



# Walgreens Boots Alliance 1Q16 Consolidated Financial Results Earnings conference call



Walgreens Boots Alliance

7 January 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, 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 under 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," "continue," "sustain," "synergy," "on track," "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 from those indicated or anticipated, including, but not limited to, those relating to the impact of private and public third-party payers' efforts to reduce prescription drug reimbursements, the impact of generic prescription drug inflation, the timing and magnitude of the impact of branded to generic drug conversions, our ability to realize anticipated 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, financial markets, interest rates and currency exchange rates, international business operations, unexpected costs, liabilities or delays 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 integrating complex businesses, subsequent adjustments to preliminary purchase accounting determinations, outcomes of legal and regulatory matters, 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 17 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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# 1Q16 overview



**Strong First Quarter Performance**



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# 1Q financials

\$ in millions (except EPS)	1Q16	Change vs. 1Q15
Net sales	\$29,033	+ 48.5%
Operating income	\$1,468	+ 39.3%
Adjusted operating income <sup>1</sup>	\$1,719	+ 53.8%
Net earnings <sup>2</sup>	\$1,110	+ 30.6%
Adjusted net earnings <sup>2,3</sup>	\$1,132	+ 51.1%
Net earnings per common share - diluted <sup>2</sup>	\$1.01	+ 13.5%
Adjusted net earnings per common share - diluted <sup>2,3</sup>	\$1.03	+ 32.1%



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Refer to footnotes on page 17.

# Retail Pharmacy USA – financials

\$ in millions (except margins and comparable store sales)

	1Q16	Change vs. 1Q15
Total sales	\$20,370	+ 4.2%
Comparable store sales		+ 5.8%
Adjusted gross profit <sup>4</sup>	\$5,491	+ 2.7%
Adjusted gross margin <sup>4</sup>	27.0%	(0.3)%
Adjusted SG&A <sup>5</sup>	\$4,248	(2.1)%
Adjusted operating income <sup>1</sup>	\$1,243	+ 11.2%
Adjusted operating margin <sup>1</sup>	6.1%	+ 0.4%



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Refer to footnotes on page 17.

# Retail Pharmacy USA – Pharmacy



- Pharmacy vs. 1Q15
  - Sales up 6.7%
  - Total prescriptions up 4.1%
  - Comparable sales up 9.3%
  - Comparable prescriptions up 4.7%<sup>6</sup>
- Market share up approx. 20 bps to 19.2% vs. 1Q15<sup>7</sup>
- Gross margin pressure in line with our expectations
- Confident in our ability to grow pharmacy over time



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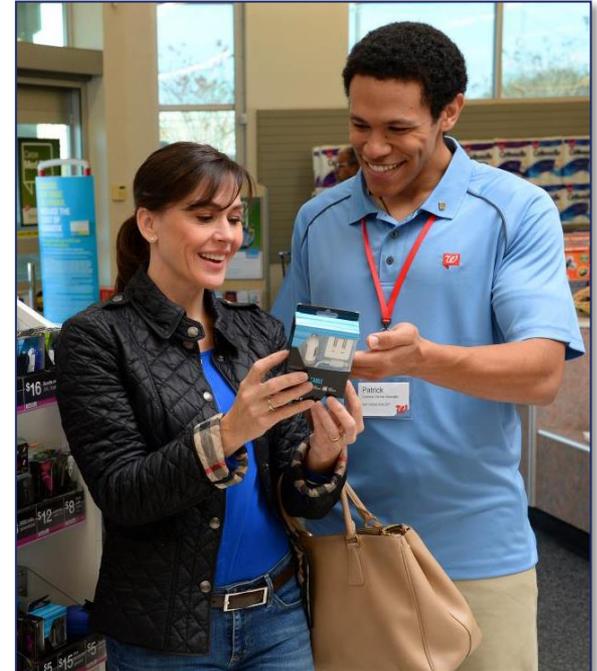
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Refer to footnotes on page 17.

# Retail Pharmacy USA – Retail Products



- **Retail Products vs. 1Q15**
  - Sales down 0.9%
  - Comparable sales down 0.6%
- **Continued transformation**
  - Reduction of unprofitable promotions
  - Transitioned seasonal to higher quality gift
  - Increasing focus on health and beauty
- **Expanding differentiated beauty offering**
  - To approximately 2,000 stores



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Refer to footnotes on page 17.

# Retail Pharmacy International – financials



\$ in millions (except margins and comparable store sales)

	1Q16
Total sales	\$3,531
Comparable store sales <sup>9</sup>	+ 2.2%
Adjusted gross profit <sup>4</sup>	\$1,505
Adjusted gross margin <sup>4</sup>	42.6%
Adjusted SG&A <sup>5</sup>	\$1,190
Adjusted operating income <sup>1</sup>	\$315
Adjusted operating margin <sup>1</sup>	8.9%



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# Retail Pharmacy International – commentary



- **Division vs. 1Q15<sup>9</sup>**
  - Comparable pharmacy sales up 3.8%
  - Comparable retail sales up 1.3%
- **Boots UK**
  - Comparable pharmacy sales up 3.5%
  - Comparable retail sales up 0.8%
    - Growth from boots.com
    - Cosmetics best performing category
- **Sleek MakeUP brand acquired in November**
- **Particularly good comparable sales growth in Mexico and Republic of Ireland**



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Refer to footnotes on page 17.

# Pharmaceutical Wholesale – financials

\$ in millions (except margins and comparable sales)

	1Q16
Total sales	\$5,796
Comparable sales <sup>10</sup>	+ 3.1%
Adjusted gross profit <sup>4</sup>	\$557
Adjusted gross margin <sup>4</sup>	9.6%
Adjusted SG&A <sup>5</sup>	\$391
Adjusted operating income <sup>1</sup>	\$166
Adjusted operating margin <sup>1</sup>	2.9%



# Synergies & cost savings update

- **Synergies<sup>8,11</sup>**
  - **\$288 million in 1Q16**
  - **On track to deliver at least \$1 billion per annum by end of FY16**
- **Cost savings program<sup>8</sup>**
  - **On track to deliver \$1.5 billion cost savings goal by end of FY17**

# Capital allocation

- **Operating cash flow \$732 million**
- **Reflects seasonal build in inventories**
- **Scope for further working capital efficiencies<sup>8</sup>**
- **Capital expenditure \$340 million**
  - **Investing in key areas to develop our customer proposition<sup>8</sup>**
- **Free cash flow<sup>12</sup> \$392 million**
- **Good progress with Rite Aid funding<sup>8</sup>**
  - **\$5 billion term loan**
  - **New \$7.8 billion bridge facility**



# Fiscal year 2016 guidance

Metric	Guidance <sup>8</sup>
Adjusted EPS <sup>12</sup>	\$4.30 - \$4.55

- **Key assumptions include<sup>8</sup>:**
  - **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 currency exchange rates**



# Rite Aid & Valeant<sup>8</sup>



- Anticipated Rite Aid completion - second half of calendar 2016
- Rite Aid stockholders' meeting - 4 February 2016
- FTC second request received early December as expected
- Rite Aid integration planning well underway
- Valeant fulfilment agreement signed



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Refer to footnotes on page 17.



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# Footnotes

1. Non-GAAP financial measure – see Appendix. All periods presented as applicable adjusted for acquisition-related amortization, LIFO provision and acquisition-related costs. 1Q16 also adjusted for cost transformation. 1Q15 also adjusted for the impact of fair value adjustments and amortization related to the of AmerisourceBergen warrants.
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 acquisition-related amortization, the impact of fair value adjustments and amortization related to the AmerisourceBergen warrants, LIFO provision and acquisition-related costs. 1Q16 also adjusted for cost transformation, tax rate true-up and a UK tax rate change. 1Q15 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 release of capital loss valuation allowance.
4. Non – GAAP financial measure – see Appendix. All periods presented as applicable adjusted for LIFO provision.
5. Non-GAAP financial measure – see Appendix. All periods presented as applicable adjusted for acquisition-related amortization and acquisition-related costs. 1Q16 also adjusted for cost transformation. 1Q15 also adjusted for store closures and other optimization costs.
6. Retail Pharmacy USA, Pharmacy prescriptions filled at comparable stores (including immunizations) are reported on a 30 day adjusted basis.
7. Based on data from IMS Health (as of 30 November 2015).
8. Forward-Looking Statements – see cautionary note in attached Appendix.
9. Reported on a proforma constant currency basis.
10. Reported on a proforma constant currency basis and excluding acquisitions and dispositions.
11. 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.
12. 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). 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.*



# Reconciliation of Non-GAAP financial measures

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

### Reconciliation of Net Earnings

(In millions)

	Three months ended			
	30 November 2015	30 November 2014	Change vs. 1Q15	
			Amount	Percent
<b>Net earnings attributable to Walgreens Boots Alliance, Inc. (GAAP)</b>	<b>\$ 1,110</b>	<b>\$ 850</b>	<b>\$ 260</b>	<b>30.6%</b>
Cost transformation	64	-		
Acquisition-related amortization	58	58		
Decrease (increase) in fair market value of warrants	41	(279)		
LIFO provision	33	34		
Acquisition-related costs	24	16		
United Kingdom tax rate change	(178)	-		
Adjusted tax rate true-up	(20)	-		
Transaction foreign currency hedging loss	-	96		
Alliance Boots equity method non-cash tax	-	33		
Store closures and other optimization costs	-	18		
Prefunded interest expenses	-	9		
Release of capital loss valuation allowance	-	(86)		
<b>Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure)</b>	<b>\$ 1,132</b>	<b>\$ 749</b>	<b>\$ 383</b>	<b>51.1%</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

*(In millions, except per share amounts)*

	Three months ended			
	30 November 2015	30 November 2014	Change vs. 1Q15	
			Amount	Percent
<b>Net earnings per common share attributable to Walgreens Boots Alliance, Inc. – diluted (GAAP)</b>	<b>\$ 1.01</b>	<b>\$ 0.89</b>	<b>\$ 0.12</b>	<b>13.5%</b>
Cost transformation	0.06	-		
Acquisition-related amortization	0.05	0.06		
Decrease (increase) in fair market value of warrants	0.04	(0.29)		
LIFO provision	0.03	0.03		
Acquisition-related costs	0.02	0.02		
United Kingdom tax rate change	(0.16)	-		
Adjusted tax rate true-up	(0.02)	-		
Transaction foreign currency hedging loss	-	0.10		
Alliance Boots equity method non-cash tax	-	0.03		
Store closures and other optimization costs	-	0.02		
Prefunded interest expenses	-	0.01		
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>	<b>\$ 1.03</b>	<b>\$ 0.78</b>	<b>\$ 0.25</b>	<b>32.1%</b>



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# Reconciliation of Non-GAAP financial measures

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

Reconciliation of Interest Expense, net <i>(In millions)</i>	Three months ended	
	30 November 2015	30 November 2014
<b>Interest Expense, Net (GAAP)</b>	<b>\$ 138</b>	<b>\$ 55</b>
Prefunded interest expenses	-	(14)
<b>Adjusted Interest Expense, Net (Non-GAAP measure)</b>	<b>\$ 138</b>	<b>\$ 41</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, 30 November 2015			Three months ended, 30 November 2014		
	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>	\$ 1,273	\$ 167	13.1%	\$ 1,198	\$ 321
Cost transformation	90	26		-	-	
Acquisition-related amortization	81	23		89	31	
Decrease (increase) in fair market value of warrants	57	16		(424)	(145)	
LIFO provision	46	13		52	18	
Acquisition-related costs	34	10		24	8	
Alliance Boots equity method non-cash tax	-	-		-	(33)	
Store closures and other optimization costs	-	-		28	10	
Prefunded interest expenses	-	-		14	5	
Transaction foreign currency hedging loss	-	-		96	-	
Release of capital loss valuation allowance	-	-		-	86	
United Kingdom tax rate change	-	178		-	-	
Adjusted tax rate true-up	-	20		-	-	
<b>Non-GAAP measure</b>	\$ 1,581	\$ 453	28.7%	\$ 1,077	\$ 301	27.9%



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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, 30 November 2015									
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.	Retail Pharmacy USA vs. 1Q15		Walgreens Boots Alliance, Inc. vs. 1Q15		
	Amount	Percent	Amount	Percent	Amount	Amount	Percent	Amount	Percent	
<b>Gross Profit (GAAP)</b>	\$ 5,445	\$ 1,505	\$ 557	\$ (5)	\$ 7,502	\$ 149	2.8%	\$ 2,206	41.7%	
LIFO provision	46	-	-	-	46					
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 5,491</b>	<b>\$ 1,505</b>	<b>\$ 557</b>	<b>\$ (5)</b>	<b>\$ 7,548</b>	<b>\$ 143</b>	<b>2.7%</b>	<b>\$ 2,200</b>	<b>41.1%</b>	
Total Sales	\$ 20,370	\$ 3,531	\$ 5,796	\$ (664)	\$ 29,033					
Gross Margin (GAAP)	26.7%	42.6%	9.6%	NMF	25.8%					
Adjusted gross margin (Non-GAAP measure)	27.0%	42.6%	9.6%	NMF	26.0%					

	Three months ended, 30 November 2014									
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.					
	Amount	Percent	Amount	Percent	Amount	Amount	Percent	Amount	Percent	
<b>Gross Profit (GAAP)</b>	\$ 5,296	\$ -	\$ -	\$ -	\$ 5,296					
LIFO provision	52	-	-	-	52					
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 5,348</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,348</b>					
Total Sales	\$ 19,554	\$ -	\$ -	\$ -	\$ 19,554					
Gross Margin (GAAP)	27.1%	-	-	-	27.1%					
Adjusted gross margin (Non-GAAP measure)	27.3%	-	-	-	27.3%					



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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, 30 November 2015					Retail Pharmacy USA		Walgreens Boots Alliance, Inc.	
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.	vs. 1Q15 Amount	vs. 1Q15 Percent	vs. 1Q15 Amount	vs. 1Q15 Percent
<b>Selling, general and administrative expenses (GAAP)</b>	\$ 4,417	\$ 1,203	\$ 414	\$ -	\$ 6,034	\$ (39)	-0.9%	\$ 1,578	35.4%
Cost transformation	85	5	-	-	90				
Acquisition-related amortization	50	8	23	-	81				
Acquisition-related costs	34	-	-	-	34	\$ (89)	-2.1%	\$ 1,492	34.4%
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 4,248</b>	<b>\$ 1,190</b>	<b>\$ 391</b>	<b>\$ -</b>	<b>\$ 5,829</b>				
Total Sales	\$ 20,370	\$ 3,531	\$ 5,796	\$ (664)	\$ 29,033				
SG&A percent to sales (GAAP)	21.7%	34.1%	7.1%	-	20.8%				
Adjusted SG&A percent to sales (Non-GAAP measure)	20.9%	33.7%	6.7%	-	20.1%				

	Three months ended, 30 November 2014				
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Selling, general and administrative expenses (GAAP)</b>	\$ 4,456	\$ -	\$ -	\$ -	\$ 4,456
Acquisition-related amortization	67	-	-	-	67
Store closures and other optimization costs	28	-	-	-	28
Acquisition-related costs	24	-	-	-	24
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 4,337</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,337</b>
Total Sales	\$ 19,554	\$ -	\$ -	\$ -	\$ 19,554
SG&A percent to sales (GAAP)	22.8%	-	-	-	22.8%
Adjusted SG&A percent to sales (Non-GAAP measure)	22.2%	-	-	-	22.2%



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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, 30 November 2015					Retail Pharmacy USA vs. 1Q15		Walgreens Boots Alliance, Inc. vs. 1Q15	
	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.	Amount	Percent	Amount	Percent
<b>Operating Income (GAAP)</b>	\$ 1,028	\$ 302	\$ 143	\$ (5)	\$ 1,468	\$ (26)	-2.5%	\$ 414	39.3%
Cost transformation	85	5	-	-	90				
Acquisition-related amortization	50	8	23	-	81				
LIFO provision	46	-	-	-	46	\$ 125	11.2%	\$ 601	53.8%
Acquisition-related costs	34	-	-	-	34				
<b>Adjusted Operating Income (Non-GAAP measure)</b>	<b>\$ 1,243</b>	<b>\$ 315</b>	<b>\$ 166</b>	<b>\$ (5)</b>	<b>\$ 1,719</b>				
Total Sales	\$ 20,370	\$ 3,531	\$ 5,796	\$ (664)	\$ 29,033				
Operating Margin (GAAP)	5.0%	8.6%	2.5%	NMF	5.1%				
Adjusted Operating Margin (Non-GAAP)	6.1%	8.9%	2.9%	NMF	5.9%				

	Three months ended, 30 November 2014				
	Retail Pharmacy USA <sup>1</sup>	Retail Pharmacy International	Pharmaceutical Wholesale	Eliminations and Other	Walgreens Boots Alliance, Inc.
<b>Operating Income (GAAP)</b>	\$ 1,054	\$ -	\$ -	\$ -	\$ 1,054
Acquisition-related amortization	89	-	-	-	89
LIFO provision	52	-	-	-	52
Store closures and other optimization costs	28	-	-	-	28
Acquisition-related costs	24	-	-	-	24
Increase in fair market value of warrants	(129)	-	-	-	(129)
<b>Adjusted Operating Income (Non-GAAP measure)</b>	<b>\$ 1,118</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,118</b>
Total Sales	\$ 19,554	\$ -	\$ -	\$ -	\$ 19,554
Operating Margin (GAAP)	5.4%	-	-	-	5.4%
Adjusted Operating Margin (Non-GAAP)	5.7%	-	-	-	5.7%

1) Operating income for Retail Pharmacy USA includes equity earnings in Alliance Boots.



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# 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>	<b>Three Months Ended</b>	
	30 November 2014	
<b>Equity earnings in Alliance Boots (GAAP)</b>	\$	<b>214</b>
Acquisition-related amortization		22
Increase in fair market value of warrants		(129)
<b><u>Adjusted Equity earnings in Alliance Boots (Non-GAAP measure)</u></b>	<b>\$</b>	<b><u>107</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	
	30 November 2015	
Net cash provided by operating activities (GAAP)	\$	732
Less: Additions to property, plant and equipment		340
<b>Free cash flow (Non-GAAP measure) <sup>1</sup></b>	<b>\$</b>	<b>392</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.

# 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 filing on 15 April 2014, as amended on 16 January 2015. 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 are exercisable during a six month period beginning on 18 March 2016. If that tranche were to be exercised in full, we would anticipate beginning to account for our investment in AmerisourceBergen common stock using the equity method of accounting.



Walgreens Boots Alliance

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**Walgreens Boots Alliance**