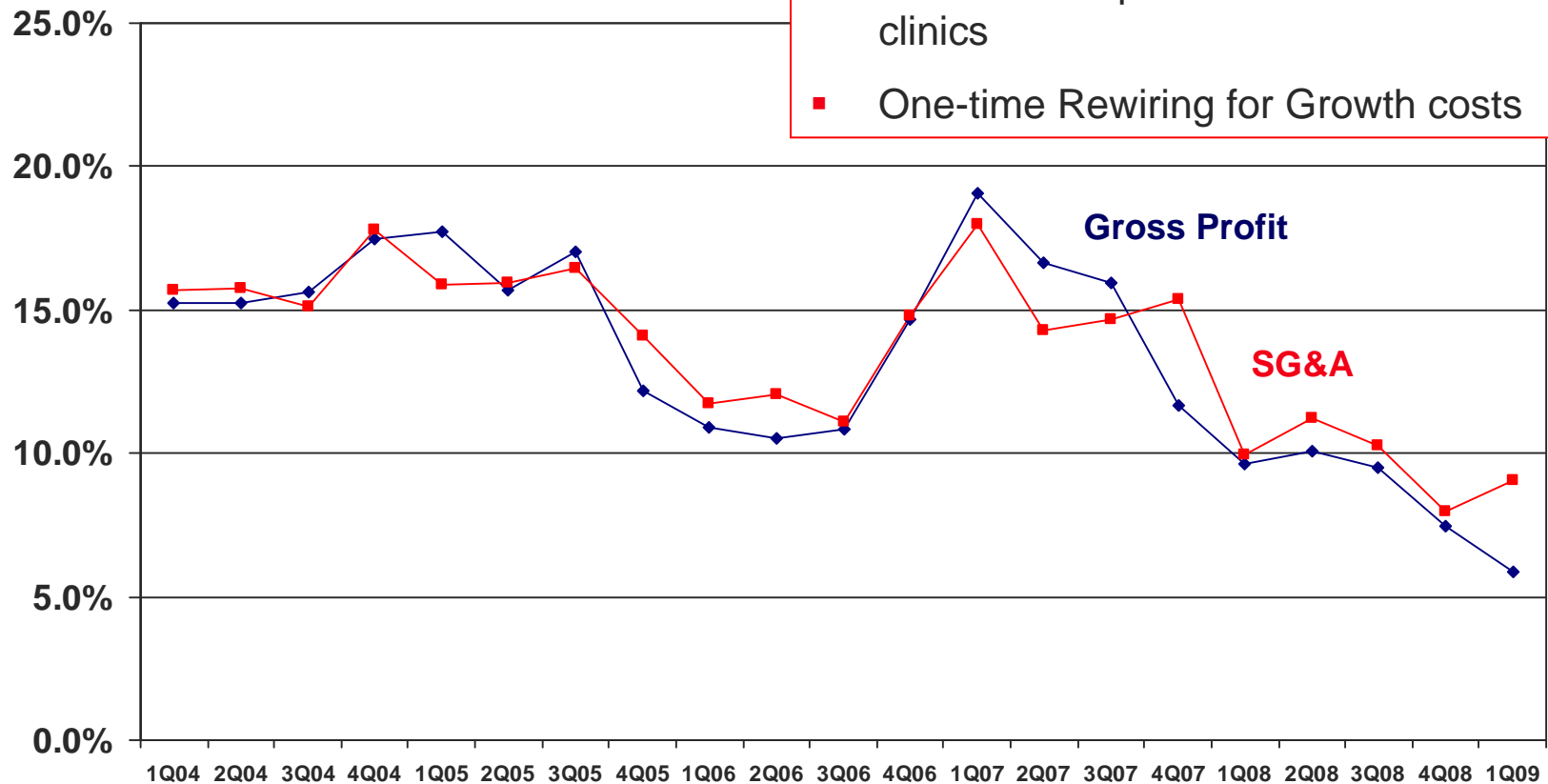


# Controlling SG&A

## SG&A Growth Driven By:

- Record new store openings
- Continued expansion of retail health clinics
- One-time Rewiring for Growth costs

### Year-Over-Year % Increase



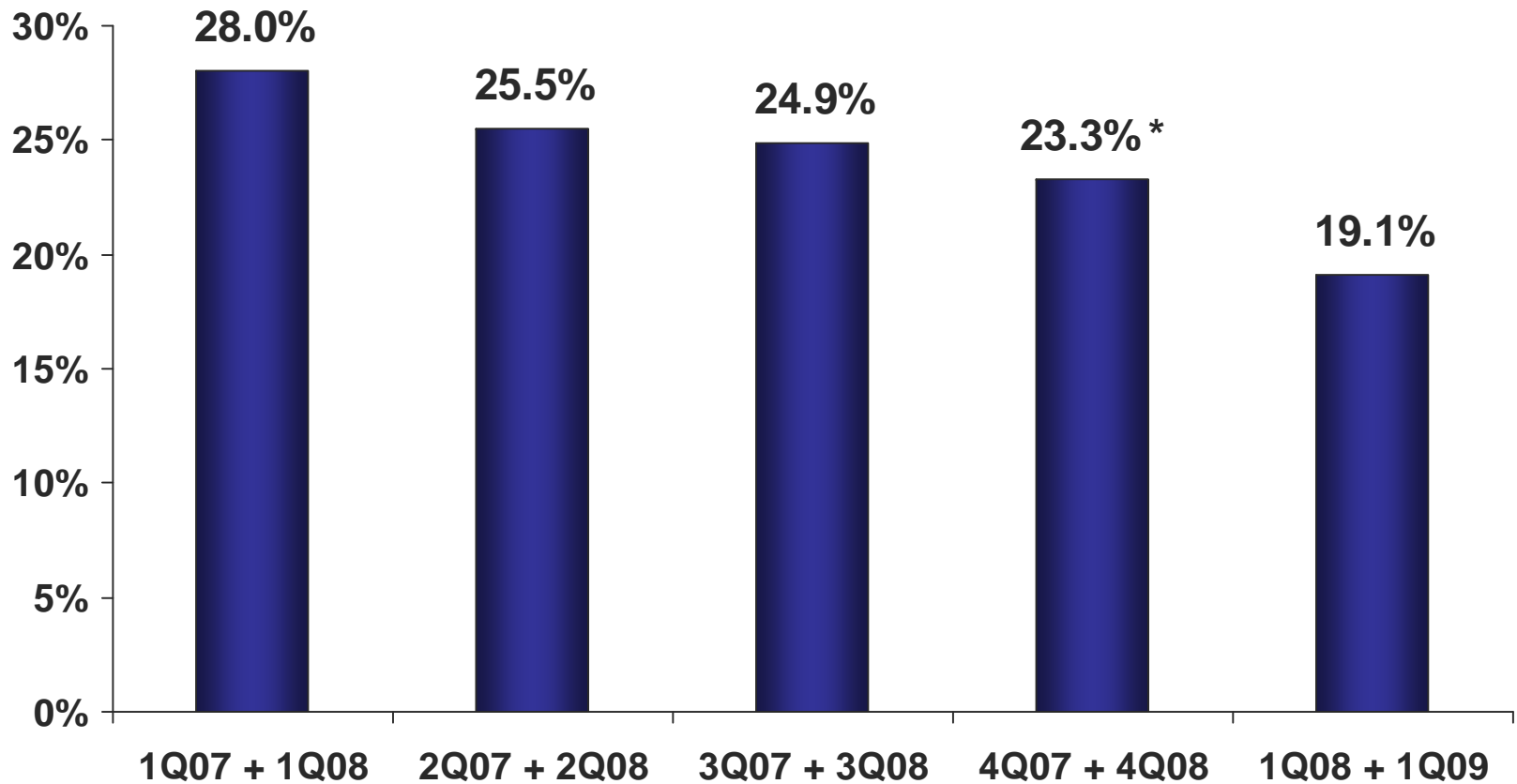
Note: SG&A data adjusted for Hurricane Katrina in 4Q05 and vacation accrual credit in 4Q08

Source: Company Data

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# Percent Increase in SG&A Dollars: Two-Year Stacked



\* Adjusted for vacation accrual credit in 4Q08



# Financial Details

**Tax Rate** – 37.6% in 1Q09 versus 37.4% in 1Q08

**Net Interest Expense** – \$15 million due to issuance of long term debt

**LIFO** – Provision of \$43 million in 1Q09 versus \$27 million in 1Q08

**Capital Expenditures** – \$638 million during the quarter and \$1.8 billion planned for fiscal year 2009

## Balance Sheet

- Accounts receivable up 23.6%, primarily driven by reimbursement timing and non-retail sales
- Inventories increased 9.9% due to new stores and seasonal effect
- Net debt of \$1.5 billion



# Targeting \$1 Billion in Annual Cost Reduction

Areas	Opportunity Description	Targeted FY11 Benefit
Strategic Sourcing of Indirect Spend	<ul style="list-style-type: none"> <li>Standardize specifications, enforce compliance, and leverage scale</li> </ul>	25%
Corporate Overhead and Store Labor	<ul style="list-style-type: none"> <li>Zero base and focus on “must have” or “differentiating” work</li> <li>Lower complexity from efficient assortment, product flows, and policies</li> </ul>	50%
POWER / Workload Balancing	<ul style="list-style-type: none"> <li>Improve service levels, foster customer loyalty and reduce costs</li> <li>Free up time for pharmacists to offer new clinical services</li> </ul>	25%
<b>Total:</b>		<b>\$1B</b>



# Percent of \$1 Billion Savings Anticipated by Year

	FY09	FY10	FY11
<b>Net Benefit After One Time Costs</b>	<b>0%</b>	<b>50%</b>	<b>100%</b>
<b>One-Time Costs</b>	<b>\$300 - \$400 Million over two years</b>		<b>None</b>

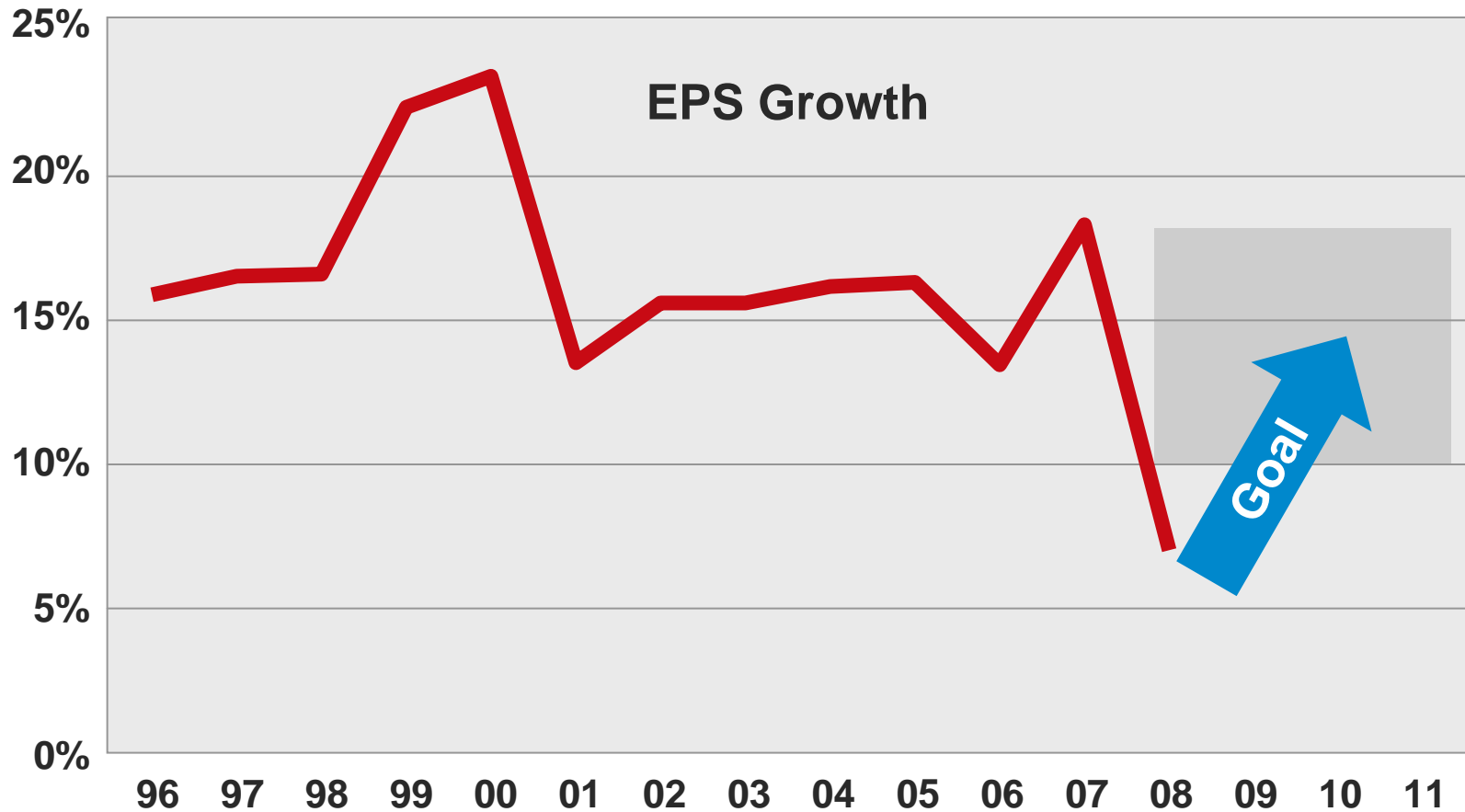


<b>Additional Operational and Working Capital Benefits</b>
<ul style="list-style-type: none"><li>▪ <b>\$500 million reduction in working capital from category management initiatives</b></li><li>▪ <b>Better customer satisfaction</b></li></ul>



# Positioned for Future Growth

**Goal:** Return to Strong Double-Digit EPS Growth



# Questions and Answers







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## Appendix



# Calculation of Adjusted SG&A: Hurricane Katrina

	Dollars in Millions		
	<u>4Q04</u>	<u>4Q05</u>	<u>4Q06</u>
SGA under GAAP	\$ 2,086	\$ 2,435	\$ 2,732
Less: Katrina Expense	\$ -	\$ 55	\$ -
Adjusted SGA	\$ 2,086	\$ 2,380	\$ 2,732
Adjusted YOY % Increase		14.1%	14.8%



# Calculation of Adjusted SG&A: Vacation Accrual Credit

	Dollars in Millions	
	<u>4Q07</u>	<u>4Q08</u>
SGA under GAAP	\$ 3,152	\$ 3,324
Plus: Vacation Accrual Credit	\$ -	\$ 79
Adjusted SGA	\$ 3,152	\$ 3,403
Adjusted YOY % Increase		8.0%

