

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 tax, financial and operating performance and results, as well as forward-looking statements concerning the expected execution and effect of our business strategies, our cost-savings and growth initiatives, pilot programs and initiatives, and restructuring activities and the amounts and timing of their expected impact, and our amended and restated asset purchase agreement with Rite Aid and the transactions contemplated thereby and their possible timing and 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,” “pilot,” “would,” “could,” “should,” “can,” “will,” “project,” “intend,” “plan,” “goal,” “guidance,” “target,” “aim,” “continue,” “sustain,” “synergy,” “on track,” “on schedule,” “headwind,” “tailwind,” “believe,” “seek,” “estimate,” “anticipate,” “upcoming,” “to come,” “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 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, 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 arrangements and transactions contemplated by our agreements with AmerisourceBergen and their possible effects, 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 amount of costs, fees, expenses and charges incurred in connection with strategic transactions, whether the costs and charges associated with our store optimization program will exceed estimates, our ability to realize expected savings and benefits from cost-savings initiatives, restructuring activities and acquisitions and joint ventures 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, risks related to pilot programs and new business initiatives and ventures generally, including the risks that anticipated benefits may not be realized, changes in management’s plans and assumptions, changes in economic and business conditions generally or in particular markets in which we participate, changes in financial markets, credit ratings 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, and the associated impacts on volume and operating results, risks of inflation, risks related to competition, risks associated with new business areas and activities, risks associated with acquisitions, divestitures, joint ventures and strategic investments, including those relating to the acquisition of certain assets pursuant to our amended and restated asset purchase agreement with Rite Aid, the risks associated with the integration of complex businesses, outcomes of legal and regulatory matters, and risks associated with changes in laws, including those related to the December 2017 U.S. tax 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 2017 and our Form 10-Q for the fiscal quarter ended 30 November 2017, each of 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 information below and the Appendix to the 2Q18 earnings presentation materials available on our investor relations website for reconciliations to the most directly comparable U.S. GAAP financial measures and related information.



Non-GAAP financial measures

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 the non-GAAP financial measures in the 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 the presentation. The company does not provide a 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. This is due to the inherent difficulty of forecasting the timing or amount of various items that have not yet occurred, are out of the company's control and/or cannot be reasonably predicted, and that would impact diluted net earnings per share, the most directly comparable forward-looking GAAP financial measure. 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.

The company also presents certain information related to current period operating results in "constant currency," which is a non-GAAP financial measure. These amounts are calculated by translating current period results at the foreign currency exchange rates used in the comparable period in the prior year. The company presents such constant currency financial information because it has significant operations outside of the United States reporting in currencies other than the U.S. dollar and this presentation provides a framework to assess how its business performed excluding the impact of foreign currency exchange rate fluctuations.

For our Retail Pharmacy divisions, comparable stores are defined as those that have been open for at least 12 consecutive months and that have not been closed for seven or more consecutive days, undergone a major remodel or been subject to a natural disaster during the past 12 months. Relocated and acquired stores are not included as comparable stores for the first 12 months after the relocation or acquisition. Comparable store sales, comparable pharmacy sales and comparable retail sales refer to total sales, pharmacy sales and retail sales, respectively, in such stores. For our Pharmaceutical Wholesale division, comparable sales are defined as sales excluding acquisitions and dispositions. The method of calculating comparable sales varies across the industries in which we operate. As a result, our method of calculating comparable sales may not be the same as other companies' methods.



Reconciliation of Non-GAAP financial measures

Walgreens Boots Alliance, Inc. and Subsidiaries¹
Supplemental Information (unaudited)
(in millions)

NET EARNINGS

	Twelve Months Ended		Change v. FY14	
	August 31, 2017	August 31, 2014 ¹	Total	Compound annual growth rate ²
Net earnings attributable to Walgreens Boots Alliance, Inc. (GAAP)	\$ 4,078	\$ 1,932	111.1%	28.3%
Adjustments to operating income:				
Cost transformation	835	—		
Acquisition-related costs	474	82		
Acquisition-related amortization	332	282		
Adjustments to equity earnings in AmerisourceBergen	187	—		
LIFO provision	166	132		
Asset recovery	(11)	—		
Store closures and other optimization costs	—	271		
Gain on sale of business	—	(9)		
Adjustments to equity earnings in Alliance Boots	—	(86)		
Total Adjustments to operating income	1,983	672		
Adjustments to other income (expense):				
Net investment hedging loss	48	—		
Alliance Boots call option loss	—	866		
Change in fair market value of AmerisourceBergen warrants	—	(385)		
Total Adjustments to other income (expense)	48	481		
Adjustments to interest expense, net:				
Prefunded acquisition financing costs	203	—		
Total Adjustments to interest expense, net	203	—		
Adjustments to income tax provision:				
UK tax rate change ³	(77)	—		
Equity method non-cash tax ³	23	180		
Tax impact of adjustments ⁴	(755)	(95)		
Total Adjustments to income tax provision	(809)	85		
Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure)	\$ 5,503	\$ 3,170	73.6%	20.2%

¹ On December 31, 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, with Walgreens Boots Alliance, Inc. becoming the parent holding company. Financial information reflects the results of operations and financial position of Walgreen Co. and its subsidiaries for periods prior to December 31, 2014 and of Walgreens Boots Alliance, Inc. and its subsidiaries for periods as of and after December 31, 2014. As a result of the completion of the acquisition by Walgreens Boots Alliance, Inc. of the remaining 55% of Alliance Boots GmbH that Walgreen Co. did not already own on December 31, 2014, there are a number of items that affect comparability of reported results for the periods presented and comparisons of results are not directly comparable. For further information, please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Comparability" in our Annual Report on Form 10-K for the fiscal year ended 31 August 2015 and in our subsequent filings with the Securities and Exchange Commission.

² The compound annual growth rate is defined as the implied annual rate of return of net earnings from fiscal 2014 to fiscal 2017.

³ Discrete tax-only items.

⁴ Represents the adjustment to the GAAP basis tax provision commensurate with non-GAAP adjustments.



Reconciliation of Non-GAAP financial measures

Walgreens Boots Alliance, Inc. and Subsidiaries¹
Supplemental Information (unaudited)

DILUTED NET EARNINGS PER COMMON SHARE COMPOUND ANNUAL GROWTH RATE

	Twelve Months Ended		Change v. FY14	
	August 31, 2017	August 31, 2014 ¹	Total	Compound annual growth rate ²
Diluted net earnings per common share (GAAP)	\$ 3.78	\$ 2.00	89.0%	23.6%
Adjustments to operating income	1.84	0.69		
Adjustments to other income	0.04	0.50		
Adjustments to interest expense, net	0.19	—		
Adjustments to income tax provision	(0.75)	0.09		
Adjusted diluted net earnings per common share (Non-GAAP measure)	\$ 5.10	\$ 3.28	55.5%	15.9%
Weighted average common shares outstanding, diluted (in millions)	1,078.5	965.2		

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² The compound annual growth rate is defined as the implied annual rate of return of earnings per share from fiscal 2014 to fiscal 2017.



Reconciliation of Non-GAAP financial measures

Walgreens Boots Alliance, Inc. and Subsidiaries¹
 Supplemental Information (unaudited)
 (in millions)

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Twelve Months Ended	
	August 31, 2017	August 31, 2014 ¹
Selling, general and administrative expenses (GAAP)	\$ 23,740	\$ 17,992
Cost transformation	(746)	—
Acquisition-related costs	(474)	(82)
Acquisition-related amortization	(332)	(282)
Asset recovery	11	—
Store closures and other optimization costs	—	(259)
Gain on sale of business	—	9
Adjusted selling, general and administrative expenses (Non-GAAP measure)	\$ 22,199	\$ 17,378
Sales	\$ 118,214	\$ 76,392
Selling, general and administrative expenses percent to sales (GAAP)	20.1%	23.6%
Adjusted selling, general and administrative expenses percent to sales (Non-GAAP measure)	18.8%	22.7%

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Reconciliation of Non-GAAP financial measures

Walgreens Boots Alliance, Inc. and Subsidiaries¹
Supplemental Information (unaudited)
(in millions)

ADJUSTED EFFECTIVE TAX RATE

	Twelve Months Ended August 31, 2017		
	Earnings before income tax provision	Income tax provision	Effective tax rate
Effective tax rate (GAAP)	\$ 4,853	\$ 760	15.7%
Impact of Non-GAAP adjustments	2,234	755	
UK tax rate change	—	77	
Equity method non-cash tax	—	(23)	
Subtotal	\$ 7,087	\$ 1,569	
Exclude adjusted equity earnings in AmerisourceBergen	(322)	—	
Adjusted effective tax rate excluded adjusted earnings in AmerisourceBergen (Non-GAAP measure)	\$ 6,765	\$ 1,569	23.2%

	Twelve Months Ended August 31, 2014 ¹		
	Earnings before income tax provision	Income tax provision	Effective tax rate
Effective tax rate (GAAP)	\$ 3,557	\$ 1,526	42.9%
Impact of Non-GAAP adjustments	1,153	95	
Equity method non-cash tax	—	(180)	
Subtotal	\$ 4,710	\$ 1,441	
Exclude adjusted equity earnings in AmerisourceBergen	—	—	
Adjusted effective tax rate excluded adjusted earnings in AmerisourceBergen (Non-GAAP measure)	\$ 4,710	\$ 1,441	30.6%

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Reconciliation of Non-GAAP financial measures

Walgreens Boots Alliance, Inc. and Subsidiaries¹

Supplemental Information (unaudited)

(in millions)

FREE CASH FLOW²

	Twelve Months Ended			FY15 - FY17 ¹
	August 31, 2017	August 31, 2016	August 31, 2015	Total
Net cash provided by operating activities (GAAP)	\$ 7,251	\$ 7,847	\$ 5,664	\$ 20,762
Less: Additions to property, plant and equipment	(1,351)	(1,325)	(1,251)	(3,927)
Free cash flow (Non-GAAP measure)¹	\$ 5,900	\$ 6,522	\$ 4,413	\$ 16,835

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² Free cash flow is defined as net cash provided by operating activities in a period less 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.

