

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended February 29, 2020

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _____ to _____

Commission File Number
001-36759

WALGREENS BOOTS ALLIANCE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

47-1758322

(I.R.S. Employer Identification No.)

108 Wilmot Road, Deerfield, Illinois

(Address of principal executive offices)

60015

(Zip Code)

(847) 315-2500

(Registrant's telephone number, including area code)

Former name, former address and former fiscal year, if changed since last report

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--|-------------------|---|
| Common Stock, \$0.01 par value | WBA | The NASDAQ Stock Market LLC |
| 2.875% Walgreens Boots Alliance, Inc. notes due 2020 | WBA20 | The NASDAQ Stock Market LLC |
| 3.600% Walgreens Boots Alliance, Inc. notes due 2025 | WBA25 | The NASDAQ Stock Market LLC |
| 2.125% Walgreens Boots Alliance, Inc. notes due 2026 | WBA26 | The NASDAQ Stock Market LLC |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares outstanding of the registrant's Common Stock, \$0.01 par value, as of March 31, 2020 was 877,220,195.

WALGREENS BOOTS ALLIANCE, INC.

FORM 10-Q FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 29, 2020

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

| | | |
|---------|---|--------------------|
| Item 1. | Consolidated Condensed Financial Statements (Unaudited) | |
| a) | Balance Sheets | 3 |
| b) | Statements of Equity | 4 |
| c) | Statements of Earnings | 6 |
| d) | Statements of Comprehensive Income | 7 |
| e) | Statements of Cash Flows | 8 |
| f) | Notes to Financial Statements | 9 |
| Item 2. | Management's discussion and analysis of financial condition and results of operations | 34 |
| Item 3. | Quantitative and qualitative disclosure about market risk | 56 |
| Item 4. | Controls and procedures | 57 |

PART II. OTHER INFORMATION

| | | |
|----------|---|--------------------|
| Item 1. | Legal proceedings | 58 |
| Item 1A. | Risk factors | 58 |
| Item 2. | Unregistered sales of equity securities and use of proceeds | 61 |
| Item 6. | Exhibits | 61 |

Part I. Financial Information

Item 1. Consolidated Condensed Financial Statements (Unaudited)

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)
(in millions, except shares and per share amounts)

| | <u>February 29, 2020</u> | <u>August 31, 2019</u> |
|--|--------------------------|------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 792 | \$ 1,023 |
| Accounts receivable, net | 7,572 | 7,226 |
| Inventories | 9,652 | 9,333 |
| Other current assets | 893 | 1,118 |
| Total current assets | 18,909 | 18,700 |
| Non-current assets: | | |
| Property, plant and equipment, net | 13,482 | 13,478 |
| Operating lease right-of-use assets | 21,755 | — |
| Goodwill | 16,788 | 16,560 |
| Intangible assets, net | 10,929 | 10,876 |
| Equity method investments (see note 5) | 6,921 | 6,851 |
| Other non-current assets | 1,218 | 1,133 |
| Total non-current assets | 71,094 | 48,899 |
| Total assets | \$ 90,003 | \$ 67,598 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Short-term debt | \$ 5,984 | \$ 5,738 |
| Trade accounts payable (see note 16) | 14,968 | 14,341 |
| Operating lease obligation | 2,278 | — |
| Accrued expenses and other liabilities | 5,408 | 5,474 |
| Income taxes | 23 | 216 |
| Total current liabilities | 28,662 | 25,769 |
| Non-current liabilities: | | |
| Long-term debt | 10,625 | 11,098 |
| Operating lease obligation | 21,959 | — |
| Deferred income taxes | 1,637 | 1,785 |
| Other non-current liabilities | 2,786 | 4,795 |
| Total non-current liabilities | 37,007 | 17,678 |
| Commitments and contingencies (see note 10) | | |
| Equity: | | |
| Preferred stock \$.01 par value; authorized 32 million shares, none issued | — | — |
| Common stock \$.01 par value; authorized 3.2 billion shares; issued 1,172,513,618 at February 29, 2020 and August 31, 2019 | 12 | 12 |
| Paid-in capital | 10,689 | 10,639 |
| Retained earnings | 36,351 | 35,815 |
| Accumulated other comprehensive loss | (3,407) | (3,897) |
| Treasury stock, at cost; 292,116,419 shares at February 29, 2020 and 277,126,116 shares at August 31, 2019 | (19,925) | (19,057) |
| Total Walgreens Boots Alliance, Inc. shareholders' equity | 23,720 | 23,512 |
| Noncontrolling interests | 615 | 641 |
| Total equity | 24,334 | 24,152 |
| Total liabilities and equity | \$ 90,003 | \$ 67,598 |

The accompanying notes to Consolidated Condensed Financial Statements are an integral part of these statements.

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EQUITY
(UNAUDITED)

For the three and six months ended February 29, 2020
(in millions, except shares)

Three months ended February 29, 2020

| | Equity attributable to Walgreens Boots Alliance, Inc. | | | | | | | Noncontrolling interests | Total equity |
|---|---|---------------------|-----------------------|-----------------|---|-------------------|--------|--------------------------|--------------|
| | Common stock shares | Common stock amount | Treasury stock amount | Paid-in capital | Accumulated other comprehensive income (loss) | Retained earnings | | | |
| November 30, 2019 | 888,089,745 | \$ 12 | \$ (19,496) | \$ 10,648 | \$ (3,313) | \$ 35,810 | \$ 653 | \$ 24,314 | |
| Net earnings (loss) | — | — | — | — | — | 946 | 5 | 952 | |
| Other comprehensive income (loss), net of tax | — | — | — | — | (94) | — | — | (94) | |
| Dividends declared | — | — | — | — | — | (404) | (43) | (448) | |
| Treasury stock purchases | (7,996,028) | — | (440) | — | — | — | — | (440) | |
| Employee stock purchase and option plans | 303,482 | — | 10 | 3 | — | — | — | 13 | |
| Stock-based compensation | — | — | — | 38 | — | — | — | 38 | |
| Adoption of new accounting standards | — | — | — | — | — | — | — | — | |
| February 29, 2020 | 880,397,199 | \$ 12 | \$ (19,925) | \$ 10,689 | \$ (3,407) | \$ 36,351 | \$ 615 | \$ 24,334 | |

Six months ended February 29, 2020

| | Equity attributable to Walgreens Boots Alliance, Inc. | | | | | | | Noncontrolling interests | Total equity |
|---|---|---------------------|-----------------------|-----------------|---|-------------------|--------|--------------------------|--------------|
| | Common stock shares | Common stock amount | Treasury stock amount | Paid-in capital | Accumulated other comprehensive income (loss) | Retained earnings | | | |
| August 31, 2019 | 895,387,502 | \$ 12 | \$ (19,057) | \$ 10,639 | \$ (3,897) | \$ 35,815 | \$ 641 | \$ 24,152 | |
| Net earnings (loss) | — | — | — | — | — | 1,791 | 2 | 1,793 | |
| Other comprehensive income (loss), net of tax | — | — | — | — | 490 | — | 15 | 505 | |
| Dividends declared | — | — | — | — | — | (812) | (43) | (855) | |
| Treasury stock purchases | (16,460,094) | — | (913) | — | — | — | — | (913) | |
| Employee stock purchase and option plans | 1,469,791 | — | 45 | (17) | — | — | — | 28 | |
| Stock-based compensation | — | — | — | 67 | — | — | — | 67 | |
| Adoption of new accounting standards | — | — | — | — | — | (442) | — | (442) | |
| February 29, 2020 | 880,397,199 | \$ 12 | \$ (19,925) | \$ 10,689 | \$ (3,407) | \$ 36,351 | \$ 615 | \$ 24,334 | |

The accompanying notes to Consolidated Condensed Financial Statements are an integral part of these statements.

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EQUITY
(UNAUDITED)
For the three and six months ended February 28, 2019
(in millions, except shares)

Three months ended February 28, 2019

| | Equity attributable to Walgreens Boots Alliance, Inc. | | | | | | | Noncontrolling interests | Total equity |
|---|---|---------------------|-----------------------|-----------------|---|-------------------|--------|--------------------------|--------------|
| | Common stock shares | Common stock amount | Treasury stock amount | Paid-in capital | Accumulated other comprehensive income (loss) | Retained earnings | | | |
| November 30, 2018 | 943,444,736 | \$ 12 | \$ (15,862) | \$ 10,522 | \$ (3,231) | \$ 34,168 | \$ 654 | \$ 26,263 | |
| Net earnings (loss) | — | — | — | — | — | 1,156 | (18) | 1,138 | |
| Other comprehensive income (loss), net of tax | — | — | — | — | 519 | — | 10 | 529 | |
| Dividends declared | — | — | — | — | — | (402) | (1) | (403) | |
| Treasury stock purchases | (30,103,362) | — | (2,201) | — | — | — | — | (2,201) | |
| Employee stock purchase and option plans | 835,068 | — | 25 | 12 | — | — | — | 37 | |
| Stock-based compensation | — | — | — | 37 | — | — | — | 37 | |
| Other | — | — | — | — | 7 | 6 | (2) | 11 | |
| February 28, 2019 | 914,176,442 | \$ 12 | \$ (18,036) | \$ 10,571 | \$ (2,705) | \$ 34,928 | \$ 643 | \$ 25,413 | |

Six months ended February 28, 2019

| | Equity attributable to Walgreens Boots Alliance, Inc. | | | | | | | Noncontrolling interests | Total equity |
|---|---|---------------------|-----------------------|-----------------|---|-------------------|--------|--------------------------|--------------|
| | Common stock shares | Common stock amount | Treasury stock amount | Paid-in capital | Accumulated other comprehensive income (loss) | Retained earnings | | | |
| August 31, 2018 | 952,133,418 | \$ 12 | \$ (15,047) | \$ 10,493 | \$ (3,002) | \$ 33,551 | \$ 682 | \$ 26,689 | |
| Net earnings (loss) | — | — | — | — | — | 2,279 | (41) | 2,238 | |
| Other comprehensive income (loss), net of tax | — | — | — | — | 290 | — | 7 | 297 | |
| Dividends declared | — | — | — | — | — | (820) | (3) | (823) | |
| Treasury stock purchases | (42,097,919) | — | (3,113) | — | — | — | — | (3,113) | |
| Employee stock purchase and option plans | 4,140,943 | — | 124 | 14 | — | — | — | 138 | |
| Stock-based compensation | — | — | — | 63 | — | — | — | 63 | |
| Adoption of new accounting standards | — | — | — | — | — | (88) | — | (88) | |
| Other | — | — | — | — | 7 | 6 | (2) | 11 | |
| February 28, 2019 | 914,176,442 | \$ 12 | \$ (18,036) | \$ 10,571 | \$ (2,705) | \$ 34,928 | \$ 643 | \$ 25,413 | |

The accompanying notes to Consolidated Condensed Financial Statements are an integral part of these statements.

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS
(UNAUDITED)
(in millions, except per share amounts)

| | Three months ended | | Six months ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Sales | \$ 35,820 | \$ 34,528 | \$ 70,160 | \$ 68,321 |
| Cost of sales | 28,307 | 26,773 | 55,384 | 52,925 |
| Gross profit | 7,513 | 7,754 | 14,776 | 15,395 |
| Selling, general and administrative expenses | 6,308 | 6,320 | 12,570 | 12,599 |
| Equity earnings in AmerisourceBergen | 28 | 83 | 41 | 121 |
| Operating income | 1,233 | 1,517 | 2,247 | 2,918 |
| Other income | 25 | 19 | 60 | 45 |
| Earnings before interest and income tax provision | 1,259 | 1,536 | 2,307 | 2,963 |
| Interest expense, net | 162 | 181 | 328 | 342 |
| Earnings before income tax provision | 1,097 | 1,356 | 1,979 | 2,621 |
| Income tax provision | 160 | 226 | 193 | 406 |
| Post tax earnings from other equity method investments | 15 | 9 | 7 | 24 |
| Net earnings | 952 | 1,138 | 1,793 | 2,238 |
| Net earnings (loss) attributable to noncontrolling interests | 5 | (18) | 2 | (41) |
| Net earnings attributable to Walgreens Boots Alliance, Inc. | \$ 946 | \$ 1,156 | \$ 1,791 | \$ 2,279 |
| Net earnings per common share: | | | | |
| Basic | \$ 1.07 | \$ 1.25 | \$ 2.02 | \$ 2.43 |
| Diluted | \$ 1.07 | \$ 1.24 | \$ 2.01 | \$ 2.42 |
| Weighted average common shares outstanding: | | | | |
| Basic | 884.5 | 928.4 | 887.9 | 938.3 |
| Diluted | 885.5 | 930.7 | 889.1 | 941.1 |

The accompanying notes to Consolidated Condensed Financial Statements are an integral part of these statements.

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(in millions)

| | Three months ended | | Six months ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Comprehensive income: | | | | |
| Net earnings | \$ 952 | \$ 1,138 | \$ 1,793 | \$ 2,238 |
| Other comprehensive income (loss), net of tax: | | | | |
| Pension/postretirement obligations | (1) | (2) | (9) | (6) |
| Unrealized gain (loss) on cash flow hedges | 1 | (1) | 1 | 2 |
| Net investment hedges (see note 13) | 21 | (12) | (21) | (12) |
| Share of other comprehensive income (loss) of equity method investments | 4 | (2) | (5) | (1) |
| Currency translation adjustments | (119) | 553 | 539 | 321 |
| Total other comprehensive income (loss) | (94) | 536 | 505 | 304 |
| Total comprehensive income | 857 | 1,674 | 2,299 | 2,542 |
| Comprehensive income (loss) attributable to noncontrolling interests | 5 | (8) | 17 | (34) |
| Comprehensive income attributable to Walgreens Boots Alliance, Inc. | \$ 852 | \$ 1,682 | \$ 2,281 | \$ 2,576 |

The accompanying notes to Consolidated Condensed Financial Statements are an integral part of these statements.

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in millions)

| | Six months ended | |
|---|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 1,793 | \$ 2,238 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 969 | 990 |
| Deferred income taxes | (45) | 161 |
| Stock compensation expense | 67 | 63 |
| Equity (earnings) from equity method investments | (47) | (145) |
| Other | 37 | 155 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (324) | (1,164) |
| Inventories | (242) | (557) |
| Other current assets | 56 | (61) |
| Trade accounts payable | 555 | 682 |
| Accrued expenses and other liabilities | 139 | (542) |
| Income taxes | (355) | (522) |
| Other non-current assets and liabilities | (119) | (104) |
| Net cash provided by operating activities | 2,484 | 1,195 |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (705) | (793) |
| Proceeds from sale-leaseback transactions | 333 | — |
| Proceeds from sale of other assets | 37 | 54 |
| Business, investment and asset acquisitions, net of cash acquired | (286) | (347) |
| Other | 3 | 41 |
| Net cash used for investing activities | (617) | (1,046) |
| Cash flows from financing activities: | | |
| Net change in short-term debt with maturities of 3 months or less | (655) | 336 |
| Proceeds from debt | 9,860 | 6,414 |
| Payments of debt | (9,465) | (3,117) |
| Stock purchases | (913) | (3,113) |
| Proceeds related to employee stock plans | 28 | 138 |
| Cash dividends paid | (857) | (841) |
| Other | (82) | 67 |
| Net cash used for financing activities | (2,085) | (115) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (1) | — |
| Changes in cash, cash equivalents and restricted cash: | | |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (218) | 34 |
| Cash, cash equivalents and restricted cash at beginning of period | 1,207 | 975 |
| Cash, cash equivalents and restricted cash at end of period | \$ 988 | \$ 1,009 |

The accompanying notes to Consolidated Condensed Financial Statements are an integral part of these statements.

WALGREENS BOOTS ALLIANCE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Accounting policies

Basis of presentation

The Consolidated Condensed Financial Statements of Walgreens Boots Alliance, Inc. (“Walgreens Boots Alliance” or the “Company”) included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. The Consolidated Condensed Financial Statements include all subsidiaries in which the Company holds a controlling interest. The Company uses the equity method of accounting for equity investments in less than majority-owned companies if the investment provides the ability to exercise significant influence. All intercompany transactions have been eliminated.

The Consolidated Condensed Financial Statements included herein are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited Consolidated Condensed Financial Statements should be read in conjunction with the audited financial statements and the notes thereto included in the Walgreens Boots Alliance Annual Report on Form 10-K for the fiscal year ended August 31, 2019.

In the opinion of management, the unaudited Consolidated Condensed Financial Statements for the interim periods presented include all adjustments (consisting only of normal recurring adjustments) necessary to present a fair statement of the results for such interim periods. The influence of certain holidays, seasonality, foreign currency rates, changes in vendor, payer and customer relationships and terms, strategic transactions including acquisitions, changes in laws and general economic conditions in the markets in which the Company operates and other factors on the Company’s operations and net earnings for any period may not be comparable to the same period in previous years.

Certain amounts in the Consolidated Condensed Financial Statements and associated notes may not add due to rounding. Percentages have been calculated using unrounded amounts for all periods presented.

Note 2. Acquisitions

Acquisition of certain Rite Aid Corporation (“Rite Aid”) assets

Pursuant to an amended and restated purchase agreement entered into in September 2017, the Company acquired the second of three distribution centers including related inventory from Rite Aid during the six months ended February 29, 2020 for cash consideration of \$63 million. The Company acquired the first distribution center and related inventory from Rite Aid for cash consideration of \$61 million in fiscal 2019. The transition of the third distribution center and related inventory remains subject to the closing conditions set forth in the amended and restated asset purchase agreement.

Other acquisitions

The Company acquired certain prescription files and related pharmacy inventory in Retail Pharmacy USA for the aggregate purchase price of \$60 million and \$140 million during the three and six months ended February 29, 2020, respectively.

Note 3. Exit and disposal activities

Transformational Cost Management Program

On December 20, 2018, the Company announced a transformational cost management program that was expected to deliver in excess of \$1.0 billion of annual cost savings by fiscal 2022 (the “Transformational Cost Management Program”). In April 2019, the Company announced that it had increased the expected annual cost savings to in excess of \$1.5 billion by fiscal 2022, which was further increased to in excess of \$1.8 billion in October 2019. The Transformational Cost Management Program, which is multi-faceted and includes divisional optimization initiatives, global smart spending, global smart organization and the transformation of the Company’s information technology (IT) capabilities, is designed to help the Company achieve increased cost efficiencies. To date, the Company has taken actions across all aspects of the Transformational Cost Management Program. The actions under the Transformational Cost Management Program focus on all reportable segments and the Company’s global functions. Divisional optimization within each of the Company’s segments includes activities such as optimization of stores which includes plans to close approximately 200 stores in the United Kingdom and approximately 200 locations in the United States.

The Company currently estimates that the Transformational Cost Management Program will result in cumulative pre-tax charges to its GAAP financial results of approximately \$1.9 billion to \$2.4 billion, of which \$1.6 billion to \$2.0 billion are expected to be recorded as exit and disposal activities. In addition to these impacts, as a result of the actions related to store closures taken under the Transformational Cost Management Program, the Company recorded \$508 million of transition adjustments to decrease retained earnings due to the adoption of the new lease accounting standard (Topic 842) that became effective on September 1, 2019. See note 17, new accounting pronouncements, for additional information.

Since the inception of the Transformational Cost Management Program to February 29, 2020, the Company has recognized cumulative pre-tax charges to its financial results in accordance with GAAP of \$605 million, which were primarily recorded within selling, general and administrative expenses. These charges included \$36 million related to lease obligations and other real estate costs, \$275 million in asset impairments, \$236 million in employee severance and business transition costs and \$58 million of information technology transformation and other exit costs.

Transformational Cost Management Program charges are recognized as the costs are incurred over time in accordance with GAAP. The Company treats charges related to the Transformational Cost Management Program as special items impacting comparability of results in its earnings disclosures.

Costs related to exit and disposal activities under the Transformational Cost Management Program for the three and six months ended February 29, 2020 and February 28, 2019 were as follows (in millions):

| Three months ended February 29, 2020 | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale | Walgreens Boots Alliance, Inc. |
|--|--------------------------------|--|-------------------------------------|---|
| Lease obligations and other real estate costs | \$ 9 | \$ 1 | \$ — | \$ 10 |
| Asset impairments | 3 | — | — | 3 |
| Employee severance and business transition costs | 39 | 29 | 4 | 72 |
| Information technology transformation and other exit costs | 9 | 13 | 1 | 24 |
| Total pre-tax exit and disposal costs | \$ 60 | \$ 43 | \$ 5 | \$ 109 |

| Six months ended February 29, 2020 | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale | Walgreens Boots Alliance, Inc. |
|--|--------------------------------|--|-------------------------------------|---|
| Lease obligations and other real estate costs | \$ 10 | \$ 1 | \$ — | \$ 11 |
| Asset impairments | 11 | 3 | — | 15 |
| Employee severance and business transition costs | 72 | 30 | 9 | 111 |
| Information technology transformation and other exit costs | 16 | 17 | 2 | 36 |
| Total pre-tax exit and disposal costs | \$ 110 | \$ 52 | \$ 12 | \$ 173 |

| Three months ended February 28, 2019 | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale | Walgreens Boots Alliance, Inc. |
|--|--------------------------------|--|-------------------------------------|---|
| Asset impairments | — | 26 | 85 | 111 |
| Employee severance and other exit costs | 14 | 14 | 11 | 39 |
| Total pre-tax exit and disposal costs | \$ 14 | \$ 40 | \$ 96 | \$ 150 |

| Six months ended February 28, 2019 | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale | Walgreens Boots Alliance, Inc. |
|--|--------------------------------|--|-------------------------------------|---|
| Asset impairments | — | 32 | 85 | 117 |
| Employee severance and other exit costs | 16 | 35 | 11 | 62 |
| Total pre-tax exit and disposal costs | \$ 16 | \$ 67 | \$ 96 | \$ 179 |

The changes in liabilities and assets related to the exit and disposal activities under Transformational Cost Management Program include the following (in millions):

| | Lease obligations and other real estate costs | Asset Impairments | Employee severance and business transition costs | Information technology transformation and other exit costs | Total |
|--------------------------------------|---|-------------------|---|--|---------------|
| Balance at August 31, 2019 | \$ 17 | \$ — | \$ 57 | \$ 4 | \$ 78 |
| Costs | 11 | 15 | 111 | 36 | 173 |
| Payments | (1) | — | (59) | (10) | (70) |
| Other - non cash | 3 | (15) | — | (8) | (20) |
| ASC 842 Leases adoption ¹ | (4) | — | — | — | (4) |
| Currency translation adjustment | 1 | — | — | — | 1 |
| Balance at February 29, 2020 | \$ 27 | \$ — | \$ 110 | \$ 22 | \$ 158 |

¹ Represents liability for facility closings and related lease termination charges recorded as an offset to right-of-use assets upon the adoption of ASC 842. Refer to note 4, leases and note 17, new accounting pronouncements for additional information.

Store Optimization Program

On October 24, 2017, the Company's Board of Directors approved a plan to implement a program (the "Store Optimization Program") to optimize store locations through the planned closure of approximately 600 stores and related assets within the Company's Retail Pharmacy USA segment upon completion of the acquisition of certain stores and related assets from Rite Aid. As of the date of this report, the Company expects to close approximately 750 stores and related assets, of which the majority have been closed as part of this program. The actions under the Store Optimization Program commenced in March 2018 and are expected to be complete by end of fiscal 2020.

The Company currently estimates that it will recognize cumulative pre-tax charges to its GAAP financial results of approximately \$400 million, compared to the Company's previously stated expectation of \$350 million, of which \$335 million have been recorded to date, primarily within selling, general and administrative expenses. The Company expects to incur charges of approximately \$190 million for lease obligations and other real estate costs, of which \$159 million have been recorded to date and approximately \$210 million for employee severance and other exit costs of which \$176 million have been recorded to date. The Company estimates that substantially all of these cumulative pre-tax charges will result in cash expenditures.

Store Optimization Program charges are recognized as the costs are incurred over time in accordance with GAAP. The Company treats charges related to the Store Optimization Program as special items impacting comparability of results in its earnings disclosures.

Costs related to the Store Optimization Program for the three and six months ended February 29, 2020 and February 28, 2019 were as follows (in millions):

| | Three months ended | | Six months ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Lease obligations and other real estate costs | \$ 18 | \$ 9 | \$ 21 | \$ 2 |
| Employee severance and other exit costs | 12 | 22 | 18 | 49 |
| Total costs | \$ 30 | \$ 31 | \$ 39 | \$ 51 |

The changes in liabilities related to the Store Optimization Program include the following (in millions):

| | Lease obligations and other real estate costs | Employee severance and other exit costs | Total |
|--------------------------------------|--|--|--------------|
| Balance at August 31, 2019 | \$ 407 | \$ 22 | \$ 429 |
| Costs | 21 | 18 | 39 |
| Payments | (18) | (32) | (50) |
| Other - non cash | (1) | (5) | (6) |
| ASC 842 Leases adoption ¹ | (378) | — | (378) |
| Balance at February 29, 2020 | \$ 31 | \$ 3 | \$ 34 |

¹ Represents liability for facility closings and related lease termination charges recorded as an offset to right-of-use assets upon the adoption of ASC 842. Refer to note 4, leases and note 17, new accounting pronouncements for additional information.

Cost Transformation Program

On April 8, 2015, the Walgreens Boots Alliance Board of Directors approved a plan to implement a restructuring program (the “Cost Transformation Program”) as part of an initiative to reduce costs and increase operating efficiencies. The Cost Transformation Program implemented and built on the cost-reduction initiative previously announced by the Company on August 6, 2014 and included plans to close stores across the United States; reorganize corporate and field operations; drive operating efficiencies; and streamline information technology and other functions. The actions under the Cost Transformation Program focused primarily on the Retail Pharmacy USA segment, but included activities from all segments. The Company completed the Cost Transformation Program in the fourth quarter of fiscal 2017.

The liabilities related to the Cost Transformation Program declined by \$382 million representing liability for facility closings and related lease termination charges recorded as an offset to right-of-use assets upon the adoption of ASC 842. The remaining liabilities as of February 29, 2020 were not material.

Note 4. Leases

The Company leases certain retail stores, warehouses, distribution centers, office space, land and equipment. For leases in the United States, the initial lease term is typically 15 to 25 years, followed by additional terms containing renewal options typically at five-year intervals, and may include rent escalation clauses. Non-U.S. leases are typically for shorter terms and may include cancellation clauses or renewal options. The commencement date of all lease terms is the earlier of the date the Company becomes legally obligated to make rent payments or the date the Company has the right to control the property. The Company recognizes operating lease rent expense on a straight-line basis over the term of the lease. In addition to minimum fixed rentals, some leases provide for contingent rentals based upon a portion of sales. See note 17, new accounting pronouncements for additional information.

Supplemental balance sheet information related to leases were as follows (in millions):

| | February 29, 2020 |
|---|-------------------|
| Operating Leases: | |
| Operating lease right-of-use assets | \$ 21,755 |
| Operating lease obligations - current | 2,278 |
| Operating lease obligations - non current | 21,959 |
| Total operating lease obligations | \$ 24,237 |
| Finance Leases: | |
| Right-of-use assets included in: | |
| Property, plant and equipment, net | \$ 802 |
| Lease obligations included in: | |
| Accrued expenses and other liabilities | 46 |
| Other non-current liabilities | 1,032 |
| Total finance lease obligations | \$ 1,078 |

The components of lease costs were as follows (in millions):

| | Three months ended February 29, 2020 | Six months ended February 29, 2020 |
|-----------------------|---|---------------------------------------|
| Operating lease cost | | |
| Fixed | \$ 841 | \$ 1,670 |
| Variable ¹ | 208 | 428 |
| Finance lease cost | | |
| Amortization | \$ 10 | \$ 19 |
| Interest | 14 | 28 |
| Sublease income | (16) | (31) |

¹ Includes real estate property taxes, common area maintenance, insurance and rental payments based on sales volume.

Other supplemental information were as follows (in millions):

| | Six months ended February 29, 2020 |
|--|---------------------------------------|
| Gains on sale-leaseback transactions ¹ | \$ 140 |
| Cash paid for amounts included in the measurement of lease obligations | |
| Operating cash flows from operating leases | \$ 1,677 |
| Operating cash flows from finance leases | 24 |
| Financing cash flows from finance leases | 23 |
| Total | \$ 1,724 |
| Right-of-use assets obtained in exchange for new lease obligations: | |
| Operating leases | \$ 1,313 |
| Finance leases | 65 |
| Total | \$ 1,378 |

¹ Recorded within selling, general and administrative expenses. For the three months ended February 29, 2020 gain on sales-leaseback was \$63 million.

Average lease term and discount rate as of February 29, 2020 were as follows:

| | February 29, 2020 |
|--|-------------------|
| Weighted average remaining lease term in years: | |
| Operating leases | 10.9 |
| Finance leases | 21.1 |
| Weighted average discount rate | |
| Operating leases | 4.94 % |
| Finance leases | 5.32 % |

The aggregate future lease payments for operating and finance leases as of February 29, 2020 were as follows (in millions):

| Fiscal year | Finance lease | Operating lease |
|---|-----------------|------------------|
| 2020 (Remaining period) | \$ 48 | \$ 1,712 |
| 2021 | 95 | 3,340 |
| 2022 | 92 | 3,176 |
| 2023 | 89 | 3,021 |
| 2024 | 89 | 2,865 |
| 2025 | 87 | 2,690 |
| Later | 1,218 | 14,682 |
| Total undiscounted minimum lease payments | \$ 1,718 | \$ 31,486 |
| Less: Present value discount | (640) | (7,249) |
| Lease liability | \$ 1,078 | \$ 24,237 |

Note 5. Equity method investments

Equity method investments as of February 29, 2020 and August 31, 2019, were as follows (in millions, except percentages):

| | February 29, 2020 | | August 31, 2019 | |
|-------------------|-------------------|----------------------|-----------------|----------------------|
| | Carrying value | Ownership percentage | Carrying value | Ownership percentage |
| AmerisourceBergen | \$ 5,206 | 28% | \$ 5,211 | 27% |
| Others | 1,715 | 8% - 50% | 1,640 | 8% - 50% |
| Total | \$ 6,921 | | \$ 6,851 | |

AmerisourceBergen Corporation ("AmerisourceBergen") investment

As of February 29, 2020 and August 31, 2019, the Company owned 56,854,867 AmerisourceBergen common shares, representing approximately 28% and 27%, respectively, of its outstanding common stock, based on the most recent share count publicly reported by AmerisourceBergen. The Company accounts for its equity investment in AmerisourceBergen using the equity method of accounting, with the net earnings attributable to the Company's investment being classified within the operating income of its Pharmaceutical Wholesale segment. Due to the timing and availability of financial information of AmerisourceBergen, the Company accounts for this equity method investment on a financial reporting lag of two months. Equity earnings from AmerisourceBergen are reported as a separate line in the Consolidated Condensed Statements of Earnings. The financial performance of AmerisourceBergen, including any charges which may arise relating to its ongoing opioid litigation, will impact the Company's results of operations.

The Level 1 fair market value of the Company's equity investment in AmerisourceBergen common stock at February 29, 2020 was \$4.8 billion. As of February 29, 2020, the Company's investment in AmerisourceBergen carrying value exceeded its proportionate share of the net assets of AmerisourceBergen by \$4.4 billion. This premium of \$4.4 billion was recognized as part of the carrying value in the Company's equity investment in AmerisourceBergen. The difference was primarily related to goodwill and the fair value of AmerisourceBergen intangible assets.

Other investments

The Company's other equity method investments include its investments in Guangzhou Pharmaceuticals Corporation and Nanjing Pharmaceutical Company Limited, the Company's pharmaceutical wholesale investments in China; its investment in Sinopharm Medicine Holding Guoda Drugstores Co., Ltd., the Company's retail pharmacy investment in China, the Company's investment in BioScrip (resulting from its merger with Option Care Inc.), PharMerica Corporation and Shields Health Solutions in the United States.

The Company reported \$15 million and \$9 million of post-tax equity earnings from other equity method investments, including equity method investments classified as operating, for the three months ended February 29, 2020 and February 28, 2019, respectively. The Company reported \$7 million and \$24 million of post-tax equity earnings from other equity method investments, including equity method investments classified as operating, for the six months ended February 29, 2020 and February 28, 2019, respectively.

Note 6. Goodwill and other intangible assets

Goodwill and indefinite-lived intangible assets are evaluated for impairment annually during the fourth quarter, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit or intangible asset below its carrying value. During the three months ended November 30, 2019, the Company completed quantitative impairment analysis for goodwill related to the Boots reporting unit within the Retail Pharmacy International division. Based on this analysis, the fair value of Boots reporting unit is in excess of its carrying value by approximately 4%, as compared to approximately 9% based on the June 1, 2019 valuation date.

The Company continued to monitor industry and market trends during the three months ended February 29, 2020 and concluded that no event occurred or circumstances changed that would more likely than not reduce the fair value of its reporting units or intangible asset below its carrying value as of February 29, 2020.

The determination of the fair value of the reporting units requires us to make significant estimates and assumptions. Although the Company believes its estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of any goodwill impairment charge, or both. These estimates can be affected by a number of factors including, but not limited to, general economic conditions, availability of market information as well as our profitability.

Changes in the carrying amount of goodwill by reportable segment consist of the following (in millions):

| | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale | Walgreens Boots Alliance, Inc. |
|----------------------------------|--------------------------------|--|-------------------------------------|---|
| August 31, 2019 | \$ 10,491 | \$ 3,179 | \$ 2,890 | \$ 16,560 |
| Acquisitions | 47 | — | — | 47 |
| Currency translation adjustments | — | 84 | 97 | 181 |
| February 29, 2020 | \$ 10,538 | \$ 3,263 | \$ 2,987 | \$ 16,788 |

The carrying amount and accumulated amortization of intangible assets consist of the following (in millions):

| | <u>February 29, 2020</u> | <u>August 31, 2019</u> |
|---|--------------------------|------------------------|
| Gross amortizable intangible assets | | |
| Customer relationships and loyalty card holders | \$ 4,397 | \$ 4,290 |
| Favorable lease interests and non-compete agreements ¹ | 58 | 654 |
| Trade names and trademarks | 455 | 461 |
| Purchasing and payer contracts | 373 | 382 |
| Total gross amortizable intangible assets | 5,283 | 5,787 |
| Accumulated amortization | | |
| Customer relationships and loyalty card holders | \$ 1,437 | \$ 1,262 |
| Favorable lease interests and non-compete agreements ¹ | 26 | 410 |
| Trade names and trademarks | 255 | 250 |
| Purchasing and payer contracts | 103 | 99 |
| Total accumulated amortization | 1,821 | 2,021 |
| Total amortizable intangible assets, net | \$ 3,462 | \$ 3,766 |
| Indefinite-lived intangible assets | | |
| Trade names and trademarks | \$ 5,494 | \$ 5,232 |
| Pharmacy licenses | 1,972 | 1,878 |
| Total indefinite-lived intangible assets | \$ 7,466 | \$ 7,110 |
| Total intangible assets, net | \$ 10,929 | \$ 10,876 |

¹ Transferred favorable lease interest to right-of-use assets upon the adoption of ASC 842. Refer to note 17, new accounting pronouncements for additional information.

Amortization expense for intangible assets were \$117 million and \$235 million for the three and six months ended February 29, 2020, respectively, and \$139 million and \$273 million for the three and six months ended February 28, 2019, respectively.

Estimated future annual amortization expense for the next five fiscal years for intangible assets recorded at February 29, 2020 is as follows (in millions):

| | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>2024</u> | <u>2025</u> |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Estimated annual amortization expense | \$ 432 | \$ 413 | \$ 379 | \$ 360 | \$ 330 |

Note 7. Debt

Debt consists of the following (all amounts are presented in millions of U.S. dollars, unless otherwise indicated):

| | February 29, 2020 | August 31, 2019 |
|---|-------------------|------------------|
| Short-term debt ¹ | | |
| Commercial paper | \$ 2,517 | \$ 2,400 |
| Credit facilities ² | 2,512 | 1,624 |
| <i>\$8 billion note issuance</i> ^{3,4} | | |
| 2.700% unsecured notes due 2019 | — | 1,250 |
| <i>£700 million note issuance</i> ^{3,4} | | |
| 2.875% unsecured Pound sterling notes due 2020 | 513 | — |
| Other ⁵ | 443 | 464 |
| Total short-term debt | \$ 5,984 | \$ 5,738 |
| Long-term debt ¹ | | |
| <i>\$6 billion note issuance</i> ^{3,4} | | |
| 3.450% unsecured notes due 2026 | \$ 1,890 | \$ 1,890 |
| 4.650% unsecured notes due 2046 | 591 | 591 |
| <i>\$8 billion note issuance</i> ^{3,4} | | |
| 3.300% unsecured notes due 2021 | 1,247 | 1,247 |
| 3.800% unsecured notes due 2024 | 1,992 | 1,992 |
| 4.500% unsecured notes due 2034 | 496 | 495 |
| 4.800% unsecured notes due 2044 | 1,493 | 1,492 |
| <i>£700 million note issuance</i> ^{3,4} | | |
| 2.875% unsecured Pound sterling notes due 2020 | — | 488 |
| 3.600% unsecured Pound sterling notes due 2025 | 384 | 365 |
| <i>€750 million note issuance</i> ^{3,4} | | |
| 2.125% unsecured Euro notes due 2026 | 818 | 824 |
| <i>\$4 billion note issuance</i> ^{3,6} | | |
| 3.100% unsecured notes due 2022 | 1,197 | 1,197 |
| 4.400% unsecured notes due 2042 | 493 | 493 |
| Other ⁷ | 24 | 25 |
| Total long-term debt, less current portion | \$ 10,625 | \$ 11,098 |

¹ Carrying values are presented net of unamortized discount and debt issuance costs, where applicable, and foreign currency denominated debt has been translated using the spot rates at February 29, 2020 and August 31, 2019, respectively.

² Credit facilities primarily include debt outstanding under the various credit facilities described in more detail below.

³ The \$6 billion, \$8 billion, £0.7 billion, €0.75 billion, and \$4 billion note issuances as of February 29, 2020 had fair values and carrying values of \$2.6 billion and \$2.5 billion, \$5.5 billion and \$5.2 billion, \$0.9 billion and \$0.9 billion, \$0.9 billion and \$0.8 billion, and \$1.8 billion and \$1.7 billion, respectively. The fair values of the notes outstanding are Level 1 fair value measures and determined based on quoted market price and translated at the February 29, 2020 spot rate, as applicable. The fair values and carrying values of these issuances do not include notes that have been redeemed or repaid as of February 29, 2020.

⁴ Notes are unsubordinated debt obligations of Walgreens Boots Alliance and rank equally in right of payment with all other unsecured and unsubordinated indebtedness of Walgreens Boots Alliance from time to time outstanding.

⁵ Other short-term debt represents a mix of fixed and variable rate debt with various maturities and working capital facilities denominated in various currencies.

⁶ Notes are senior debt obligations of Walgreen Co. and rank equally with all other unsecured and unsubordinated indebtedness of Walgreen Co. On December 31, 2014, Walgreens Boots Alliance fully and unconditionally guaranteed the outstanding notes on an unsecured and unsubordinated basis. The guarantee, for so long as it is in place, is an unsecured, unsubordinated debt obligation of Walgreens Boots Alliance and will rank equally in right of payment with all other unsecured and unsubordinated indebtedness of Walgreens Boots Alliance.

⁷ Other long-term debt represents a mix of fixed and variable rate debt in various currencies with various maturities.

August 2019 Revolving Credit Agreements

On August 30, 2019, the Company entered into three \$500 million revolving credit agreements (together, the “August 2019 Revolving Credit Agreements” and each individually, an “August 2019 Revolving Credit Agreement”) with the lenders from time to time party thereto. Each of the August 2019 Revolving Credit Agreements are senior unsecured revolving credit facilities, with facility termination dates of the earlier of (a) 18 months following August 30, 2019, subject to extension thereof pursuant to the applicable August 2019 Revolving Credit Agreement, and (b) the date of termination in whole of the aggregate amount of the commitments pursuant to the applicable August 2019 Revolving Credit Agreement. As of February 29, 2020, there were no borrowings outstanding under the August 2019 Revolving Credit Agreements.

January 2019 364-Day Revolving Credit Agreement

On January 18, 2019, the Company entered into a \$2.0 billion 364-day revolving credit agreement (as extended, the “January 2019 364-Day Revolving Credit Agreement”) with the lenders from time to time party thereto. The January 2019 364-Day Revolving Credit Agreement is a senior unsecured 364-day revolving credit facility, with a facility termination date of the earlier of (a) 364 days following January 31, 2019, the date of the effectiveness of the commitments pursuant to the January 364-Day Revolving Credit Agreement, subject to extension thereof pursuant to the January 2019 364-Day Revolving Credit Agreement, and (b) the date of termination in whole of the aggregate amount of the commitments pursuant to the January 2019 364-Day Revolving Credit Agreement. On December 18, 2019, the Company entered into an Extension Agreement (the “Extension Agreement”) relating to the January 2019 364-Day Revolving Credit Agreement with the lenders party thereto and Mizuho, as administrative agent. The Extension Agreement extends the Maturity Date (as defined in the Credit Agreement) for an additional period of 364 days to January 28, 2021. Such extension became effective on January 30, 2020. As of February 29, 2020, there were \$0.6 billion of borrowings outstanding under the January 364-Day Revolving Credit Agreement.

December 2018 Revolving Credit Agreement

On December 21, 2018, the Company entered into a \$1.0 billion revolving credit agreement (the “December 2018 Revolving Credit Agreement”) with the lenders from time to time party thereto. The December 2018 Revolving Credit Agreement is a senior unsecured revolving credit facility with a facility termination date of the earlier of (a) 18 months following January 28, 2019, the date of the effectiveness of the commitments pursuant to the December 2018 Revolving Credit Agreement, subject to extension thereof pursuant to the December 2018 Revolving Credit Agreement, and (b) the date of termination in whole of the aggregate amount of the commitments pursuant to the December 2018 Revolving Credit Agreement. As of February 29, 2020, there were \$0.1 billion of borrowings outstanding under the December 2018 Revolving Credit Agreement.

December 2018 Credit Agreement

On December 5, 2018, Walgreens Boots Alliance entered into a \$1.0 billion term loan credit agreement (as amended, the “December 2018 Credit Agreement”) with the lenders from time to time party thereto and, on August 9, 2019, the Company entered into an amendment to such credit agreement to permit the Company to borrow, repay and reborrow amounts borrowed thereunder prior to the maturity date. The December 2018 Credit Agreement is a senior unsecured revolving facility with a facility termination date of the earlier of (a) January 29, 2021, subject to extension thereof pursuant to the December 2018 Credit Agreement, and (b) the date of termination in whole of the aggregate amount of the commitments pursuant to the December 2018 Credit Agreement. As of February 29, 2020, there were \$1.0 billion of borrowings outstanding under the December 2018 Credit Agreement.

November 2018 Credit Agreement

On November 30, 2018, the Company entered into a credit agreement (as amended, the “November 2018 Credit Agreement”) with the lenders from time to time party thereto and, on March 25, 2019, the Company entered into an amendment to such credit agreement reflecting certain changes to the borrowing notice provisions thereto. The November 2018 Credit Agreement includes a \$500 million senior unsecured revolving credit facility and a \$500 million senior unsecured term loan facility. The facility termination date is, with respect to the revolving credit facility, the earlier of (a) May 30, 2020 and (b) the date of termination in whole of the aggregate amount of the revolving commitments pursuant to the November 2018 Credit Agreement and, with respect to the term loan facility, the earlier of (a) May 30, 2020 and (b) the date of acceleration of all term loans pursuant to the November 2018 Credit Agreement. As of February 29, 2020, there were \$0.9 billion of borrowings outstanding under the November 2018 Credit Agreement.

August 2018 Revolving Credit Agreement

On August 29, 2018, the Company entered into a revolving credit agreement (the “August 2018 Revolving Credit Agreement”) with the lenders and letter of credit issuers from time to time party thereto. The August 2018 Revolving Credit Agreement is an unsecured revolving credit facility with an aggregate commitment in the amount of \$3.5 billion, with a letter of credit subfacility commitment amount of \$0.5 billion. The facility termination date is the earlier of (a) August 29, 2023, subject to extension thereof pursuant to the August 2018 Revolving Credit Agreement, and (b) the date of termination in whole of the aggregate amount of the revolving commitments pursuant to the August 2018 Revolving Credit Agreement. As of February 29, 2020, there were no borrowings outstanding under the August 2018 Revolving Credit Agreement.

Debt covenants

Each of the Company’s credit facilities described above contain a covenant to maintain, as of the last day of each fiscal quarter, a ratio of consolidated debt to total capitalization not to exceed 0.60:1.00, subject to increase in certain circumstances set forth in the applicable credit agreement. The credit facilities contain various other customary covenants.

Commercial paper

The Company periodically borrows under its commercial paper program and may borrow under it in future periods. The Company had average daily commercial paper outstanding of \$3.0 billion and \$2.4 billion of at a weighted average interest rate of 2.42% and 2.96% for the six months ended February 29, 2020 and February 28, 2019, respectively.

Interest

Interest paid was \$337 million and \$349 million for the six months ended February 29, 2020 and February 28, 2019, respectively.

Note 8. Financial instruments

The Company uses derivative instruments to manage its exposure to interest rate and foreign currency exchange risks.

The Company has non-U.S. dollar denominated net investments and uses foreign currency denominated financial instruments, specifically foreign currency derivatives and foreign currency denominated debt, to hedge its foreign currency risk.

The Company utilizes foreign currency forward contracts and other foreign currency derivatives to hedge significant committed and highly probable future transactions and cash flows denominated in currencies other than the functional currency of the Company or its subsidiaries.

The Company uses interest rate swaps from time to time to manage the interest rate exposure associated with some of its fixed-rate debt and designates them as fair value hedges. From time to time, the Company uses forward starting interest rate swaps to hedge its interest rate exposure of some of its anticipated debt issuances.

The notional amounts and fair value of derivative instruments outstanding were as follows (in millions):

| February 29, 2020 | Notional | Fair value | Location in Consolidated Condensed Balance Sheets |
|--|----------|------------|---|
| Derivatives designated as hedges: | | | |
| Cross currency interest rate swaps | \$ 851 | \$ 42 | Other non-current assets |
| Foreign currency forwards | 378 | 7 | Other current assets |
| Cross currency interest rate swaps | 100 | 1 | Other current assets |
| Cross currency interest rate swaps | 206 | 4 | Other non-current liabilities |
| Derivatives not designated as hedges: | | | |
| Foreign currency forwards | 2,873 | 52 | Other current assets |
| Foreign currency forwards | 1,265 | 9 | Other current liabilities |

| August 31, 2019 | Notional | Fair value | Location in Consolidated Condensed Balance Sheets |
|--|----------|------------|---|
| Derivatives designated as hedges: | | | |
| Cross currency interest rate swaps | \$ 800 | \$ 73 | Other non-current assets |
| Foreign currency forwards | 18 | 1 | Other current assets |
| Derivatives not designated as hedges: | | | |
| Foreign currency forwards | 3,485 | 87 | Other current assets |
| Foreign currency forwards | 707 | 6 | Other current liabilities |

Net investment hedges

The Company uses cross currency interest rate swaps and foreign currency forwards as hedges of net investments in subsidiaries with non-U.S. dollar functional currencies. For qualifying net investment hedges, changes in the fair value of the derivatives are recorded in the currency translation adjustment within accumulated other comprehensive income (loss).

Derivatives not designated as hedges

The Company enters into derivative transactions that are not designated as accounting hedges. These derivative instruments are economic hedges of foreign currency risks. The income (expenses) due to changes in fair value of these derivative instruments were recognized in earnings as follows (in millions):

| | Location in Consolidated Condensed Statements of Earnings | Three months ended | | Six months ended | |
|---------------------------|---|--------------------|-------------------|-------------------|-------------------|
| | | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Foreign currency forwards | Selling, general and administrative expenses | \$ 13 | \$ (106) | \$ (61) | \$ (60) |
| Foreign currency forwards | Other income | (7) | (6) | 4 | (2) |

Derivatives credit risk

Counterparties to derivative financial instruments expose the Company to credit-related losses in the event of counterparty nonperformance, and the Company regularly monitors the credit worthiness of each counterparty.

Derivatives offsetting

The Company does not offset the fair value amounts of derivative instruments subject to master netting agreements in the Consolidated Condensed Balance Sheets.

Note 9. Fair value measurements

The Company measures certain assets and liabilities in accordance with Accounting Standards Codification (“ASC”) Topic 820, Fair Value Measurements and Disclosures, which defines fair value as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. In addition, it establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels:

Level 1 - Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Observable inputs other than quoted prices in active markets.

Level 3 - Unobservable inputs for which there is little or no market data available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Assets and liabilities measured at fair value on a recurring basis were as follows (in millions):

| | February 29, 2020 | Level 1 | Level 2 | Level 3 |
|---|-------------------|---------|---------|---------|
| Assets: | | | | |
| Money market funds ¹ | \$ 146 | \$ 146 | \$ — | \$ — |
| Investments in equity securities ² | 4 | 4 | — | — |
| Foreign currency forwards ³ | 59 | — | 59 | — |
| Cross currency interest rate swaps ⁴ | 43 | — | 43 | — |
| Liabilities: | | | | |
| Foreign currency forwards ³ | 9 | — | 9 | — |
| Cross currency interest rate swaps ⁴ | 4 | — | 4 | — |

| | August 31, 2019 | Level 1 | Level 2 | Level 3 |
|---|-----------------|---------|---------|---------|
| Assets: | | | | |
| Money market funds ¹ | \$ 217 | \$ 217 | \$ — | \$ — |
| Investments in equity securities ² | 5 | 5 | — | — |
| Foreign currency forwards ³ | 88 | — | 88 | — |
| Cross currency interest rate swaps ⁴ | 73 | — | 73 | — |
| Liabilities: | | | | |
| Foreign currency forwards ³ | 6 | — | 6 | — |

¹ Money market funds are valued at the closing price reported by the fund sponsor.

² Fair values of quoted investments are based on current bid prices as of February 29, 2020 and August 31, 2019.

³ The fair value of forward currency contracts is estimated by discounting the difference between the contractual forward price and the current available forward price for the residual maturity of the contract using observable market rates. See note 8, financial instruments, for additional information.

⁴ The fair value of cross currency interest rate swaps is calculated by discounting the estimated future cash flows based on the applicable observable yield curves. See note 8, financial instruments, for additional information.

There were no transfers between Levels for the three and six months ended February 29, 2020.

The Company reports its debt instruments under the guidance of ASC Topic 825, Financial Instruments, which requires disclosure of the fair value of the Company's debt in the footnotes to the consolidated financial statements. Unless otherwise noted, the fair value for all notes was determined based upon quoted market prices and therefore categorized as Level 1. See note 7, debt, for further information. The carrying values of accounts receivable and trade accounts payable approximated their respective fair values due to their short-term nature.

Note 10. Commitments and contingencies

The Company is involved in legal proceedings, including litigation, arbitration and other claims, and investigations, inspections, subpoenas, audits, claims, inquiries and similar actions by pharmacy, healthcare, tax and other governmental authorities, arising in the normal course of the Company's business, including the matters described below. Legal proceedings, in general, and securities, class action and multi-district litigation, in particular, can be expensive and disruptive. Some of these suits may purport or may be determined to be class actions and/or involve parties seeking large and/or indeterminate amounts, including punitive or exemplary damages, and may remain unresolved for several years. From time to time, the Company is also involved in legal proceedings as a plaintiff involving antitrust, tax, contract, intellectual property and other matters. Gain contingencies, if any, are recognized when they are realized.

Like other companies in the retail pharmacy and pharmaceutical wholesale industries, the Company is subject to extensive regulation by national, state and local government agencies in the United States and other countries in which it operates. There continues to be a heightened level of review and/or audit by regulatory authorities of, and increased litigation regarding, the Company's and the rest of the health care and related industry's business, compliance and reporting practices. As a result, the Company regularly is the subject of government actions of the types described above. The Company also may be named from time to time in qui tam actions initiated by private third parties. In such actions, the private parties purport to act on behalf of federal or state governments, allege that false claims have been submitted for payment by the government and may receive an award if their claims are successful. After a private party has filed a qui tam action, the government must investigate the private party's claim and determine whether to intervene in and take control over the litigation. These actions may remain under seal while the government makes this determination. If the government declines to intervene, the private party may nonetheless continue to pursue the litigation on his or her own purporting to act on behalf of the government.

The results of legal proceedings, including government investigations, are often uncertain and difficult to predict, and the costs incurred in these matters can be substantial, regardless of the outcome. With respect to litigation and other legal proceedings where the Company has determined that a loss is reasonably possible, the Company is unable to estimate the amount or range of reasonably possible loss due to the inherent difficulty of predicting the outcome of and uncertainties regarding such litigation and legal proceedings. The Company believes that its defenses and assertions in pending legal proceedings have merit and does not believe that any of these pending matters, after consideration of applicable reserves and rights to indemnification, will have a material adverse effect on the Company's consolidated financial position. However, substantial unanticipated verdicts, fines and rulings do sometimes occur. As a result, the Company could from time to time incur judgments, enter into settlements or revise its expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on its results of operations in the period in which the amounts are accrued and/or its cash flows in the period in which the amounts are paid. In addition, as a result of governmental investigations or proceedings, the Company may be subject to damages, civil or criminal fines or penalties, or other sanctions, including the possible suspension or loss of licensure and/or suspension or exclusion from participation in government programs.

On December 29, 2014, a putative shareholder filed a derivative action in federal court in the Northern District of Illinois against certain current and former directors and officers of Walgreen Co., and Walgreen Co. as a nominal defendant, arising out of certain public statements the Company made regarding its former fiscal 2016 goals. The action asserts claims for breach of fiduciary duty, waste and unjust enrichment. On April 10, 2015, the defendants filed a motion to dismiss. On May 18, 2015, the case was stayed in light of a securities class action that was filed on April 10, 2015. After a ruling issued on September 30, 2016 in the securities class action, which is described below, on November 3, 2016, the Court entered a stipulation and order extending the stay until the resolution of the securities class action.

On April 10, 2015, a putative shareholder filed a securities class action in federal court in the Northern District of Illinois against Walgreen Co. and certain former officers of Walgreen Co. The action asserts claims for violation of the federal securities laws arising out of certain public statements the Company made regarding its former fiscal 2016 goals. On June 16, 2015, the Court entered an order appointing a lead plaintiff. Pursuant to the Court's order, lead plaintiff filed a consolidated class action complaint on August 17, 2015, and defendants moved to dismiss the complaint on October 16, 2015. On September 30, 2016, the Court issued an order granting in part and denying in part defendants' motion to dismiss. Defendants filed their answer to the complaint on November 4, 2016 and filed an amended answer on January 16, 2017. Plaintiff filed its motion for class certification on April 21, 2017. The Court granted plaintiffs' motion on March 29, 2018 and merits discovery is proceeding. On December 19, 2018, plaintiffs filed a first amended complaint and defendants moved to dismiss the new complaint on February 19, 2019. On September 23, 2019, the Court issued an order granting in part and denying in part defendants' motion to dismiss. Discovery is proceeding.

On December 11, 2017, purported Rite Aid shareholders filed an amended complaint in a putative class action lawsuit in the United States District Court for the Middle District of Pennsylvania (the "M.D. Pa. action") arising out of transactions contemplated by the merger agreement between the Company and Rite Aid. The amended complaint alleged that the Company and certain of its officers made false or misleading statements regarding the transactions. The Court denied the Company's motion to dismiss the amended complaint on April 15, 2019. The Company filed an answer and affirmative defenses, discovery commenced, and the Court granted plaintiffs' motion for class certification.

In June 2019, a Fred's, Inc. shareholder filed a nearly identical lawsuit to the M.D. Pa. action in the United States District Court for the Western District of Tennessee, except naming Fred's, Inc. and one of its former officers along with the Company and certain of its officers. Lead plaintiffs filed an amended complaint on November 4, 2019, which is substantially the same as the original complaint. The Company's motion to dismiss to the amended complaint is fully briefed and awaits the Court's ruling.

As previously disclosed, the Company was also named as a defendant in a putative class action lawsuit similar to the M.D. Pa. action filed in State of Pennsylvania in the Court of Common Pleas of Cumberland County, which was terminated by the court for lack of prosecution in November 2018.

In December 2017, the United States Judicial Panel on Multidistrict Litigation consolidated numerous cases filed against an array of defendants by various plaintiffs such as counties, cities, hospitals, Indian tribes and others, alleging claims generally concerning the impacts of widespread opioid abuse. The consolidated multidistrict litigation (“MDL”), captioned In re National Prescription Opiate Litigation (MDL No. 2804), is pending in the U.S. District Court for the Northern District of Ohio (“N.D. Ohio”). The Company is named as a defendant in a subset of the cases included in this MDL. The first bellwether trial in the MDL, which had been scheduled for October 2019, was terminated. The MDL court selected several new bellwether cases, including three involving the Company: (1) one to remain in N.D. Ohio, scheduled for trial in November 2020; (2) one to be remanded to the United States District Court for the Southern District of West Virginia; and (3) one to be remanded to the United States District Court for the Eastern District of Oklahoma. Plaintiffs in the West Virginia action subsequently severed their claims against the Company from that matter, and plaintiffs in another bellwether case remanded to the United States District Court for the Northern District of California have added the Company to that case. The Company also has been named as a defendant in numerous lawsuits brought in state courts relating to opioid matters. The relief sought by various plaintiffs is compensatory and punitive damages, as well as injunctive relief. Additionally, the Company has received from the Department of Justice and the Attorney Generals of numerous states subpoenas, civil investigative demands, and/or other requests concerning opioid matters. As discussed above, legal proceedings, including government investigations, are often uncertain and difficult to predict, and the costs and penalties incurred in these matters can be substantial.

On January 22, 2019, the Company announced that it had reached an agreement to resolve a civil investigation involving allegations under the False Claims Act by a United States Attorney’s Office, working in conjunction with several states, regarding certain dispensing practices. Pursuant to the agreement, the Company paid \$209 million to the United States and the various states involved in the matter, substantially all of which was reserved for in the Company’s Consolidated Condensed Financial Statements as of November 30, 2018.

Note 11. Income taxes

The effective tax rate for the three and six months ended February 29, 2020 was 14.6% and 9.7%, respectively, compared to 16.7% and 15.5% for the three and six months ended February 28, 2019, respectively. The decrease in the effective tax rate for the three months ended February 29, 2020 was primarily due to the mix of earnings between U.S and international operations. The decrease in the effective tax rate for the six months ended February 29, 2020 was primarily due to discrete tax benefits recorded from the reduction of a valuation allowance on net deferred tax assets related to anticipated capital gains.

Income taxes paid for the six months ended February 29, 2020 were \$592 million, compared to \$766 million for the six months ended February 28, 2019.

On December 2, 2019, the Internal Revenue Service issued final regulations relating to the base erosion and anti-avoidance tax (“BEAT”) provisions and the foreign tax credit regime under the U.S. tax law changes enacted in December 2017. The Company has evaluated the impact of the regulations and determined that there is no material impact to its financial statements.

Note 12. Retirement benefits

The Company sponsors several retirement plans, including defined benefit plans, defined contribution plans and a postretirement health plan.

Defined benefit pension plans (non-U.S. plans)

The Company has various defined benefit pension plans outside the United States. The principal defined benefit pension plan is the Boots Pension Plan (the “Boots Plan”), which covers certain employees in the United Kingdom. The Boots Plan is a funded final salary defined benefit plan providing pensions and death benefits to members. The Boots Plan was closed to future accrual effective July 1, 2010, with pensions calculated based on salaries up until that date. The Boots Plan is governed by a trustee board, which is independent of the Company. The plan is subject to a full funding actuarial valuation on a triennial basis.

Components of net periodic pension costs for the defined benefit pension plans (in millions):

| | Location in Consolidated Condensed Statements of Earnings | Three months ended | | Six months ended | |
|--|---|--------------------|-------------------|-------------------|-------------------|
| | | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Service costs | Selling, general and administrative expenses | \$ 1 | \$ 1 | \$ 2 | \$ 2 |
| Interest costs | Other income | 37 | 50 | 72 | 99 |
| Expected returns on plan assets/other | Other income | (73) | (64) | (144) | (124) |
| Total net periodic pension costs (income) | | \$ (35) | \$ (13) | \$ (69) | \$ (23) |

The Company made cash contributions to its defined benefit pension plans of \$10 million for the six months ended February 29, 2020, which primarily related to committed funded payments. The Company plans to contribute an additional \$22 million to its defined benefit pension plans in fiscal 2020.

Defined contribution plans

The principal retirement plan for U.S. employees is the Walgreen Profit-Sharing Retirement Trust, to which both the Company and participating employees contribute. The Company's contribution is in the form of a guaranteed match which is made pursuant to the applicable plan document approved by the Walgreen Co. Board of Directors. Plan activity is reviewed periodically by certain Committees of the Walgreens Boots Alliance Board of Directors. The profit-sharing provision was an expense of \$55 million and \$113 million for the three and six months ended February 29, 2020, respectively, compared to an expense of \$64 million and \$125 million for the three and six months ended February 28, 2019, respectively.

The Company also has certain contract based defined contribution arrangements. The principal one is the Alliance Healthcare & Boots Retirement Savings Plan, which is United Kingdom based and to which both the Company and participating employees contribute. The cost recognized for the three and six months ended February 29, 2020 was \$29 million and \$67 million, respectively, compared to a cost of \$33 million and \$64 million in the three and six months ended February 28, 2019, respectively.

Note 13. Accumulated other comprehensive income (loss)

The following is a summary of net changes in accumulated other comprehensive income ("AOCI") by component and net of tax for the three and six months ended February 29, 2020 and February 28, 2019 (in millions):

| | Pension/ post-retirement obligations | Unrealized gain (loss) on cash flow hedges | Net investment hedges | Share of OCI of equity method investments | Cumulative translation adjustments | Total |
|---|--------------------------------------|--|-----------------------|---|------------------------------------|-------------------|
| Balance at November 30, 2019 | \$ (55) | \$ (24) | \$ 14 | \$ (5) | \$ (3,242) | \$ (3,313) |
| Other comprehensive income (loss) before reclassification adjustments | 4 | — | 27 | 6 | (121) | (84) |
| Amounts reclassified from AOCI | (3) | 1 | — | — | — | (2) |
| Tax benefit (provision) | (2) | — | (7) | (2) | 3 | (8) |
| Net change in other comprehensive income (loss) | (1) | 1 | 21 | 4 | (119) | (94) |
| Balance at February 29, 2020 | \$ (57) | \$ (24) | \$ 34 | \$ (1) | \$ (3,360) | \$ (3,407) |

| | Pension/ post-retirement obligations | Unrealized gain (loss) on cash flow hedges | Net investment hedges | Share of OCI of equity method investments | Cumulative translation adjustments | Total |
|---|--------------------------------------|--|-----------------------|---|------------------------------------|-------------------|
| Balance at August 31, 2019 | \$ (48) | \$ (24) | \$ 55 | \$ 3 | \$ (3,884) | \$ (3,897) |
| Other comprehensive income (loss) before reclassification adjustments | (8) | (1) | (28) | (5) | 520 | 479 |
| Amounts reclassified from AOCI | (1) | 3 | — | — | — | 2 |
| Tax benefit (provision) | (1) | (1) | 7 | — | 3 | 9 |
| Net change in other comprehensive income (loss) | (9) | 1 | (21) | (5) | 524 | 490 |
| Balance at February 29, 2020 | \$ (57) | \$ (24) | \$ 34 | \$ (1) | \$ (3,360) | \$ (3,407) |

| | Pension/ post-retirement obligations | Unrealized gain (loss) on cash flow hedges ¹ | Net investment hedges ¹ | Share of AOCI of equity method investments | Cumulative translation adjustments | Total |
|---|--------------------------------------|---|------------------------------------|--|------------------------------------|-------------------|
| Balance at November 30, 2018 | \$ 97 | \$ (27) | \$ — | \$ 4 | \$ (3,305) | \$ (3,231) |
| Other comprehensive income (loss) before reclassification adjustments | — | (3) | (16) | (2) | 537 | 516 |
| Amounts reclassified from AOCI | (4) | 2 | — | — | — | (2) |
| Other | — | — | — | — | 7 | 7 |
| Tax benefit (provision) | 2 | — | 4 | — | (1) | 5 |
| Net change in other comprehensive income (loss) | (2) | (1) | (12) | (2) | 543 | 526 |
| Balance at February 28, 2019 | \$ 95 | \$ (28) | \$ (12) | \$ 2 | \$ (2,762) | \$ (2,705) |

| | Pension/ post-retirement obligations | Unrealized gain (loss) on cash flow hedges ¹ | Net investment hedges ¹ | Share of AOCI of equity method investments | Cumulative translation adjustments | Total |
|---|--------------------------------------|---|------------------------------------|--|------------------------------------|-------------------|
| Balance at August 31, 2018 | \$ 101 | \$ (30) | \$ — | \$ 3 | \$ (3,076) | \$ (3,002) |
| Other comprehensive income (loss) before reclassification adjustments | — | — | (16) | (1) | 309 | 292 |
| Amounts reclassified from AOCI | (8) | 3 | — | — | — | (5) |
| Other | — | — | — | — | 7 | 7 |
| Tax benefit (provision) | 2 | (1) | 4 | — | (2) | 3 |
| Net change in other comprehensive income (loss) | (6) | 2 | (12) | (1) | 314 | 297 |
| Balance at February 28, 2019 | \$ 95 | \$ (28) | \$ (12) | \$ 2 | \$ (2,762) | \$ (2,705) |

¹ Previously disclosed as Unrealized gain (loss) on hedges.

Note 14. Segment reporting

The Company has aligned its operations into three reportable segments: Retail Pharmacy USA, Retail Pharmacy International and Pharmaceutical Wholesale. The operating segments have been identified based on the financial data utilized by the Company's Chief Executive Officer (the chief operating decision maker) to assess segment performance and allocate resources among the Company's operating segments. The chief operating decision maker uses adjusted operating income to assess segment profitability. The chief operating decision maker does not use total assets by segment to make decisions regarding resources; therefore, the total asset disclosure by segment has not been included.

Retail Pharmacy USA

The Retail Pharmacy USA segment consists of the Walgreens business, which includes the operation of retail drugstores and mail and central specialty pharmacy services. Sales for the segment are principally derived from the sale of prescription drugs and a wide assortment of retail products, including health and wellness, beauty and personal care and consumables and general merchandise.

Retail Pharmacy International

The Retail Pharmacy International segment consists of pharmacy-led health and beauty retail businesses and optical practices. These businesses include Boots branded stores in the United Kingdom, Thailand, Norway, the Republic of Ireland and the Netherlands, Benavides in Mexico and Ahumada in Chile. Sales for the segment are principally derived from the sale of prescription drugs and health and wellness, beauty and personal care and other consumer products.

Pharmaceutical Wholesale

The Pharmaceutical Wholesale segment consists of the Alliance Healthcare pharmaceutical wholesaling and distribution businesses and an equity method investment in AmerisourceBergen. Wholesale operations are located in the United Kingdom, Germany, France, Turkey, Spain, the Netherlands, Egypt, Norway, Romania, Czech Republic and Lithuania. Sales for the segment are principally derived from wholesaling and distribution of a comprehensive offering of brand-name pharmaceuticals (including specialty pharmaceutical products) and generic pharmaceuticals, health and beauty products, home healthcare supplies and equipment and related services to pharmacies and other healthcare providers.

The results of operations for each reportable segment includes procurement benefits and an allocation of corporate-related overhead costs. The "Eliminations" lines contain items not allocable to the reportable segments, as the information is not utilized by the chief operating decision maker to assess segment performance and allocate resources.

The following table reflects results of operations of the Company's reportable segments (in millions):

| | Three months ended | | Six months ended | |
|---------------------------------------|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Sales: | | | | |
| Retail Pharmacy USA | \$ 27,245 | \$ 26,257 | \$ 53,377 | \$ 51,979 |
| Retail Pharmacy International | 3,056 | 3,082 | 5,801 | 5,982 |
| Pharmaceutical Wholesale | 6,066 | 5,738 | 12,072 | 11,446 |
| Eliminations ¹ | (546) | (549) | (1,091) | (1,086) |
| Walgreens Boots Alliance, Inc. | \$ 35,820 | \$ 34,528 | \$ 70,160 | \$ 68,321 |
| Adjusted Operating income: | | | | |
| Retail Pharmacy USA | \$ 1,267 | \$ 1,455 | \$ 2,423 | \$ 2,834 |
| Retail Pharmacy International | 198 | 256 | 276 | 388 |
| Pharmaceutical Wholesale | 235 | 225 | 464 | 445 |
| Eliminations ¹ | 2 | (1) | 2 | — |
| Walgreens Boots Alliance, Inc. | \$ 1,703 | \$ 1,935 | \$ 3,166 | \$ 3,667 |

¹ Eliminations relate to intersegment sales between the Pharmaceutical Wholesale and the Retail Pharmacy International segments.

The following table reconciles adjusted operating income to operating income (in millions):

| | Three months ended | | Six months ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Adjusted operating income | \$ 1,703 | \$ 1,935 | \$ 3,166 | \$ 3,667 |
| Acquisition-related amortization and impairment | (117) | (123) | (235) | (246) |
| Acquisition-related costs | (99) | (82) | (223) | (148) |
| Transformational cost management | (123) | (150) | (209) | (179) |
| Adjustments to equity earnings in AmerisourceBergen | (73) | (9) | (152) | (54) |
| LIFO provision | (28) | (8) | (61) | (48) |
| Store optimization | (30) | (31) | (39) | (51) |
| Certain legal and regulatory accruals and settlements | — | (14) | — | (24) |
| Operating income | \$ 1,233 | \$ 1,517 | \$ 2,247 | \$ 2,918 |

Note 15. Sales

The following table summarizes the Company's sales by segment and by major source (in millions):

| | Three months ended | | Six months ended | |
|---------------------------------------|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Retail Pharmacy USA | | | | |
| Pharmacy | \$ 19,901 | \$ 18,892 | \$ 39,606 | \$ 38,039 |
| Retail | 7,344 | 7,366 | 13,772 | 13,940 |
| Total | 27,245 | 26,257 | 53,377 | 51,979 |
| Retail Pharmacy International | | | | |
| Pharmacy | 1,025 | 1,010 | 2,026 | 2,049 |
| Retail | 2,031 | 2,072 | 3,775 | 3,933 |
| Total | 3,056 | 3,082 | 5,801 | 5,982 |
| Pharmaceutical Wholesale | 6,066 | 5,738 | 12,072 | 11,446 |
| Eliminations¹ | (546) | (549) | (1,091) | (1,086) |
| Walgreens Boots Alliance, Inc. | \$ 35,820 | \$ 34,528 | \$ 70,160 | \$ 68,321 |

¹ Eliminations relate to intersegment sales between the Pharmaceutical Wholesale and the Retail Pharmacy International segments.

Contract balances with customers

Contract liabilities primarily represent the Company's obligation to transfer additional goods or services to a customer for which the Company has received consideration, for example the Company's Balance Rewards® and Boots Advantage Card loyalty programs. Under such programs, customers earn reward points on purchases for redemption at a later date. See note 18, supplemental information, for further information on receivables from contracts with customers.

Note 16. Related parties

The Company has a long-term pharmaceutical distribution agreement with AmerisourceBergen pursuant to which the Company sources branded and generic pharmaceutical products from AmerisourceBergen principally for its U.S. operations. Additionally, AmerisourceBergen receives sourcing services for generic pharmaceutical products.

Related party transactions with AmerisourceBergen (in millions):

| | Three months ended | | Six months ended | |
|-----------------------------|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Purchases, net | \$ 14,932 | \$ 14,064 | \$ 29,408 | \$ 28,386 |
| | | | February 29, 2020 | August 31, 2019 |
| Trade accounts payable, net | | | \$ 6,747 | \$ 6,484 |

Note 17. New accounting pronouncements

Adoption of new accounting pronouncements

Financial instruments - hedging and derivatives

In October 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (“SOFR”) Overnight Index Swap (“OIS”) Rate as Benchmark Interest Rate for Hedge Accounting Purposes. This ASU permits use of the OIS rate based on the SOFR as a U.S. benchmark interest rate for hedge accounting purposes. The Company adopted this new accounting standard on September 1, 2019 on a prospective basis. The adoption of this ASU had no impact on the Company’s results of operations, cash flows or financial position.

Intangibles – goodwill and other – internal-use software

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40). This ASU addresses customer’s accounting for implementation costs incurred in a cloud computing arrangement that is a service contract and also adds certain disclosure requirements related to implementation costs incurred for internal-use software and cloud computing arrangements. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The Company early adopted this new accounting standard on September 1, 2019 on a prospective basis. The adoption of this ASU did not have a material impact on the Company’s results of operations or financial position.

Contributions made

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). This ASU clarifies and improves guidance about whether a transfer of assets (or reduction of liabilities) is a contribution or an exchange transaction, and whether a contribution is conditional. The ASU applies to all entities, including business entities, that receive or make contributions of cash or other assets, including promises to give. The Company adopted this new accounting standard on September 1, 2019 on a prospective basis. The adoption of this ASU did not have a material impact on the Company’s results of operations or financial position.

Compensation – stock compensation

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718). This ASU eliminated most of the differences between accounting guidance for share-based compensation granted to nonemployees and the guidance for share-based compensation granted to employees. The ASU supersedes the guidance for nonemployees and expands the scope of the guidance for employees to include both. The Company adopted this new accounting standard on September 1, 2019. The adoption of this ASU had no impact on the Company’s results of operations, cash flows or financial position.

Accounting for reclassification of certain tax effects from accumulated other comprehensive income

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU addresses the income tax effects of items in accumulated other comprehensive income (“AOCI”) which were originally recognized in other comprehensive income, rather than in income from continuing operations. Specifically, it permits a reclassification from AOCI to retained earnings for the adjustment of deferred taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate resulting from the U.S. tax law changes enacted in December 2017. It also requires

certain disclosures about these reclassifications. The Company adopted this new accounting standard on September 1, 2019 on a prospective basis. The Company elected not to reclassify the income tax effects of change in historical corporate tax rate from AOCI to retained earnings. The adoption of this ASU had no impact on the Company's results of operations, cash flows or financial position.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes Topic 840, Leases. Subsequently, the FASB issued additional ASUs which further clarify this guidance. This ASU increases the transparency and comparability of organizations by requiring the capitalization of substantially all leases on the balance sheet and disclosures of key information about leasing arrangements. Under this new guidance, at the lease commencement date, a lessee recognizes a right-of-use asset and lease liability, which is initially measured at the present value of the future lease payments. For income statement purposes, a dual model was retained for lessees, requiring leases to be classified as either operating or finance leases. Under the operating lease model, lease expense is recognized on a straight-line basis over the lease term. Under the finance lease model, interest on the lease liability is recognized separately from amortization of the right-of-use asset. In addition, a new ASU was issued in July 2018, to provide relief to companies from restating the comparative periods.

The Company adopted this new accounting standard on September 1, 2019 on a modified retrospective basis and applied the new standard to all leases through a cumulative-effect adjustment to beginning retained earnings. As a result, comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company elected the package of practical expedients permitted under the transition guidance, which among other things, allows the carryforward of historical lease classification. The adoption of this new accounting standard resulted in recognition of lease liabilities of \$24 billion and recognition of right-of-use assets of \$22 billion net of liabilities for facility closing, deferred rent, favorable lease interest intangible asset, unfavorable lease interest liability, lease incentives and prepaid rent as of August 31, 2019. The adoption also resulted in a decrease to retained earnings of \$0.4 billion due to transition date impairment of right-of-use assets related to previously impaired long-lived assets of \$0.8 billion, net of tax, partially offset by de-recognition of deferred gains on historical sale-leaseback transactions of \$0.4 billion, net of tax. See note 4. Leases for further information.

The following is the Company's lease accounting policy under the new lease accounting standard:

The Company determines if an arrangement contains a lease at the inception of a contract. The lease classification is determined at the commencement date. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease during the lease term. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of the remaining future minimum lease payments during the lease term. The commencement date of all lease terms is the earlier of the date the Company becomes legally obligated to make rent payments or the date the Company has the right to control the property. The Company utilizes its incremental borrowing rate to discount the lease payments. The incremental borrowing rate is based on the Company's estimated rate of interest for a collateralized borrowing over a similar term as the lease term. The operating lease right-of-use assets also include lease payments made before commencement, exclude lease incentives and are recorded net of impairment. Operating leases are expensed on a straight line basis over the lease term.

Initial terms for leased premises in the United States are typically 15 to 25 years, followed by additional terms containing renewal options at five-year intervals, and may include rent escalation clauses. Non-U.S. leases are typically for shorter terms and may include cancellation clauses or renewal options. The lease term of real estate leases includes renewal options that are reasonably certain of being exercised. Options to extend are considered reasonably certain of being exercised based on evaluation if there is significant investments within the leased property which have useful lives greater than the non-cancelable lease term, performance of the underlying store and the Company's economic and strategic initiatives. Short-term leases with an initial term of 12 months or less are not recorded on the balance sheets.

The Company accounts for lease components and non-lease components as a single lease component. Variable lease payment amounts that cannot be determined at the commencement of the lease such as increases in lease payments based on changes in index rates or usage, are not included in the right-of-use assets or liabilities. These are expensed as incurred. The Company has real estate leases which require additional payments based on sales volume, as well as reimbursement for real estate taxes, common area maintenance and insurance, which are expensed as incurred as variable lease costs and hence are not included in the lease payments used to calculate lease liability. Other real estate leases contain one fixed lease payment that includes real estate taxes, common area maintenance and insurance. These fixed payments are considered part of the lease payment and included in the right-of-use assets and lease liabilities. The Company does not separately account for the land portion of the leases involving land and building.

Finance leases are recognized within property, plant and equipment and as a finance lease liability within accrued expenses and other liabilities and other noncurrent liabilities.

The Company performs impairment testing for its long-lived assets at asset group level. Retail store is considered as the asset group, which includes plant, property and equipment, operating and finance right-of-use assets as well as operating lease liability in the store. The asset group is tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable and exceeds its fair value.

The impact to the Company's opening Consolidated Condensed Balance Sheets as of September 1, 2019 was as follows (in millions):

| | <u>As reported</u> <u>August 31, 2019</u> | <u>Adjustments</u> | <u>As revised September 1,</u> <u>2019</u> |
|--|--|--------------------|---|
| Consolidated Condensed Balance Sheets | | | |
| Other current assets | 1,118 | (123) | 995 |
| Total current assets | 18,700 | (123) | 18,577 |
| Property, plant and equipment, net | 13,478 | 267 | 13,745 |
| Operating lease right-of-use assets | — | 21,600 | 21,600 |
| Intangible assets, net | 10,876 | (220) | 10,656 |
| Total assets | 67,598 | 21,524 | 89,122 |
| Operating lease obligation - current | — | 2,267 | 2,267 |
| Accrued expenses and other liabilities | 5,474 | (538) | 4,936 |
| Total current liabilities | 25,769 | 1,729 | 27,498 |
| Operating lease obligation - non-current | — | 21,858 | 21,858 |
| Deferred income taxes | 1,785 | (142) | 1,643 |
| Other non-current liabilities | 4,795 | (1,479) | 3,316 |
| Total non-current liabilities | 17,678 | 20,237 | 37,915 |
| Retained earnings | 35,815 | (442) | 35,373 |
| Total liabilities and equity | 67,598 | 21,524 | 89,122 |

New accounting pronouncements not yet adopted

Effects of Reference Rate Reform on Financial Reporting

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This ASU provides optional expedient and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. In response to the concerns about structural risks of interbank offered rates (IBORs) and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation. The ASU provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. The ASU can be adopted no later than December 1, 2022 (fiscal year 2023) with early adoption permitted. The Company is evaluating the effect of adopting this new accounting guidance.

Financial Instruments

In March 2020, FASB issued ASU 2020-03. This ASU improves and clarifies various financial instruments topics, including the current expected credit losses (CECL) standard issued in 2016. The ASU includes seven different issues that describe the areas of improvement and the related amendments to GAAP, intended to make the standards easier to understand and apply by eliminating inconsistencies and providing clarifications. The amendments have different effective dates. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's financial statements.

Investments - equity securities; Investments—Equity Method and Joint Ventures; Derivatives and Hedging

In January 2020, the FASB issued ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815). The amendments in this ASU clarify the interaction

between the accounting for investments in equity securities, investment in equity method and certain derivatives instruments. The ASU is expected to reduce diversity in practice and increase comparability of the accounting for these interactions. This ASU is effective for fiscal years beginning after December 15, 2021 (fiscal 2023). The adoption of this ASU is not expected to have any impact on the Company's results of operations, cash flows or financial position.

Investments - equity securities

In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Financial Instruments (Topic 825). This extensive ASU provides clarifications for three topics related to financial instruments accounting, some of which apply to the Company. For example, this ASU clarifies the disclosure requirements that apply to equity securities without a readily determinable fair value for which the measurement alternative is elected. This ASU is effective for fiscal years beginning after December 15, 2019 (fiscal 2021). The adoption of this ASU is not expected to have a material impact on the Company's results of operations, cash flows or financial position.

Collaborative arrangements

In November 2018, the FASB issued ASU 2018-18, Collaborative Arrangements (Topic 808). This ASU clarifies the interaction between Topic 808, Collaborative Arrangements, and Topic 606, Revenue from Contracts with Customers. This ASU is effective for fiscal years beginning after December 15, 2019 (fiscal 2021). The adoption of this ASU is not expected to have a significant impact on the Company's results of operations, cash flows or financial position.

Compensation – retirement benefits – defined benefit plans

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement benefits (Topic 715-20). This ASU amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The ASU eliminates the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year. The ASU also removes the disclosure requirements for the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost and the benefit obligation for postretirement health care benefits. This ASU is effective for fiscal years ending after December 15, 2020 (fiscal 2022) and must be applied on a retrospective basis. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's financial position.

Fair value measurement

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820). The ASU eliminates such disclosures as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. The ASU adds new disclosure requirements for Level 3 measurements. This ASU is effective for fiscal years beginning after December 15, 2019 (fiscal 2021), and interim periods within those fiscal years, with early adoption permitted for any eliminated or modified disclosures. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's disclosures.

Financial instruments - credit losses

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326), which amends the Board's guidance on the impairment of financial instruments. Subsequently, the FASB has issued additional ASUs which further clarify this guidance. The ASU adds to U.S. GAAP an impairment model that is based on expected losses rather than incurred losses, which is known as the current expected credit loss ("CECL") model. The CECL model applies to most debt instruments (other than those measured at fair value), trade and other receivables, financial guarantee contracts, and loan commitments. This ASU is effective for fiscal years beginning after December 15, 2019 (fiscal 2021), and interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's financial position or results of operations.

Income taxes - simplifying the accounting for income taxes

In December 2019, the FASB issued ASU 2019-12: Simplifying the Accounting for Income Taxes (Topic 740), which removes certain exceptions to the general principles in Topic 740 and improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This ASU is effective for fiscal years beginning after December 15, 2020 (fiscal 2022), and interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the effect of adopting this new accounting guidance but does not expect adoption will have a material impact on the Company's disclosures.

Note 18. Supplemental information*Accounts receivable*

Accounts receivable are stated net of allowances for doubtful accounts. Accounts receivable balances primarily consist of trade receivables due from customers, including amounts due from third party providers (e.g., pharmacy benefit managers, insurance companies and governmental agencies), clients and members. Trade receivables were \$6.3 billion and \$6.0 billion at February 29, 2020 and August 31, 2019, respectively. Other accounts receivable balances, which consist primarily of receivables from vendors and manufacturers, including receivables from AmerisourceBergen (see note 16, related parties), were \$1.3 billion and \$1.2 billion at February 29, 2020 and August 31, 2019, respectively.

Depreciation and amortization

The Company has recorded the following depreciation and amortization expense in the Consolidated Condensed Statements of Earnings (in millions):

| | Three months ended | | Six months ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Depreciation expense | \$ 375 | \$ 360 | \$ 734 | \$ 717 |
| Intangible asset and other amortization | 117 | 139 | 235 | 273 |
| Total depreciation and amortization expense | \$ 492 | \$ 499 | \$ 969 | \$ 990 |

Accumulated depreciation and amortization on property, plant and equipment was \$11.9 billion at February 29, 2020 and \$11.3 billion at August 31, 2019.

Restricted cash

The Company is required to maintain cash deposits with certain banks which consist of deposits restricted under contractual agency agreements and cash restricted by law and other obligations. As of February 29, 2020 and August 31, 2019, the amount of such restricted cash was \$196 million and \$184 million, respectively, and is reported in other current assets on the Consolidated Condensed Balance Sheets.

The following represents a reconciliation of cash and cash equivalents in the Consolidated Condensed Balance Sheets to total cash, cash equivalents and restricted cash in the Consolidated Condensed Statements of Cash Flows as of February 29, 2020 and August 31, 2019 (in millions):

| | February 29, 2020 | August 31, 2019 |
|--|-------------------|-----------------|
| Cash and cash equivalents | \$ 792 | \$ 1,023 |
| Restricted cash (included in other current assets) | 196 | 184 |
| Cash, cash equivalents and restricted cash | \$ 988 | \$ 1,207 |

Earnings per share

The dilutive effect of outstanding stock options on earnings per share is calculated using the treasury stock method. Stock options are anti-dilutive and excluded from the earnings per share calculation if the exercise price exceeds the average market price of the common shares. There were 18.7 million outstanding options to purchase common shares that were anti-dilutive and excluded from the second quarter earnings per share calculation as of February 29, 2020 compared to 14.4 million as of February 28, 2019.

Cash dividends declared per common share

Cash dividends per common share declared were as follows:

| Quarter ended | 2020 | 2019 |
|---------------|----------------|----------------|
| November | \$ 0.4575 | \$ 0.4400 |
| February | 0.4575 | 0.4400 |
| | \$ 0.92 | \$ 0.88 |

Note 19. Subsequent event

The Company is closely monitoring the impact of the pandemic of the novel strain of coronavirus COVID-19 ("COVID-19") on all aspects of its business and geographies, including how it will impact its customers, team members, suppliers, vendors, business partners and distribution channels. While the Company did not incur significant disruptions during the three and six months ended February 29, 2020 from COVID-19, it is unable to predict the impact that COVID-19 will have on its financial position and operating results due to numerous uncertainties.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020 in the United States. Due to the recent enactment of this legislation, the Company continues to assess the potential impacts of this legislation on its financial position and results of operations.

Recent financing actions

Subsequent to February 29, 2020, the Company has taken actions intended to increase its cash position and preserve financial flexibility in light of current uncertainty in the global markets. As of March 31, 2020, the Company has total borrowings of approximately \$8.3 billion outstanding under the credit facilities and commercial paper programs described above, of which \$2.0 billion was commercial paper.

On April 1, 2020, the Company entered into a revolving credit agreement for a \$750 million senior unsecured revolving credit facility with the lenders from time to time party thereto. As of April 1, 2020, there were no borrowings outstanding under this facility.

Item 2. Management's discussion and analysis of financial condition and results of operations

The following discussion and analysis of our financial condition and results of operations should be read together with the financial statements and the related notes included elsewhere herein and the Consolidated Financial Statements, accompanying notes and management's discussion and analysis of financial condition and results of operations and other disclosures contained in the Walgreens Boots Alliance, Inc. Annual Report on Form 10-K for the fiscal year ended August 31, 2019. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed below under "Cautionary note regarding forward-looking statements", in item 1A, risk factors, in our Form 10-K for the fiscal year ended August 31, 2019 and in item 1A, risk factors, in this report. References herein to the "Company", "we", "us", or "our" refer to Walgreens Boots Alliance, Inc. and its subsidiaries, except as otherwise indicated or the context otherwise requires.

Certain amounts in the management's discussion and analysis of financial condition and results of operations may not add due to rounding. All percentages have been calculated using unrounded amounts for the three and six months ended February 29, 2020 and February 28, 2019.

INTRODUCTION AND SEGMENTS

Walgreens Boots Alliance, Inc. ("Walgreens Boots Alliance") and its subsidiaries are a global leader in retail and wholesale pharmacy. Its operations are conducted through three reportable segments:

- Retail Pharmacy USA;
- Retail Pharmacy International; and
- Pharmaceutical Wholesale.

See note 14, segment reporting and note 15, sales for further information.

FACTORS AFFECTING OUR RESULTS AND COMPARABILITY

The Company has been, and we expect it to continue to be, affected by a number of factors that may cause actual results to differ from our historical results or current expectations. These factors include: the impact of the coronavirus COVID-19 ("COVID-19") pandemic on our operations and financial results; the financial performance of our equity method investees, including AmerisourceBergen; the influence of certain holidays; seasonality; foreign currency rates; changes in vendor, payer and customer relationships and terms and associated reimbursement pressure; strategic transactions and acquisitions, including the acquisition of stores and other assets from Rite Aid; joint ventures and other strategic collaborations; changes in laws, including the U.S. tax law changes; changes in trade, tariffs, including trade relations between the United States and China, and international relations, including the UK's withdrawal from the European Union and its impact on our operations and prospects and those of our customers and counterparties; the timing and magnitude of cost reduction initiatives, including under our Transformational Cost Management Program (as defined below); fluctuations in variable costs; and general economic conditions in the markets in which the Company operates. These and other factors can affect the Company's operations and net earnings for any period and may cause such results not to be comparable to the same period in previous years. The results presented in this report are not necessarily indicative of future operating results.

Uncertainty Relating to COVID-19

We are closely monitoring the impact of COVID-19 on all aspects of our business and geographies, including how it will impact our customers, team members, suppliers, vendors, business partners and distribution channels. While we did not incur significant disruptions during the three and six months ended February 29, 2020 from COVID-19, we are unable to predict the impact that COVID-19 will have on our financial position and operating results due to numerous uncertainties. These uncertainties include the severity of the virus, the duration of the outbreak, governmental, business or other actions (which could include limitations on our operations or mandates to provide products or services), impacts on our supply chain, the effect on customer demand, store closures or changes to our operations. The health of our workforce, and our ability to meet staffing needs in our stores, distribution facilities, wholesale operations and other critical functions cannot be predicted and is vital to our operations. Further, the impacts of a potential worsening of global economic conditions and the continued disruptions to, and volatility in, the credit and financial markets, consumer spending as well as other unanticipated consequences remain unknown. In addition, we cannot predict the impact that COVID-19 will have on our customers, vendors, suppliers and other business partners; however, any material effect on these parties could adversely impact us. Effects from COVID-19 pandemic began at the end of the second quarter and were not material to the three and six months results. The situation surrounding COVID-19 remains fluid, and we are actively managing our response in collaboration with customers, government officials, team members and business partners and assessing potential impacts to our financial position and operating results, as well as adverse developments in our business. For further information regarding the impact of COVID-19 on the Company, please see item 1A, risk factors in this report, which is incorporated herein by reference.

The Impact of Brexit

In June 2016, voters in the United Kingdom approved an advisory referendum to withdraw from the European Union, which exit (and the political, economic and other uncertainties it has raised) is commonly referred to as “Brexit”. Since the Brexit vote in June 2016, the deadline for Brexit has been extended multiple times and there has been significant volatility in the global stock markets and currency exchange rates, as well as challenging market conditions in the United Kingdom. The December 2019 general election in the United Kingdom resulted in a significant working majority for the ruling Conservative party, and as a result, the United Kingdom left the European Union on January 31, 2020. There is now a transition period until December 31, 2020 in which the United Kingdom and European Union are to negotiate a new trading relationship for goods and services. Failure to complete negotiations by the implementation deadline of December 31, 2020, subject to any extension thereof, or failure to agree with the European Union to favorable terms, could result in the United Kingdom becoming subject to trade agreements with the European Union that are less favorable than those currently in effect. Although we continue to actively monitor the ongoing potential impacts of Brexit and continue to work to minimize its impact on our business, if negotiations are not complete by December 31, 2020, these conditions could continue and there could be increased costs from tariffs on trade between the United Kingdom and European Union and disruptions to the free movement of goods, services and people between the United Kingdom and the European Union and other parties. Further, uncertainty around and developments regarding these and related issues has contributed to deteriorating market conditions and could further adversely impact consumer and investor confidence and the economy of the United Kingdom and the economies of other countries in which we operate and cause significant volatility in currency exchange rates. Given the lack of comparable precedent, it is unclear what financial, trade, regulatory and legal implications the withdrawal of the United Kingdom from the European Union will have on our business, particularly United Kingdom and other European operations; however, Brexit and its related effects could have a material impact on the Company’s consolidated financial position or operating results.

TRANSFORMATIONAL COST MANAGEMENT PROGRAM

On December 20, 2018, the Company announced a transformational cost management program that was expected to deliver in excess of \$1.0 billion of annual cost savings by fiscal 2022 (the “Transformational Cost Management Program”). In April 2019, the Company announced that it had increased the expected annual cost savings to in excess of \$1.5 billion by fiscal 2022, which was further increased to in excess of \$1.8 billion in October 2019. The Transformational Cost Management Program, which is multi-faceted and includes divisional optimization initiatives, global smart spending, global smart organization and the transformation of the Company’s information technology (IT) capabilities, is designed to help the Company achieve increased cost efficiencies. To date, the Company has taken actions across all aspects of the Transformational Cost Management Program. The actions under the Transformational Cost Management Program focus on all reportable segments and the Company’s global functions. Divisional optimization within each of the Company’s segments includes activities such as optimization of stores which includes plans to close approximately 200 stores in the United Kingdom and approximately 200 locations in the United States.

The Company currently estimates that the Transformational Cost Management Program will result in cumulative pre-tax charges to its generally accepted accounting principles in the United States (“GAAP”) financial results of approximately \$1.9 billion to \$2.4 billion, of which \$1.6 billion to \$2.0 billion are expected to be recorded as exit and disposal activities. The Company estimates that approximately 80% of the cumulative pre-tax charges will be associated with cash expenditures, primarily related to employee severance and business transition costs, IT transformation costs and lease and real estate payments.

The Company currently estimates that it will recognize aggregate pre-tax charges to its GAAP financial results related to Transformational Cost Management Program as follows:

| Transformational Cost Program Activities | Range of Charges |
|--|-----------------------------|
| Lease obligations and other real estate costs | \$200 to 300 million |
| Asset impairments ¹ | \$400 to 500 million |
| Employee severance and business transition costs | \$600 to 700 million |
| Information technology transformation and other exit costs | \$400 to 500 million |
| Total cumulative pre-tax exit and disposal costs | \$1.6 to 2.0 billion |
| Other IT transformation costs | \$300 to 400 million |
| Total estimated pre-tax costs | \$1.9 to 2.4 billion |

¹ Primarily related to asset write-offs from store closures, information technology and other asset write-offs.

In addition to the impacts discussed above, as a result of the actions related to store closures taken under the Transformational Cost Management Program, the Company recorded \$508 million of transition adjustments to decrease retained earnings due to the adoption of the new lease accounting standard (Topic 842) that became effective on September 1, 2019. See note 17, new accounting pronouncements, for additional information.

Since the inception of the Transformational Cost Management Program to February 29, 2020, the Company has recognized aggregate cumulative pre-tax charges to its financial results in accordance with GAAP of \$686 million, of which \$605 million are recorded as exit and disposal activities. See note 3, exit and disposal activities, for additional information. These charges included \$36 million related to lease obligations and other real estate costs, \$275 million in asset impairments, \$236 million in employee severance and business transition costs, \$58 million of information technology transformation and other exit costs and \$80 million other information technology costs.

Costs under the Transformational Cost Management Program, which were primarily recorded in selling, general and administrative expenses for the three and six months ended February 29, 2020, respectively, were as follows (in millions):

| Three months ended February 29, 2020 | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale | Walgreens Boots Alliance, Inc. |
|--|--------------------------------|--|-------------------------------------|---|
| Lease obligations and other real estate costs | \$ 9 | \$ 1 | \$ — | \$ 10 |
| Asset impairments | 3 | — | — | 3 |
| Employee severance and business transition costs | 39 | 29 | 4 | 72 |
| Information technology transformation and other exit costs | 9 | 13 | 1 | 24 |
| Total pre-tax exit and disposal costs | \$ 60 | \$ 43 | \$ 5 | \$ 109 |
| Other IT transformation costs | 9 | 4 | 1 | 14 |
| Total pre-tax costs | \$ 70 | \$ 47 | \$ 6 | \$ 123 |

| Six months ended February 29, 2020 | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale | Walgreens Boots Alliance, Inc. |
|--|--------------------------------|--|-------------------------------------|---|
| Lease obligations and other real estate costs | \$ 10 | \$ 1 | \$ — | \$ 11 |
| Asset impairments | 11 | 3 | — | 15 |
| Employee severance and business transition costs | 72 | 30 | 9 | 111 |
| Information technology transformation and other exit costs | 16 | 17 | 2 | 36 |
| Total pre-tax exit and disposal costs | \$ 110 | \$ 52 | \$ 12 | \$ 173 |
| Other IT transformation costs | 26 | 7 | 2 | 35 |
| Total pre-tax costs | \$ 136 | \$ 59 | \$ 14 | \$ 209 |

Costs under the Transformational Cost Management Program, which were primarily recorded in selling, general and administrative expenses for the six months ended February 28, 2019, were \$179 million. These charges primarily relate to actions taken in the Pharmaceutical Wholesale and Retail Pharmacy International divisions.

Transformational Cost Management Program charges are recognized as the costs are incurred over time in accordance with GAAP. The Company treats charges related to the Transformational Cost Management Program as special items impacting comparability of results in its earnings disclosures.

The amounts and timing of all estimates are subject to change until finalized. The actual amounts and timing may vary materially based on various factors. See “cautionary note regarding forward-looking statements” below.

RITE AID TRANSACTION

On September 19, 2017, the Company announced it had secured regulatory clearance for an amended and restated asset purchase agreement to purchase 1,932 stores, three distribution centers and related inventory from Rite Aid for \$4.375 billion in cash and other consideration. The Company has completed the acquisition of all 1,932 Rite Aid stores and two distribution centers and related inventory, while the transition of the remaining distribution center and related inventory remains subject to closing conditions set forth in the amended and restated asset purchase agreement.

The Company expects to incur approximately \$1.2 billion in costs to deliver approximately \$675 million in annual synergies and savings upon integration of the acquired stores and related assets and the completion of the Store Optimization Program described below.

Integration of acquired stores and related assets

The Company expects to complete integration of the acquired stores and related assets by the end of fiscal 2020, at an estimated total cost of approximately \$800 million, which is reported as acquisition-related costs, compared to the Company's previously stated expectation of \$850 million and is treated as special items impacting comparability of results in its earnings disclosures. Since fiscal 2018, the Company has recognized cumulative pre-tax charges of \$737 million, which includes pre-tax charges of \$220 million for six months ended February 29, 2020 related to integration of the acquired stores and related assets. The Company expects annual synergies from the transaction of more than \$325 million, which are expected to be fully realized within four years of the initial closing of this transaction and derived primarily from procurement, cost savings and other operational matters. In addition, the Company expects to spend approximately \$500 million on store conversions and related activities.

The amounts and timing of all estimates are subject to change until finalized. The actual amounts and timing may vary materially based on various factors. See "cautionary note regarding forward-looking statements" below.

Store Optimization Program

On October 24, 2017, the Company's Board of Directors approved a plan to implement a program (the "Store Optimization Program") to optimize store locations through the planned closure of approximately 600 stores and related assets within the Company's Retail Pharmacy USA segment upon completion of the acquisition of certain stores and related assets from Rite Aid. As of the date of this report, the Company expects to close approximately 750 stores and related assets, of which the majority have been closed as part of this program. The actions under the Store Optimization Program commenced in March 2018 and are expected to be complete by the end of fiscal 2020. The Store Optimization Program is expected to result in cost savings of approximately \$350 million per year to be fully delivered by the end of fiscal 2020.

The Company currently estimates that it will recognize cumulative pre-tax charges to its GAAP financial results of approximately \$400 million, compared to the Company's previously stated expectation of \$350 million, of which \$335 million have been recorded to date, primarily within selling, general and administrative expenses, including costs associated with lease obligations and other real estate costs and employee severance and other exit costs. The Company expects to incur pre-tax charges of approximately \$190 million for lease obligations and other real estate costs, of which \$159 million have been recorded to date and approximately \$210 million for employee severance and other exit costs of which \$176 million have been recorded to date. The Company estimates that substantially all of these cumulative pre-tax charges will result in cash expenditures.

Store Optimization Program charges are recognized as the costs are incurred over time in accordance with GAAP. The Company treats charges related to the Store Optimization Program as special items impacting comparability of results in its earnings disclosures.

The amounts and timing of all estimates are subject to change until finalized. The actual amounts and timing may vary materially based on various factors. See "cautionary note regarding forward-looking statements" below.

INVESTMENT IN AMERISOURCEBERGEN

As of February 29, 2020, the Company owned 56,854,867 shares of AmerisourceBergen common stock (representing approximately 28% of its outstanding common stock based on most recent share count publicly reported by AmerisourceBergen) and may, subject to certain conditions, acquire up to an additional 8,398,752 AmerisourceBergen shares in the open market.

The Company accounts for its investment in AmerisourceBergen using the equity method of accounting, subject to a two-month reporting lag, with the net earnings attributable to the investment classified within the operating income of the Company's Pharmaceutical Wholesale segment. The financial performance of AmerisourceBergen, including any charges which may arise relating to its ongoing opioid litigation, will impact the Company's results of operations. Additionally, a substantial and sustained decline in the price of AmerisourceBergen's common stock could trigger an impairment evaluation of our investment. These considerations may materially and adversely affect the Company's financial condition and results of operations.

For more information, see note 5, equity method investments to the Consolidated Condensed Financial Statements.

EXECUTIVE SUMMARY

The following table presents certain key financial statistics.

(in millions, except per share amounts)

| | Three months ended | | Six months ended | |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| | Sales | \$ 35,820 | \$ 34,528 | \$ 70,160 |
| Gross profit | 7,513 | 7,754 | 14,776 | 15,395 |
| Selling, general and administrative expenses | 6,308 | 6,320 | 12,570 | 12,599 |
| Equity earnings in AmerisourceBergen | 28 | 83 | 41 | 121 |
| Operating income | 1,233 | 1,517 | 2,247 | 2,918 |
| Adjusted operating income (Non-GAAP measure) ¹ | 1,703 | 1,935 | 3,166 | 3,667 |
| Earnings before interest and income tax provision | 1,259 | 1,536 | 2,307 | 2,963 |
| Net earnings attributable to Walgreens Boots Alliance, Inc. | 946 | 1,156 | 1,791 | 2,279 |
| Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure) ¹ | 1,343 | 1,522 | 2,565 | 2,908 |
| Net earnings per common share – diluted | 1.07 | 1.24 | 2.01 | 2.42 |
| Adjusted net earnings per common share – diluted (Non-GAAP measure) ¹ | 1.52 | 1.64 | 2.88 | 3.09 |

Percentage increases (decreases)

| | Three months ended | | Six months ended | |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| | Sales | 3.7 | 4.6 | 2.7 |
| Gross profit | (3.1) | (4.2) | (4.0) | (0.3) |
| Selling, general and administrative expenses | (0.2) | — | (0.2) | 3.0 |
| Operating income | (18.7) | (23.3) | (23.0) | (11.5) |
| Adjusted operating income (Non-GAAP measure) ¹ | (12.0) | (10.4) | (13.7) | (7.5) |
| Earnings before interest and income tax provision | (18.1) | (22.8) | (22.1) | (6.7) |
| Net earnings attributable to Walgreens Boots Alliance, Inc. | (18.2) | (14.3) | (21.4) | 5.1 |
| Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure) ¹ | (11.8) | (11.5) | (11.8) | (3.6) |
| Net earnings per common share – diluted | (14.0) | (8.3) | (16.8) | 12.0 |
| Adjusted net earnings per common share – diluted (Non-GAAP measure) ¹ | (7.3) | (5.4) | (6.6) | 2.8 |

| | Percent to sales | | | |
|--|--------------------|-------------------|-------------------|-------------------|
| | Three months ended | | Six months ended | |
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Gross margin | 21.0 | 22.5 | 21.1 | 22.5 |
| Selling, general and administrative expenses | 17.6 | 18.3 | 17.9 | 18.4 |

¹ See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.

WALGREENS BOOTS ALLIANCE RESULTS OF OPERATIONS

Net earnings

Net earnings attributable to Walgreens Boots Alliance for the three months ended February 29, 2020 decreased 18.2% to \$946 million, while diluted net earnings per share decreased 14.0% to \$1.07 compared with the prior year period. The decreases in net earnings and diluted earnings per share primarily reflect operating performance, mainly lower U.S. pharmacy gross margin and year-over-year bonus changes, partially offset by cost savings from the Transformational Cost Management Program. Diluted net earnings per share was positively affected by a lower number of shares outstanding compared to the prior year period.

Net earnings attributable to Walgreens Boots Alliance for the six months ended February 29, 2020 decreased 21.4% to \$1.8 billion, while diluted net earnings per share decreased 16.8% to \$2.01 compared with the prior year period. The decreases in net earnings and diluted earnings per share primarily reflect operating performance, mainly lower U.S. pharmacy gross margin and year-over-year bonus changes, as well as a decrease from the Company's share of equity earnings in AmerisourceBergen and increase in Rite Aid acquisition related costs, partially offset by cost savings from the Transformational Cost Management Program and the lower effective tax rate in the period. Diluted net earnings per share was positively affected by a lower number of shares outstanding compared to the prior year period.

Other income for the three months ended February 29, 2020 was \$25 million compared to income of \$19 million for the prior year period. Other income for the six months ended February 29, 2020 was \$60 million compared to income of \$45 million for the prior year period.

Interest was a net expense of \$162 million and \$328 million for the three and six months ended February 29, 2020, respectively, compared to \$181 million and \$342 million for the three and six months ended February 28, 2019, respectively.

The effective tax rate for the three and six months ended February 29, 2020 was 14.6% and 9.7%, respectively, compared to 16.7% and 15.5% for the three and six months ended February 28, 2019, respectively. The decrease in the effective tax rate for the three months ended February 29, 2020 was primarily due to the mix of earnings between U.S and international operations. The decrease in the effective tax rate for the six months ended February 29, 2020 was primarily due to discrete tax benefits recorded from the reduction of a valuation allowance on net deferred tax assets related to anticipated capital gains.

Adjusted diluted net earnings (Non-GAAP measure)

Adjusted net earnings attributable to Walgreens Boots Alliance for the three months ended February 29, 2020 decreased 11.8% to \$1.3 billion, on both a reported and constant currency basis, compared with the prior year period. Adjusted diluted net earnings per share decreased 7.3% to \$1.52, on both a reported and constant currency basis compared with the year-ago quarter.

The decreases in adjusted net earnings and adjusted diluted net earnings per share for the three months ended February 29, 2020 primarily reflect lower U.S. pharmacy gross margin and year-over-year bonus changes partially offset by cost savings from the Transformational Cost Management Program. Adjusted diluted net earnings per share for the three months ended February 29, 2020 benefited from a lower number of shares outstanding compared with the prior year period. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.

Adjusted net earnings attributable to Walgreens Boots Alliance for the six months ended February 29, 2020 decreased 11.8% to \$2.6 billion, down 11.7% on a constant currency basis, compared with the prior year period. Adjusted diluted net earnings per share decreased 6.6% to \$2.88, a decrease of 6.5% on a constant currency basis compared with the year-ago period.

The decreases in adjusted net earnings and adjusted diluted net earnings per share for the six months ended February 29, 2020 primarily reflect lower U.S. pharmacy gross margin, year-over-year bonus changes, and a challenging UK market, partially offset by cost savings from the Transformational Cost Management Program. Adjusted diluted net earnings per share for the six months ended February 29, 2020 benefited from a lower number of shares outstanding compared with the prior year period. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.

RESULTS OF OPERATIONS BY SEGMENT

Retail Pharmacy USA

This division comprises the retail pharmacy business operating in the United States.

(in millions, except location amounts)

| | Three months ended | | Six months ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Sales | \$ 27,245 | \$ 26,257 | \$ 53,377 | \$ 51,979 |
| Gross profit | 5,806 | 6,067 | 11,497 | 12,067 |
| Selling, general and administrative expenses | 4,844 | 4,840 | 9,686 | 9,675 |
| Operating income | 963 | 1,226 | 1,811 | 2,393 |
| Adjusted operating income (Non-GAAP measure) ¹ | 1,267 | 1,455 | 2,423 | 2,834 |
| Number of prescriptions ^{2*} | 213.0 | 211.9 | 426.0 | 428.5 |
| 30-day equivalent prescriptions ^{2,3*} | 296.8 | 286.3 | 590.9 | 576.2 |
| Number of locations at period end* | 9,165 | 9,446 | 9,165 | 9,446 |

Percentage increases (decreases)

| | Three months ended | | Six months ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Sales | 3.8 | 7.3 | 2.7 | 10.7 |
| Gross profit | (4.3) | (3.2) | (4.7) | 1.7 |
| Selling, general and administrative expenses | 0.1 | (0.5) | 0.1 | 3.6 |
| Operating income | (21.5) | (12.6) | (24.3) | (5.4) |
| Adjusted operating income (Non-GAAP measure) ¹ | (12.9) | (11.9) | (14.5) | (6.4) |
| Comparable store sales ^{4*} | 2.7 | — | 2.2 | 0.5 |
| Pharmacy sales | 5.3 | 9.8 | 4.1 | 13.6 |
| Comparable pharmacy sales ^{4*} | 3.7 | 1.9 | 3.1 | 2.3 |
| Retail sales | (0.3) | 1.3 | (1.2) | 3.5 |
| Comparable retail sales ^{4*} | 0.6 | (3.8) | 0.1 | (3.5) |
| Comparable number of prescriptions ^{2,4*} | 2.0 | (1.4) | 1.0 | (0.8) |
| Comparable 30-day equivalent prescriptions ^{2,3,4*} | 4.9 | 1.8 | 3.8 | 1.9 |

Percent to sales

| | Three months ended | | Six months ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Gross margin | 21.3 | 23.1 | 21.5 | 23.2 |
| Selling, general and administrative expenses | 17.8 | 18.4 | 18.1 | 18.6 |

- ¹ See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.
- ² Includes immunizations.
- ³ Includes the adjustment to convert prescriptions greater than 84 days to the equivalent of three 30-day prescriptions. This adjustment reflects the fact that these prescriptions include approximately three times the amount of product days supplied compared to a normal prescription.
- ⁴ Comparable stores are defined as those that have been open for at least twelve consecutive months without closure for seven or more consecutive days and without a major remodel or being subject to a natural disaster in the past twelve months. Relocated stores are not included as comparable stores for the first twelve months after the relocation. Acquired stores are not included as comparable stores for the first twelve months after acquisition or conversion, when applicable, whichever is later. Comparable store sales, comparable pharmacy sales, comparable retail sales, comparable number of prescriptions and comparable number of 30-day equivalent prescriptions refer to total sales, pharmacy sales, retail sales, number of prescriptions and number of 30-day equivalent prescriptions, respectively, in such stores. The method of calculating comparable sales varies across the retail industry. As a result, our method of calculating comparable sales may not be the same as other retailers' methods. The three and six month periods ended February 29, 2020 figures include an adjustment to remove February 29, 2020 results due to the leap year.
- * The Company considers these items to be key performance indicators because the Company's management has evaluated its results of operations using these metrics and believes that these key performance indicators presented provide additional perspective and insights when analyzing the core operating performance of the Company from period to period and trends in its historical operating results. These key performance indicators 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 herein. These measures may not be comparable to similarly-titled performance indicators used by other companies.

Sales for the three months ended February 29, 2020 and February 28, 2019

The Retail Pharmacy USA division's sales for the three months ended February 29, 2020 increased 3.8% to \$27.2 billion. Sales in comparable stores increased 2.7% compared with the year-ago quarter. Comparable store data has been adjusted to remove the effects of February 29, 2020 due to the leap year.

Pharmacy sales increased 5.3% for the three months ended February 29, 2020 and represented 73.0% of the division's sales. The increase is primarily due to higher brand inflation and prescription volumes. In the year-ago quarter, pharmacy sales increased 9.8% and represented 71.9% of the division's sales. Comparable pharmacy sales increased 3.7% for the three months ended February 29, 2020 compared to an increase of 1.9% in the year-ago quarter. The effect of generic drugs, which have a lower retail price, replacing brand name drugs reduced prescription sales by 2.7% in the three months ended February 29, 2020 compared to a reduction of 0.9% in the year-ago quarter. The effect of generics mix on division sales caused a reduction of 1.8% for the three months ended February 29, 2020 compared to a reduction of 0.6% for the year-ago quarter. Third party sales, where reimbursement is received from managed care organizations, governmental agencies, employers or private insurers, were 97.1% of prescription sales for the three months ended February 29, 2020 compared to 97.0% in the year ago quarter. The total number of prescriptions (including immunizations) filled for the three months ended February 29, 2020 was 213.0 million compared to 211.9 million in the year-ago quarter. Prescriptions (including immunizations) filled adjusted to 30-day equivalents were 296.8 million in the three months ended February 29, 2020 compared to 286.3 million in the year-ago quarter.

Retail sales for the three months ended February 29, 2020 decreased 0.3% and were 27.0% of the division's sales. In the year-ago quarter, retail sales increased 1.3% and comprised 28.1% of the division's sales. Comparable retail sales increased 0.6% in the three months ended February 29, 2020 compared to a decrease of 3.8% in the year-ago quarter. The increase in the current period is driven by health and wellness, including a favorable cough cold and flu season.

Operating income for the three months ended February 29, 2020 and February 28, 2019

Retail Pharmacy USA division's operating income for the three months ended February 29, 2020 decreased 21.5% to \$963 million. The decrease was primarily due to reimbursement pressure and year-on-year bonus impact as well as the increase in costs related to the Transformational Cost Management Program.

Gross margin was 21.3% for the three months ended February 29, 2020 compared to 23.1% in the year-ago quarter. Gross margin was negatively impacted in the current period by pharmacy margins, which were negatively impacted by year-on-year reimbursement pressure.

Selling, general and administrative expenses as a percentage of sales were 17.8% in the three months ended February 29, 2020 compared to 18.4% in the year-ago quarter. As a percentage of sales, expenses were lower in the current period primarily due to savings related to the Transformational Cost Management Program partially offset by year-on-year bonus impacts.

Adjusted operating income (Non-GAAP measure) for the three months ended February 29, 2020 and February 28, 2019

Retail Pharmacy USA division's adjusted operating income was \$1.3 billion for the three months ended February 29, 2020, a decrease of 12.9% from the year-ago quarter. The decrease was primarily due to reimbursement pressure and year-on-year bonus impact partially offset by savings related to the Transformational Cost Management Program. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.

Sales for the six months ended February 29, 2020 and February 28, 2019

The Retail Pharmacy USA division's sales for the six months ended February 29, 2020 increased 2.7% to \$53.4 billion. Sales in comparable stores increased 2.2% compared with the year-ago period. Comparable store data has been adjusted to remove the effects of February 29, 2020 due to the leap year.

Pharmacy sales increased 4.1% for the six months ended February 29, 2020 and represented 74.2% of the division's sales. The increase is primarily due to brand inflation and prescription volume growth. In the year-ago period, pharmacy sales increased 13.6% and represented 73.2% of the division's sales. Comparable pharmacy sales increased 3.1% for the six months ended February 29, 2020 compared to an increase of 2.3% in the year-ago period. The effect of generic drugs, which have a lower retail price, replacing brand name drugs reduced prescription sales by 2.6% in the six months ended February 29, 2020 compared to a reduction of 0.9% in the year-ago period. The effect of generics mix on division sales caused a reduction of 1.8% for the six months ended February 29, 2020 compared to a reduction of 0.6% for the year-ago period. Third party sales, where reimbursement is received from managed care organizations, governmental agencies, employers or private insurers, were 97.0% of prescription sales for the six months ended February 29, 2020 compared to 97.1% in the year ago period. The total number of prescriptions (including immunizations) filled for the six months ended February 29, 2020 was 426.0 million compared to 428.5 million in the year-ago period. Prescriptions (including immunizations) filled adjusted to 30-day equivalents were 590.9 million in the six months ended February 29, 2020 compared to 576.2 million in the year-ago period.

Retail sales for the six months ended February 29, 2020 decreased 1.2% and were 25.8% of the division's sales. In the year-ago period, retail sales increased 3.5% and comprised 26.8% of the division's sales. Comparable retail sales increased 0.1% in the six months ended February 29, 2020 compared to a decrease of 3.5% in the year-ago period.

Operating income for the six months ended February 29, 2020 and February 28, 2019

Retail Pharmacy USA division's operating income for the six months ended February 29, 2020 decreased 24.3% to \$1.8 billion. The decrease was primarily due to lower pharmacy gross margin, Transformational Cost Management Program costs, year-on-year bonus impact and Rite Aid acquisition-related costs partially offset by savings related to the Transformational Cost Management Program.

Gross margin was 21.5% for the six months ended February 29, 2020 compared to 23.2% in the year-ago period. Gross margin was negatively impacted in the current fiscal year by pharmacy margins, which were negatively impacted by year-on-year reimbursement pressure.

Selling, general and administrative expenses as a percentage of sales were 18.1% in the six months ended February 29, 2020 compared to 18.6% in the year-ago period. As a percentage of sales, expenses were lower in the current period primarily due to savings related to the Transformational Cost Management Program and gains on sale-leaseback transactions partially offset by year-on-year bonus impact, costs related to the Company's Transformational Cost Management Program and Rite Aid acquisition-related costs.

Adjusted operating income (Non-GAAP measure) for the six months ended February 29, 2020 and February 28, 2019

Retail Pharmacy USA division's adjusted operating income was \$2.4 billion for the six months ended February 29, 2020, a decrease of 14.5% from the year-ago period. The decrease was primarily due to lower pharmacy gross margin and year-on-year bonus impact partially offset by savings related to the Transformational Cost Management Program. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.

Retail Pharmacy International

This division comprises retail pharmacy businesses operating in countries outside the United States and in currencies other than the U.S. dollar, including the British pound sterling, Euro, Chilean peso and Mexican peso and therefore the division's results are impacted by movements in foreign currency exchange rates. See item 3, quantitative and qualitative disclosure about market risk, foreign currency exchange rate risk, for further information on currency risk.

(in millions, except location amounts)

| | Three months ended | | Six months ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Sales | \$ 3,056 | \$ 3,082 | \$ 5,801 | \$ 5,982 |
| Gross profit | 1,182 | 1,179 | 2,238 | 2,306 |
| Selling, general and administrative expenses | 1,050 | 987 | 2,062 | 2,036 |
| Operating income | 132 | 192 | 176 | 270 |
| Adjusted operating income (Non-GAAP measure) ¹ | 198 | 256 | 276 | 388 |
| Number of locations at period end* | 4,539 | 4,626 | 4,539 | 4,626 |

| | Percentage increases (decreases) | | | |
|---|----------------------------------|-------------------|-------------------|-------------------|
| | Three months ended | | Six months ended | |
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Sales | (0.8) | (7.1) | (3.0) | (6.5) |
| Gross profit | 0.3 | (8.9) | (3.0) | (8.4) |
| Selling, general and administrative expenses | 6.4 | (5.7) | 1.3 | (2.6) |
| Operating income | (31.4) | (22.6) | (34.9) | (36.8) |
| Adjusted operating income (Non-GAAP measure) ¹ | (22.9) | (6.8) | (28.9) | (19.2) |
| Comparable store sales ^{2*} | (2.3) | (1.4) | (2.0) | (2.0) |
| Pharmacy sales | 1.5 | (7.8) | (1.1) | (6.8) |
| Comparable pharmacy sales ^{2*} | 1.5 | (0.7) | 1.0 | (1.8) |
| Retail sales | (2.0) | (6.7) | (4.0) | (6.4) |
| Comparable retail sales ^{2*} | (4.3) | (1.7) | (3.7) | (2.0) |

| | Percent to sales | | | |
|--|--------------------|-------------------|-------------------|-------------------|
| | Three months ended | | Six months ended | |
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Gross margin | 38.7 | 38.2 | 38.6 | 38.6 |
| Selling, general and administrative expenses | 34.4 | 32.0 | 35.6 | 34.0 |

¹ See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.

² Comparable stores are defined as those that have been open for at least twelve consecutive months without closure for seven or more consecutive days and without a major remodel or being subject to a natural disaster in the past twelve months. Relocated stores are not included as comparable stores for the first twelve months after the relocation. Acquired stores are not included as comparable stores for the first twelve months after acquisition or conversion, when applicable, whichever is later. Comparable store sales, comparable pharmacy sales and comparable retail sales refer to total sales,

pharmacy sales and retail sales, respectively, in such stores. The method of calculating comparable sales varies across the retail industry. As a result, our method of calculating comparable sales may not be the same as other retailers' methods. With respect to the Retail Pharmacy International division, comparable store sales, comparable pharmacy sales and comparable retail sales are presented on a constant currency basis, which are non-GAAP financial measures. Refer to the discussion below in "--Non-GAAP Measures" for further details on constant currency calculations. The three and six month periods ended February 29, 2020 figures include an adjustment to remove February 29, 2020 results due to the leap year.

- * The Company considers these items to be key performance indicators because the Company's management has evaluated its results of operations using these metrics and believes that these key performance indicators presented provide additional perspective and insights when analyzing the core operating performance of the Company from period to period and trends in its historical operating results. These key performance indicators 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 herein. These measures may not be comparable to similarly-titled performance indicators used by other companies.

Sales for the three months ended February 29, 2020 and February 28, 2019

Retail Pharmacy International division's sales for the three months ended February 29, 2020 decreased 0.8% to \$3.1 billion from the year-ago quarter. The positive impact of currency translation was 0.9 percentage points. Comparable store sales decreased 2.3%, mainly due to lower retail sales in Boots UK and Thailand, and lower retail and pharmacy sales in Chile. Comparable sales data has been adjusted to remove the effects of February 29, 2020 due to the leap year.

Pharmacy sales increased 1.5% in the three months ended February 29, 2020 and represented 33.5% of the division's sales. The positive impact of currency translation on pharmacy sales was 0.3 percentage points. Comparable pharmacy sales increased 1.5% from the year-ago quarter primarily due to the UK, driven by higher National Health Service ("NHS") reimbursement, partially offset by lower prescription volume.

Retail sales decreased 2.0% for the three months ended February 29, 2020 and represented 66.5% of the division's sales. The positive impact of currency translation on retail sales was 1.2 percentage points. Comparable retail sales decreased 4.3%, from the year-ago quarter reflecting lower Boots UK retail sales in a challenging market place.

Operating income for the three months ended February 29, 2020 and February 28, 2019

Retail Pharmacy International division's operating income for the three months ended February 29, 2020 decreased 31.4% to \$132 million. The decrease was primarily due to the UK, driven by lower sales and gross margin, with an adverse impact from higher year-on-year bonus and technology investments.

Gross profit increased 0.3% from the year-ago quarter. Gross profit was positively impacted by 0.8 percentage points (\$10 million) of currency translation. Excluding the impact of currency translation, the decrease was primarily due to lower retail sales and margin in Boots UK, partially offset by lower Transformation Cost Management expenses compared with the year-ago quarter.

Selling, general and administrative expenses increased 6.4% from the year-ago quarter. Expenses were negatively impacted by 0.7 percentage points (\$7 million) as a result of currency translation. Excluding the impact of currency translation, the increase was primarily due to higher Transformational Cost Management Program expenses, and higher bonus and technology investments compared with the year-ago quarter. As a percentage of sales, selling, general and administrative expenses were 34.4% in the three months ended February 29, 2020 compared to 32.0% in the year-ago quarter.

Adjusted operating income (Non-GAAP measure) for the three months ended February 29, 2020 and February 28, 2019

Retail Pharmacy International division's adjusted operating income for the three months ended February 29, 2020 decreased 22.9% to \$198 million. Adjusted operating income was positively impacted by 1.1 percentage points (\$3 million) of currency translation. Excluding the impact of currency translation, the decrease in adjusted operating income was primarily due to lower sales and gross margin, with an adverse impact from higher year-on-year bonus and technology investments on selling, general and administrative expenses in the UK. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.

Sales for the six months ended February 29, 2020 and February 28, 2019

Retail Pharmacy International division's sales for the six months ended February 29, 2020 decreased 3.0% to \$5.8 billion from the year-ago period. The negative impact of currency translation was 0.9%. Comparable store sales decreased 2.0%, mainly due to lower retail sales in Boots UK and Thailand, and lower retail and pharmacy sales in Chile, in part due to social unrest. Comparable sales data has been adjusted to remove the effects of February 29, 2020 due to the leap year.

Pharmacy sales decreased 1.1% in the six months ended February 29, 2020 and represented 34.9% of the division's sales. The negative impact of currency translation on pharmacy sales was 1.5 percentage points. Comparable pharmacy sales increased 1.0% from the year-ago period primarily due to the UK, driven by higher National Health Service ("NHS") reimbursement levels, partially offset by lower prescription volume.

Retail sales decreased 4.0% for the six months ended February 29, 2020 and represented 65.1% of the division's sales. The negative impact of currency translation on retail sales was 0.5 percentage points. Comparable retail sales decreased 3.7%, from the year-ago period reflecting lower Boots UK retail sales in a challenging market place.

Operating income for the six months ended February 29, 2020 and February 28, 2019

Retail Pharmacy International division's operating income for the six months ended February 29, 2020 decreased 34.9% to \$176 million. The decrease was primarily due to the UK, driven by lower sales and gross margin, with an adverse impact from higher year-on-year bonus and technology investments.

Gross profit decreased 3.0% from the year-ago period. Gross profit was negatively impacted by 0.9 percentage points (\$20 million) of currency translation, the remaining decrease was primarily due to lower retail sales and margin in Boots UK.

Selling, general and administrative expenses increased 1.3% from the year-ago period. Expenses were positively impacted by 1.0 percentage points (\$21 million) as a result of currency translation. The remaining increase was primarily due to higher year-on-year bonus impact and technology investments. As a percentage of sales, selling, general and administrative expenses were 35.6% in the six months ended February 29, 2020 compared to 34.0% in the year-ago period.

Adjusted operating income (Non-GAAP measure) for the six months ended February 29, 2020 and February 28, 2019

Retail Pharmacy International division's adjusted operating income for the six months ended February 29, 2020 decreased 28.9% to \$276 million. Adjusted operating income was positively impacted by 0.2 percentage points (\$1 million) of currency translation. Excluding the impact of currency translation, the decrease in adjusted operating income was primarily due to lower retail sales and margin, with an adverse impact from higher year-on-year bonus and technology investments on selling, general and administrative expenses in the UK. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.

Pharmaceutical Wholesale

This division includes pharmaceutical wholesale businesses operating in currencies other than the U.S. dollar including the British pound sterling, Euro and Turkish lira, and thus the division's results are impacted by movements in foreign currency exchange rates. See item 3, quantitative and qualitative disclosure about market risk, foreign currency exchange rate risk, for further information on currency risk.

| | (in millions) | | | |
|---|--------------------|-------------------|-------------------|-------------------|
| | Three months ended | | Six months ended | |
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Sales | \$ 6,066 | \$ 5,738 | \$ 12,072 | \$ 11,446 |
| Gross profit | 523 | 511 | 1,039 | 1,023 |
| Selling, general and administrative expenses | 414 | 493 | 822 | 889 |
| Equity earnings in AmerisourceBergen | 28 | 83 | 41 | 121 |
| Operating income | 136 | 100 | 258 | 255 |
| Adjusted operating income (Non-GAAP measure) ¹ | 235 | 225 | 464 | 445 |

| | Percentage increases (decreases) | | | |
|---|----------------------------------|-------------------|-------------------|-------------------|
| | Three months ended | | Six months ended | |
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Sales | 5.7 | (0.3) | 5.5 | (0.2) |
| Gross profit | 2.3 | (4.1) | 1.6 | (2.9) |
| Selling, general and administrative expenses | (16.0) | 20.2 | (7.6) | 10.4 |
| Operating income | 36.2 | (69.1) | 1.1 | (24.4) |
| Adjusted operating income (Non-GAAP measure) ¹ | 4.6 | (3.3) | 4.3 | (2.3) |
| Comparable sales ^{2*} | 8.0 | 9.1 | 8.1 | 7.9 |

| | Percent to sales | | | |
|--|--------------------|-------------------|-------------------|-------------------|
| | Three months ended | | Six months ended | |
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Gross margin | 8.6 | 8.9 | 8.6 | 8.9 |
| Selling, general and administrative expenses | 6.8 | 8.6 | 6.8 | 7.8 |

¹ See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.

² Comparable sales are defined as sales excluding acquisitions and dispositions. With respect to the Pharmacy Wholesale division, comparable sales are presented on a constant currency basis, which is a non-GAAP financial measure. Refer to the discussion below in "--Non-GAAP Measures" for further details on constant currency calculations.

* The Company considers these items to be key performance indicators because the Company's management has evaluated its results of operations using these metrics and believes that these key performance indicators presented provide additional perspective and insights when analyzing the core operating performance of the Company from period to period and trends in its historical operating results. These key performance indicators 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 herein. These measures may not be comparable to similarly-titled performance indicators used by other companies.

Sales for the three months ended February 29, 2020 and February 28, 2019

Pharmaceutical Wholesale division's sales for the three months ended February 29, 2020 increased 5.7% to \$6.1 billion.

Sales were negatively impacted by 2.3 percentage points as a result of currency translation. Comparable sales increased 8.0%, led by growth in emerging markets and the UK.

Operating income for the three months ended February 29, 2020 and February 28, 2019

Pharmaceutical Wholesale division's operating income for the three months ended February 29, 2020 increased 36.2% to \$136 million primarily due to lower Transformation Cost Management expenses compared with the year-ago quarter, partially offset by lower Company's share of equity earnings in AmerisourceBergen. Operating income was negatively impacted by \$1 million as a result of currency translation.

Gross profit increased 2.3% from the year-ago quarter. Gross profit was negatively impacted by 1.5 percentage points (\$8 million) as a result of currency translation. Excluding the currency translation impact, the increase was primarily due to sales growth partially offset by lower gross margin.

Selling, general and administrative expenses decreased 16.0% from the year-ago quarter. Expenses were positively impacted by 1.3 percentage points (\$7 million) as a result of currency translation. Excluding the currency translation impact, the decrease was primarily due to lower Transformation Cost Management expenses compared with the year-ago quarter. As a percentage of sales, selling, general and administrative expenses for the three months ended February 29, 2020 were 6.8% compared to 8.6% in the year-ago quarter.

Adjusted operating income (Non-GAAP measure) for the three months ended February 29, 2020 and February 28, 2019

Pharmaceutical Wholesale division's adjusted operating income for the three months ended February 29, 2020, which included \$101 million from the Company's share of adjusted equity earnings in AmerisourceBergen, increased 4.6% to \$235 million. Adjusted operating income was negatively impacted by 0.6 percentage points (\$1 million) as a result of currency translation. Excluding the impact of currency translation, the increase in adjusted operating income was primarily due to higher sales and a higher contribution from AmerisourceBergen, partially offset by lower gross margin. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.

Sales for the six months ended February 29, 2020 and February 28, 2019

Pharmaceutical Wholesale division's sales for the six months ended February 29, 2020 increased 5.5% to \$12.1 billion. Sales were negatively impacted by 2.7 percentage points as a result of currency translation. Comparable sales increased 8.1%, led by growth in emerging markets and the UK, including a customer contract change in the UK.

Operating income for the six months ended February 29, 2020 and February 28, 2019

Pharmaceutical Wholesale division's operating income for the six months ended February 29, 2020 increased 1.1% to \$258 million primarily due to higher sales and lower Transformation Cost Management expenses compared with the year-ago period, partially offset by the Company's share of equity earnings from AmerisourceBergen and lower gross margin. Operating income was negatively impacted by \$3 million as a result of currency translation.

Gross profit increased 1.6% from the year-ago period. Gross profit was negatively impacted by 2.1 percentage points (\$22 million) as a result of currency translation. Excluding the currency translation impact, the increase was primarily due to sales growth partially offset by lower gross margin.

Selling, general and administrative expenses decreased 7.6% from the year-ago period. Expenses were positively impacted by 2.2 percentage points (\$19 million) as a result of currency translation. Excluding the currency translation impact, the decrease was primarily due to lower Transformational Cost Management expenses compared with the year-ago period. As a percentage of sales, selling, general and administrative expenses for the six months ended February 29, 2020 were 6.8% compared to 7.8% in the year-ago period.

Adjusted operating income (Non-GAAP measure) for the six months ended February 29, 2020 and February 28, 2019

Pharmaceutical Wholesale division's adjusted operating income for the six months ended February 29, 2020, which included \$193 million from the Company's share of adjusted equity earnings in AmerisourceBergen, increased 4.3% to \$464 million. Adjusted operating income was negatively impacted by 0.7 percentage points (\$3 million) as a result of currency translation. Excluding the impact of currency translation, the increase in adjusted operating income was primarily due to higher sales and a higher contribution from AmerisourceBergen, partially offset by lower gross margin. See "--Non-GAAP Measures" below for a reconciliation to the most directly comparable financial measure calculated in accordance with GAAP and related disclosures.

NON-GAAP MEASURES

The following information provides reconciliations of the supplemental non-GAAP financial measures, as defined under the rules of the Securities and Exchange Commission, presented herein to the most directly comparable financial measures calculated and presented in accordance with GAAP. The Company has provided the non-GAAP financial measures, 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 the Company's management has evaluated its financial results both including and excluding the adjusted items or the effects of foreign currency translation, as applicable, and believes that the supplemental non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of the Company from period to period and trends in its 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.

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 such presentation provides a framework to assess how its business performed excluding the impact of foreign currency exchange rate fluctuations.

(in millions)

Three months ended February 29, 2020

| | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale | Eliminations | Walgreens Boots Alliance, Inc. |
|---|---------------------|-------------------------------|--------------------------|--------------|--------------------------------|
| Operating income (GAAP) | \$ 963 | \$ 132 | \$ 136 | \$ 2 | \$ 1,233 |
| Acquisition-related amortization and impairment | 79 | 19 | 19 | — | 117 |
| Acquisition-related costs | 99 | — | — | — | 99 |
| Transformational cost management | 69 | 47 | 6 | — | 123 |
| Adjustments to equity earnings in AmerisourceBergen | — | — | 73 | — | 73 |
| LIFO provision | 28 | — | — | — | 28 |
| Store optimization | 30 | — | — | — | 30 |
| Adjusted operating income (Non-GAAP measure) | \$ 1,267 | \$ 198 | \$ 235 | \$ 2 | \$ 1,703 |

(in millions)

Three months ended February 28, 2019

| | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale | Eliminations | Walgreens Boots Alliance, Inc. |
|---|---------------------|-------------------------------|--------------------------|---------------|--------------------------------|
| Operating income (GAAP) | \$ 1,226 | \$ 192 | \$ 100 | \$ (1) | \$ 1,517 |
| Acquisition-related amortization and impairment | 79 | 25 | 20 | — | 123 |
| Acquisition-related costs | 82 | — | — | — | 82 |
| Transformational cost management | 14 | 40 | 96 | — | 150 |
| Adjustments to equity earnings in AmerisourceBergen | — | — | 9 | — | 9 |
| LIFO provision | 8 | — | — | — | 8 |
| Store optimization | 31 | — | — | — | 31 |
| Certain legal and regulatory accruals and settlements | 14 | — | — | — | 14 |
| Adjusted operating income (Non-GAAP measure) | \$ 1,455 | \$ 256 | \$ 225 | \$ (1) | \$ 1,935 |

(in millions)

Six months ended February 29, 2020

| | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale | Eliminations | Walgreens Boots Alliance, Inc. |
|---|---------------------|-------------------------------|--------------------------|--------------|--------------------------------|
| Operating income (GAAP) | \$ 1,811 | \$ 176 | \$ 258 | \$ 2 | \$ 2,247 |
| Acquisition-related amortization and impairment | 156 | 41 | 39 | — | 235 |
| Acquisition-related costs | 221 | — | 1 | — | 223 |
| Transformational cost management | 136 | 59 | 14 | — | 209 |
| Adjustments to equity earnings in AmerisourceBergen | — | — | 152 | — | 152 |
| LIFO provision | 61 | — | — | — | 61 |
| Store optimization | 39 | — | — | — | 39 |
| Adjusted operating income (Non-GAAP measure) | \$ 2,423 | \$ 276 | \$ 464 | \$ 2 | \$ 3,166 |

(in millions)

Six months ended February 28, 2019

| | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale | Eliminations | Walgreens Boots Alliance, Inc. |
|---|---------------------------|----------------------------------|-----------------------------|--------------|-----------------------------------|
| Operating income (GAAP) | \$ 2,393 | \$ 270 | \$ 255 | \$ — | \$ 2,918 |
| Acquisition-related amortization and impairment | 155 | 52 | 39 | — | 246 |
| Acquisition-related costs | 148 | — | — | — | 148 |
| Transformational cost management | 16 | 67 | 96 | — | 179 |
| Adjustments to equity earnings in AmerisourceBergen | — | — | 54 | — | 54 |
| LIFO provision | 48 | — | — | — | 48 |
| Store optimization | 51 | — | — | — | 51 |
| Certain legal and regulatory accruals and settlements | 24 | — | — | — | 24 |
| Adjusted operating income (Non-GAAP measure) | \$ 2,834 | \$ 388 | \$ 445 | \$ — | \$ 3,667 |

(in millions, except per share amounts)

| | Three months ended | | Six months ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | February 29, 2020 | February 28, 2019 | February 29, 2020 | February 28, 2019 |
| Net earnings attributable to Walgreens Boots Alliance, Inc. (GAAP) | \$ 946 | \$ 1,156 | \$ 1,791 | \$ 2,279 |
| Adjustments to operating income: | | | | |
| Acquisition-related amortization and impairment | 117 | 123 | 235 | 246 |
| Acquisition-related costs | 99 | 82 | 223 | 148 |
| Transformational cost management | 123 | 150 | 209 | 179 |
| Adjustments to equity earnings in AmerisourceBergen | 73 | 9 | 152 | 54 |
| LIFO provision | 28 | 8 | 61 | 48 |
| Store optimization | 30 | 31 | 39 | 51 |
| Certain legal and regulatory accruals and settlements | — | 14 | — | 24 |
| Total adjustments to operating income | 469 | 417 | 919 | 749 |
| Adjustments to other income (expense): | | | | |
| Net investment hedging (gain) loss | 7 | 6 | (4) | 2 |
| Gain on sale of equity method investment | — | — | (1) | — |
| Total adjustments to other income (expense) | 6 | 6 | (5) | 2 |
| Adjustments to income tax provision: | | | | |
| Equity method non-cash tax | 1 | 15 | (1) | 19 |
| U.S. tax law changes ¹ | — | 9 | (6) | (3) |
| Tax impact of adjustments ² | (97) | (81) | (177) | (139) |
| Total adjustments to income tax provision | (95) | (57) | (184) | (123) |
| Adjustments to post tax equity earnings from other equity method investments: | | | | |
| Adjustments to equity earnings in other equity method investments ³ | 15 | — | 43 | — |
| Total adjustments to post tax equity earnings from other equity method investments | 15 | — | 43 | — |
| Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure) | \$ 1,343 | \$ 1,522 | \$ 2,565 | \$ 2,908 |
| Diluted net earnings per common share (GAAP) | \$ 1.07 | \$ 1.24 | \$ 2.01 | \$ 2.42 |
| Adjustments to operating income | 0.53 | 0.45 | 1.03 | 0.80 |
| Adjustments to other income (expense) | 0.01 | 0.01 | (0.01) | — |
| Adjustments to income tax provision | (0.11) | (0.06) | (0.21) | (0.13) |
| Adjustments to equity earnings in other equity method investments ³ | 0.02 | — | 0.05 | — |
| Adjusted diluted net earnings per common share (Non-GAAP measure) | \$ 1.52 | \$ 1.64 | \$ 2.88 | \$ 3.09 |
| Weighted average common shares outstanding, diluted (in millions) | 885.5 | 930.7 | 889.1 | 941.1 |

- ¹ Discrete tax-only items.
- ² Represents the adjustment to the GAAP basis tax provision commensurate with non-GAAP adjustments and the adjusted tax rate true-up.
- ³ Beginning in the quarter ended May 31, 2019, management reviewed and refined its practice to reflect the proportionate share of certain equity method investees' non-cash items or unusual or infrequent items consistent with the Company's non-GAAP measures in order to provide investors with a comparable view of performance across periods. These adjustments include acquisition-related amortization and acquisition-related costs and were immaterial for the prior periods presented. Although the Company may have shareholder rights and board representation commensurate with its ownership interests in these equity method investees, adjustments relating to equity method investments are not intended to imply that the Company has direct control over their operations and resulting revenue and expenses. Moreover, these non-GAAP financial measures have limitations in that they do not reflect all revenue and expenses of these equity method investees.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$0.8 billion (including \$0.2 billion in non-U.S. jurisdictions) as of February 29, 2020, compared to \$0.8 billion (including \$0.4 billion in non-U.S. jurisdictions) as of February 28, 2019. Short-term investment objectives are primarily to minimize risk and maintain liquidity. To attain these objectives, investment limits are placed on the amount, type and issuer of securities. Investments are principally in U.S. Treasury money market funds and AAA-rated money market funds.

The Company's long-term capital policy is to: maintain a strong balance sheet and financial flexibility; reinvest in its core strategies; invest in strategic opportunities that reinforce its core strategies and meet return requirements; and return surplus cash flow to stockholders in the form of dividends and share repurchases over the long term. In June 2018, the Company's Board of Directors reviewed and refined the Company's dividend policy to set forth the Company's current intention to increase its dividend each year.

Cash provided by operations and the incurrence of debt are the principal sources of funds for expansion, investments, acquisitions, remodeling programs, dividends to stockholders and stock repurchases. Net cash provided by operating activities for the six months ended February 29, 2020 was \$2.5 billion, compared to \$1.2 billion for the year-ago period. The \$1.3 billion increase in cash provided by operating activities includes lower cash outflows from accounts receivable, net and inventories, higher cash inflows from accrued expenses and other liabilities partially offset by lower cash inflows from trade accounts payable. Changes in accounts receivable, net, inventories, and trade accounts payable are mainly driven by timing of collections and payments. Changes in accrued expenses and other liabilities are mainly driven by prior year cash payments for certain legal and regulatory settlements and timing of accruals.

Net cash used for investing activities was \$0.6 billion for the six months ended February 29, 2020 compared to \$1.0 billion for the year-ago period. This change in net cash used for investing activities includes \$0.3 billion in proceeds from sale-leaseback transactions for the six months ended February 29, 2020. Business, investment and asset acquisitions were \$0.3 billion for each of the six months ended February 29, 2020 and February 28, 2019.

For the six months ended February 29, 2020, additions to property, plant and equipment were \$705 million compared to \$793 million in the year-ago period. Capital expenditures by reporting segment were as follows (in millions):

| | Six months ended | |
|-------------------------------|--------------------------|--------------------------|
| | February 29, 2020 | February 28, 2019 |
| Retail Pharmacy USA | \$ 553 | \$ 605 |
| Retail Pharmacy International | 125 | 135 |
| Pharmaceutical Wholesale | 27 | 53 |
| Total | \$ 705 | \$ 793 |

Significant capital expenditures primarily relate to investments in our stores and information technology projects.

Net cash used for financing activities for the six months ended February 29, 2020 was \$2.1 billion, compared to \$0.1 billion in the year-ago period. In the six months ended February 29, 2020 there were \$9.9 billion in net proceeds primarily from revolving credit facilities described below and commercial paper debt compared to \$6.8 billion in net proceeds in the year-ago period. In the six months ended February 29, 2020 there were \$10.1 billion in payments of debt made primarily for revolving credit facilities and commercial paper debt compared to \$3.1 billion in six months ended February 28, 2019. The Company

repurchased shares as part of the stock repurchase program described below and to support the needs of the employee stock plans totaling \$0.9 billion compared to \$3.1 billion in the year-ago period. Proceeds related to employee stock plans were \$28 million during the six months ended February 29, 2020, compared to \$138 million during the six months ended February 28, 2019. Cash dividends paid were \$0.9 billion during the six months ended February 29, 2020, compared to \$0.8 billion for the same period a year ago.

Recent financing actions

Subsequent to February 29, 2020, the Company has taken actions and may continue to take actions intended to increase its cash position and preserve financial flexibility in light of current uncertainty in the global markets. As of March 31, 2020, the Company has total borrowings of approximately \$8.3 billion outstanding under the credit facilities and commercial paper program described above, of which \$2.0 billion was commercial paper.

The Company believes that cash flow from operations, availability under existing credit facilities and arrangements, current cash and investment balances and the ability to obtain other financing, if necessary, will provide adequate cash funds for the Company's foreseeable working capital needs, capital expenditures at existing facilities, pending acquisitions, dividend payments and debt service obligations for at least the next 12 months. The Company's cash requirements are subject to change as business conditions warrant and opportunities arise. The timing and size of any new business ventures or acquisitions that the Company may complete may also impact its cash requirements. For information regarding the impact of COVID-19 on the Company, including on its liquidity and capital resources, please see item 1A, risk factors in this report.

On April 1, 2020, the Company entered into a revolving credit agreement for a \$750 million senior unsecured revolving credit facility with the lenders from time to time party thereto. As of April 1, 2020, there were no borrowings outstanding under this facility.

See item 3, qualitative and quantitative disclosures about market risk, below for a discussion of certain financing and market risks.

Stock repurchase program

In June 2018, Walgreens Boots Alliance authorized a stock repurchase program (the "June 2018 stock repurchase program"), which authorized the repurchase of up to \$10.0 billion of Walgreens Boots Alliance common stock of which the Company had repurchased \$7.3 billion as of February 29, 2020. The June 2018 stock repurchase program has no specified expiration date.

The Company determines the timing and amount of repurchases, including repurchases to offset anticipated dilution from equity incentive plans, based on its assessment of various factors, including prevailing market conditions, alternate uses of capital, liquidity and the economic environment. The Company has repurchased and may from time to time in the future repurchase, shares on the open market through Rule 10b5-1 plans, which enable the Company to repurchase shares at times when we otherwise might be precluded from doing so under federal securities laws.

Commercial paper

The Company periodically borrows under its commercial paper program and may borrow under it in future periods. The Company had average daily commercial paper outstanding of \$3.0 billion and \$2.4 billion at a weighted average interest rate of 2.42% and 2.96% for the six months ended February 29, 2020 and February 28, 2019, respectively.

Financing actions

On August 29, 2018, Walgreens Boots Alliance entered into a revolving credit agreement (the "August 2018 Revolving Credit Agreement") with the lenders and letter of credit issuers from time to time party thereto. The August 2018 Revolving Credit Agreement is an unsecured revolving credit facility with an aggregate commitment in the amount of \$3.5 billion, with a letter of credit subfacility commitment amount of \$500 million. The facility termination date is the earlier of (a) August 29, 2023, subject to extension thereof pursuant to the August 2018 Revolving Credit Agreement, and (b) the date of termination in whole of the aggregate amount of the revolving commitments pursuant to the August 2018 Revolving Credit Agreement. Borrowings under the August 2018 Revolving Credit Agreement will bear interest at a fluctuating rate per annum equal to, at Walgreens Boots Alliance's option, the alternate base rate or the Eurocurrency rate, in each case, plus an applicable margin calculated based on Walgreens Boots Alliance's credit ratings. As of February 29, 2020, there were no borrowings under the August 2018 Revolving Credit Agreement.

On November 30, 2018, Walgreens Boots Alliance entered into a credit agreement (as amended the "November 2018 Credit Agreement") with the lenders from time to time party thereto and, on March 25, 2019, the Company entered into an amendment to such credit agreement reflecting certain changes to the borrowing notice provisions thereto. The November 2018 Credit Agreement includes a \$500 million senior unsecured revolving credit facility and a \$500 million senior unsecured term loan

facility. The facility termination date is, with respect to the revolving credit facility, the earlier of (a) May 30, 2020 and (b) the date of termination in whole of the aggregate amount of the revolving commitments pursuant to the November 2018 Credit Agreement and, with respect to the term loan facility, the earlier of (a) May 30, 2020 and (b) the date of acceleration of all term loans pursuant to the November 2018 Credit Agreement. Borrowings under the November 2018 Credit Agreement will bear interest at a fluctuating rate per annum equal to, at Walgreens Boots Alliance's option, the alternate base rate or the Eurocurrency rate, in each case, plus an applicable margin calculated based on Walgreens Boots Alliance's credit ratings. As of February 29, 2020, there were \$0.9 billion of borrowings under the November 2018 Credit Agreement.

On December 5, 2018, Walgreens Boots Alliance entered into a \$1.0 billion term loan credit agreement (as amended, the "December 2018 Credit Agreement") with the lenders from time to time party thereto and, on August 9, 2019, the Company entered into an amendment to such credit agreement to permit the Company to borrow, repay and reborrow amounts borrowed thereunder prior to the maturity date. The December 2018 Credit Agreement is a senior unsecured revolving credit facility with a facility termination date of the earlier of (a) January 29, 2021, subject to extension thereof pursuant to the December 2018 Credit Agreement, and (b) the date of termination in whole of the aggregate amount of the commitments pursuant to the December 2018 Credit Agreement. Borrowings under the December 2018 Credit Agreement will bear interest at a fluctuating rate per annum equal to, at Walgreens Boots Alliance's option, the alternate base rate or the Eurocurrency rate, plus an applicable margin of 0.75% in the case of Eurocurrency rate loans. As of February 29, 2020, there were \$1.0 billion of borrowings outstanding under the December 2018 Credit Agreement.

On December 21, 2018, the Company entered into a \$1.0 billion revolving credit agreement (the "December 2018 Revolving Credit Agreement") with the lenders from time to time party thereto. The December 2018 Revolving Credit Agreement is a senior unsecured revolving credit facility with a facility termination date of the earlier of (a) 18 months following January 28, 2019, the date of the effectiveness of the commitments pursuant to the December 2018 Revolving Credit Agreement, subject to extension thereof pursuant to the December 2018 Revolving Credit Agreement, and (b) the date of termination in whole of the aggregate amount of the commitments pursuant to the December 2018 Revolving Credit Agreement. Borrowings under the December 2018 Revolving Credit Agreement will bear interest at a fluctuating rate per annum equal to, at Walgreens Boots Alliance's option, the alternate base rate or the Eurocurrency rate, plus an applicable margin of 0.75% in the case of Eurocurrency rate loans. As of February 29, 2020, there were \$0.1 billion of borrowings outstanding under the December 2018 Revolving Credit Agreement.

On January 18, 2019, the Company entered into a \$2.0 billion 364-day revolving credit agreement (as extended, the "January 2019 364-Day Revolving Credit Agreement") with the lenders from time to time party thereto. The January 2019 364-Day Revolving Credit Agreement is a senior unsecured 364-day revolving credit facility, with a facility termination date of the earlier of (a) 364 days following January 31, 2019, the date of the effectiveness of the commitments pursuant to the January 364-Day Revolving Credit Agreement, subject to extension thereof pursuant to the January 2019 364-Day Revolving Credit Agreement, and (b) the date of termination in whole of the aggregate amount of the commitments pursuant to the January 2019 364-Day Revolving Credit Agreement. On December 18, 2019, the Company entered into an Extension Agreement (the "Extension Agreement") relating to the January 2019 364-Day Revolving Credit Agreement with the lenders party thereto and Mizuho, as administrative agent. The Extension Agreement extends the Maturity Date (as defined in the Credit Agreement) for an additional period of 364 days to January 28, 2021. Such extension became effective on January 30, 2020. Borrowings under the January 2019 364-Day Revolving Credit Agreement will bear interest at a fluctuating rate per annum equal to, at Walgreens Boots Alliance's option, the alternate base rate or the Eurocurrency rate, in each case, plus an applicable margin calculated based on the Company's credit ratings. As of February 29, 2020, there were \$0.6 billion of borrowings outstanding under the January 364-Day Revolving Credit Agreement.

On August 30, 2019, the Company entered into three \$500 million revolving credit agreements (together, the "August 2019 Revolving Credit Agreements" and each individually, an "August 2019 Revolving Credit Agreement") with the lenders from time to time party thereto. Each of the August 2019 Revolving Credit Agreements are senior unsecured revolving credit facilities, with facility termination dates of the earlier of (a) 18 months following August 30, 2019, subject to extension thereof pursuant to the applicable August 2019 Revolving Credit Agreement, and (b) the date of termination in whole of the aggregate amount of the commitments pursuant to the applicable August 2019 Revolving Credit Agreement. Borrowings under each of the August 2019 Revolving Credit Agreements will bear interest at a fluctuating rate per annum equal to, at Walgreens Boots Alliance's option, the alternate base rate or the Eurocurrency rate, plus an applicable margin of 0.95% in the case of Eurocurrency rate loans. As of February 29, 2020, there were no borrowings outstanding under the August 2019 Revolving Credit Agreements.

Debt covenants

Each of the Company's credit facilities described above contain a covenant to maintain, as of the last day of each fiscal quarter, a ratio of consolidated debt to total capitalization not to exceed 0.60:1.00, subject to increase in certain circumstances set forth

in the applicable credit agreement. As of February 29, 2020, the Company was in compliance with all such applicable covenants.

Credit ratings

As of April 1, 2020, the credit ratings of Walgreens Boots Alliance were:

| Rating agency | Long-term debt rating | Commercial paper rating | Outlook |
|----------------------|------------------------------|--------------------------------|----------------|
| Fitch | BBB | F2 | Negative |
| Moody's | Baa2 | P-2 | Stable |
| Standard & Poor's | BBB | A-2 | Stable |

In assessing the Company's credit strength, each rating agency considers various factors including the Company's business model, capital structure, financial policies and financial performance. There can be no assurance that any particular rating will be assigned or maintained. The Company's credit ratings impact its borrowing costs, access to capital markets and operating lease costs. The rating agency ratings are not recommendations to buy, sell or hold the Company's debt securities or commercial paper. Each rating may be subject to revision or withdrawal at any time by the assigning rating agency and should be evaluated independently of any other rating.

AmerisourceBergen relationship

As of February 29, 2020, the Company owned 56,854,867 AmerisourceBergen common shares representing approximately 28% of the outstanding common stock based on most recent share count publicly reported by AmerisourceBergen and had designated one member of AmerisourceBergen's board of directors. As of February 29, 2020, the Company can acquire up to an additional 8,398,752 AmerisourceBergen shares in the open market and thereafter designate another member of AmerisourceBergen's board of directors, subject in each case to applicable legal and contractual requirements. The amount of permitted open market purchases is subject to increase or decrease in certain circumstances. Subject to applicable legal and contractual requirements, share purchases may be made from time to time in open market transactions or pursuant to instruments and plans complying with Rule 10b5-1. See note 5, equity method investments, to the Consolidated Condensed Financial Statements included herein for further information.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any unconsolidated special purpose entities and, except as described herein, the Company does not have significant exposure to any off-balance sheet arrangements. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity not consolidated by the Company is a party, under which we have: (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

At February 29, 2020, the Company had \$51 million of guarantees outstanding and no amounts issued under letters of credit.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

There have been no material changes, outside of the ordinary course of business, in the Company's outstanding contractual obligations disclosed in the Walgreens Boots Alliance Annual Report on Form 10-K for the year ended August 31, 2019.

CRITICAL ACCOUNTING POLICIES

The Consolidated Condensed Financial Statements are prepared in accordance with GAAP and include amounts based on management's prudent judgments and estimates. Actual results may differ from these estimates. Management believes that any reasonable deviation from those judgments and estimates would not have a material impact on our consolidated financial position or results of operations. To the extent that the estimates used differ from actual results, however, adjustments to the statement of earnings and corresponding balance sheet accounts would be necessary. These adjustments would be made in future periods. For a discussion of our significant accounting policies, please see the Walgreens Boots Alliance Annual Report on Form 10-K for the fiscal year ended August 31, 2019. Some of the more significant estimates include business combinations, goodwill and indefinite-lived intangible asset impairment, cost of sales and inventory, equity method investments, pension and postretirement benefits and income taxes. See note 17, new accounting pronouncements, for additional information.

NEW ACCOUNTING PRONOUNCEMENTS

A discussion of new accounting pronouncements is described in note 17, new accounting pronouncements, to the Consolidated Condensed Financial Statements of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report and other documents that we file or furnish with the SEC contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management's assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, on the Company's website or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls, conference calls and other communications. Some of such forward-looking statements may be based on certain data and forecasts relating to our business and industry that we have obtained from internal surveys, market research, publicly available information and industry publications. Industry publications, surveys and market research generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Statements that are not historical facts are forward-looking statements, including, without limitation, those regarding 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, pilot programs, strategic partnerships and initiatives, and restructuring activities and the amounts and timing of their expected impact and delivery of estimated cost savings, our amended and restated asset purchase agreement with Rite Aid and the transactions contemplated thereby and their possible timing and effects, our commercial agreement with AmerisourceBergen, the arrangements and transactions contemplated by our framework agreement with AmerisourceBergen and their possible effects, estimates of the impact of developments on our earnings, earnings per share and other financial and operating metrics, cough, cold and flu season, the potential impacts on our business of the spread and impact of the COVID-19 pandemic, prescription volume, pharmacy sales trends, prescription margins and reimbursement rates, changes in generic prescription drug prices, retail margins, number and location of new store openings, network participation, vendor, payer and customer relationships and terms, possible new contracts or contract extensions, the withdrawal of the United Kingdom from the European Union and its possible effects, competition, economic and business conditions, outcomes of litigation and regulatory matters, the level of capital expenditures, industry trends, demographic trends, growth strategies, financial results, cost reduction initiatives, impairment or other charges, acquisition and joint venture synergies, competitive strengths and changes in legislation or regulations. All statements in the future tense and all statements accompanied by words such as "expect," "likely," "outlook," "forecast," "preliminary," "pilot," "would," "could," "should," "can," "will," "project," "intend," "plan," "goal," "guidance," "target," "aim," "continue," "sustain," "synergy," "transform," "accelerate," "model," "long-term," "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, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

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 inherent risks, challenges and uncertainties associated with forecasting financial results of large, complex organizations in rapidly evolving industries, particularly over longer time periods, supply arrangements including our commercial agreement with AmerisourceBergen, the arrangements and transactions contemplated by our framework agreement with AmerisourceBergen and their possible effects, the risks associated with our equity method investment in AmerisourceBergen, circumstances 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 restructuring initiatives, including the Transformational Cost Management Program and Store Optimization Program, will exceed estimates, our ability to realize expected savings and benefits from cost-savings initiatives, including the Transformational Cost Management Program and Store Optimization Program, 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 relating to the spread and impact of the COVID-19, 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, the risks associated with governance and control matters, the ability to retain key personnel, 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 relating to the terms, timing and magnitude of any share repurchase activity, the risks associated with international business operations, including the risks associated with the withdrawal of the United Kingdom from the European Union and international trade policies, tariffs, including tariff negotiations between the United States and China, and relations, the risks associated with cybersecurity or privacy breaches related to customer information, 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 related to competition including changes in market dynamics, participants, product and service offerings, retail formats and competitive positioning, risks associated with new business areas and activities, risks associated with

acquisitions, divestitures, joint ventures and strategic investments, including those relating to the asset acquisition from Rite Aid, the risks associated with the integration of complex businesses, the impact of regulatory restrictions and outcomes of legal and regulatory matters and risks associated with changes in laws, including those related to the December 2017 U.S. tax law changes, regulations or interpretations thereof. These and other risks, assumptions and uncertainties are described in Item 1A, Risk factors, in the Walgreens Boots Alliance Annual Report on Form 10-K for the fiscal year ended August 31, 2019, in Item 1A. "Risk factors" in this report and in other documents that we file or furnish with the SEC. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these 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 report, whether as a result of new information, future events, changes in assumptions or otherwise.

Item 3. Quantitative and qualitative disclosure about market risk

Interest rate risk

The Company is exposed to interest rate volatility with regard to existing variable-rate debt instruments and future incurrences of fixed or variable-rate debt, which exposure primarily relates to movements in various interest rates, such as U.S. treasury rates and commercial paper rates. From time to time, the Company uses interest rate swaps and forward-starting interest rate swaps to hedge its exposure to the impact of interest rate changes on existing debt and future debt issuances respectively, to reduce the volatility of financing costs and, based on current and projected market conditions, achieve a desired proportion of fixed-rate versus floating-rate debt. Generally under these swaps, the Company agrees with a counterparty to exchange the difference between fixed-rate and floating-rate interest amounts based on an agreed upon notional principal amount.

Information regarding the Company's transactions are set forth in note 8, financial instruments, to the Consolidated Condensed Financial Statements. These financial instruments are sensitive to changes in interest rates. On February 29, 2020, the Company had no material long-term debt obligations that had floating interest rates. The amounts exclude the impact of any associated derivative contracts.

Foreign currency exchange rate risk

The Company is exposed to fluctuations in foreign currency exchange rates, primarily with respect to the British pound sterling and Euro, and certain other foreign currencies, which may affect its net investment in foreign subsidiaries and may cause fluctuations in cash flows related to foreign denominated transactions. The Company is also exposed to the translation of foreign currency earnings to the U.S. dollar. The Company enters into foreign currency forward contracts to hedge against the effect of exchange rate fluctuations on non-functional currency cash flows. These transactions are almost exclusively less than 12 months in maturity. In addition, the Company enters into foreign currency forward contracts that are not designated in hedging relationships to offset, in part, the impacts of certain intercompany activities (primarily associated with intercompany financing transactions).

The Company's foreign currency derivative instruments are sensitive to changes in exchange rates. A hypothetical 1% change in foreign currency exchange rates versus the U.S. dollar would change the fair value of the foreign currency derivatives held as of February 29, 2020, by approximately \$27 million. The foreign currency derivatives are intended to partially hedge anticipated transactions, foreign currency trade payables and receivables and net investments in foreign subsidiaries.

Equity price risk

Changes in AmerisourceBergen common stock price may have a significant impact on the fair value of the equity investment in AmerisourceBergen described in note 5, equity method investments, to the Consolidated Condensed Financial Statements. See "--Investment in AmerisourceBergen" above.

Item 4. Controls and procedures**Evaluation of disclosure controls and procedures**

Management conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q. The controls evaluation was conducted under the supervision and with the participation of the Company's management, including its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based upon the controls evaluation, our CEO and CFO have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

In connection with the evaluation pursuant to Exchange Act Rule 13a-15(d) of the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) by the Company's management, including its CEO and CFO, no changes during the quarter ended February 29, 2020 were identified that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. We are implementing a new enterprise resource planning (ERP) system which affects many of our financial processes. This project is expected to improve the efficiency and effectiveness of certain financial and business transaction processes, as well as the underlying systems environment. The new ERP system will be a significant component of our internal control over financial reporting.

Inherent limitations on effectiveness of controls

Our management, including the CEO and CFO, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Part II. Other Information

Item 1. Legal proceedings

The information in response to this item is incorporated herein by reference to note 10, commitments and contingencies, to the Consolidated Condensed Financial Statements of this Quarterly Report.

Item 103 of SEC Regulation S-K requires disclosure of environmental legal proceedings with, or any such legal proceedings known to be contemplated by, a governmental authority if management reasonably believes that the proceedings involve potential monetary sanctions of \$100,000 or more. As previously disclosed, the Company is under investigation by certain counties within the State of California for alleged noncompliance with state hazardous waste regulations, and settlement discussions are in process with the applicable government authorities. Although we cannot predict the outcome of this matter, we do not expect the outcome to have a material adverse effect on our prospects, financial condition, results of operations or cash flows.

Item 1A. Risk factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in item 1A. "Risk factors" in the Walgreens Boots Alliance Annual Report on Form 10-K for the year ended August 31, 2019, the amended and restated risk factors entitled "Our substantial international business operations subject us to a number of operating, economic, political, regulatory and other international business risks" appearing on page 13 of such annual report, as amended and restated below, and the risk factor below entitled "The recent COVID-19 pandemic could have a material adverse effect on our business operations, results of operations, cash flows and financial position" which could materially affect our business, financial condition or future results.

Our substantial international business operations subject us to a number of operating, economic, political, regulatory and other international business risks.

Our substantial international business operations are important to our growth and prospects, including particularly those of our Retail Pharmacy International and Pharmaceutical Wholesale divisions, and are subject to a number of risks, including:

- compliance with a wide variety of foreign laws and regulations, including retail and wholesale pharmacy, licensing, tax, foreign trade, intellectual property, privacy and data protection, immigration, currency, political and other business restrictions and requirements and local laws and regulations, whose interpretation and enforcement vary significantly among jurisdictions and can change significantly over time;
- additional U.S. and other regulation of non-domestic operations, including regulation under the Foreign Corrupt Practices Act, the UK Bribery Act and other anti-corruption laws;
- potential difficulties in managing foreign operations, mitigating credit risks in foreign markets, enforcing agreements and collecting receivables through foreign legal systems;
- price controls imposed by foreign countries, tariffs, duties or other restrictions on foreign currencies or trade sanctions and other trade barriers imposed by foreign countries that restrict or prohibit business transactions in certain markets, or fluctuations in currency rates;
- impact of recessions and economic slowdowns in economies outside the United States, including foreign currency devaluation, higher interest rates, inflation, and increased government regulation or ownership of traditional private businesses;
- the instability of foreign economies, governments and currencies and unexpected regulatory, economic or political changes in foreign markets; and
- developing and emerging markets may be especially vulnerable to periods of instability and unexpected changes, and consumers in those markets may have relatively limited resources to spend on products and services.

These factors can also adversely affect our payers, vendors and customers in international markets, which in turn can negatively impact our businesses. We cannot assure you that one or more of these factors will not have a material adverse effect on our business operations, results of operation and financial condition.

Many of these factors are subject to change based on changes in political, economic and regulatory influences. For example:

- Our Retail Pharmacy International and Pharmaceutical Wholesale divisions have substantial operations in the United Kingdom and other member countries of the European Union. In June 2016, voters in the United Kingdom approved an advisory referendum to withdraw from the European Union, which proposed exit (and the political, economic and other uncertainties it has raised), commonly referred to as “Brexit,” has exacerbated and may further exacerbate many of the risks and uncertainties described above. Since the Brexit vote in June 2016, the deadline for Brexit has been extended multiple times and there has been significant volatility in the global stock markets and currency exchange rates, as well as challenging market conditions in the United Kingdom. The December 2019 general election in the United Kingdom resulted in a significant working majority for the ruling Conservative party, and as a result, the United Kingdom left the European Union on January 31, 2020. There is now a transition period until December 31, 2020 in which the United Kingdom and European Union are to negotiate a new trading relationship for goods and services. Failure to complete negotiations by the implementation deadline of December 31, 2020 could result in the United Kingdom reverting to undesirable and adverse trade agreements with the European Union. Given the complexity and uncertainty surrounding the withdrawal and related negotiations, including with respect to terms of trade and customs, there can be no assurance regarding the terms, timing or consummation of any such arrangements. The withdrawal could, among other potential outcomes, adversely affect the tax, tax treaty, currency, operational, legal and regulatory regimes to which our businesses in the region are subject. The withdrawal could also, among other potential outcomes, disrupt the free movement of goods, services and people between the United Kingdom and the European Union and significantly disrupt trade between the United Kingdom and the European Union and other parties. Further, uncertainty around and developments regarding these and related issues has contributed to deteriorating market conditions and could further adversely impact consumer and investor confidence and the economy of the United Kingdom and the economies of other countries in which we operate and cause significant volatility in currency exchange rates; and
- Many of the products we sell are manufactured in whole or in part outside of the United States. In some cases, these products are imported by others and sold to us. In the United States, the Presidential Administration has discussed, and in some cases implemented, changes with respect to certain tax and trade policies, tariffs and other government regulations affecting trade between the United States and other countries. For example, concerns regarding trade relations between the United States and China have escalated during fiscal 2019 and discussions have continued through the date of this report, as both countries imposed significant tariffs on the importation of certain product categories. As a significant portion of our retail products are sourced from China, the imposition on the United States of these and any additional new tariffs on certain goods imported from China have adversely affected costs and could impact the profitability of retail product sales in our Retail Pharmacy USA division. While it is not possible to predict whether or when any additional changes will occur or what form they may take, significant changes in tax or trade policies, tariffs or trade relations between the United States and other countries could result in significant increases in our costs, restrict our access to certain suppliers and adversely impact economic activity. In addition, other countries may change their business and trade policies in anticipation of or in response to increased import tariffs and other changes in United States’ trade policy and regulations.

There can be no assurance that any or all of these developments will not have a material adverse effect on our business operations, results of operations and financial condition.

The recent COVID-19 pandemic could have a material adverse effect on our business operations, results of operations, cash flows and financial position

We are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business and geographies, including how it will impact our customers, team members, suppliers, vendors, business partners and distribution channels. The COVID-19 pandemic has created significant volatility, uncertainty and economic disruption, which will adversely affect our business operations and may materially and adversely affect our results of operations, cash flows and financial position.

For example, while we initially experienced acceleration in consumer purchases in the United States and United Kingdom across multiple categories, more recently, we are seeing declining sales patterns, particularly in quarantined areas and decreased footfall. In the United States in March, we saw significant sales growth during the first twenty-one days of the month, with trends more negative for the remainder of the month. Similarly, in the United Kingdom, March sales trends were initially positive, but have since become negative. In most of our other retail pharmacy international markets and in key markets of our pharmaceutical wholesale business, demand has increased in March. In addition to volatility in consumer demand and buying habits, we may restrict the operations of our stores or distribution facilities if we deem it necessary or if recommended or mandated by governmental authorities which would have a further adverse impact on us. For example, we have recently closed

a number of our optical and hearing care business locations across the United Kingdom, which has had an adverse impact on our results in the United Kingdom.

We have incurred additional costs to ensure we meet the needs of our customers, including expanding the use of drive-thru locations in the United States, providing additional cleaning materials for our stores and other facilities, and focusing on home delivery and digital services to connect with our customers. In addition, we have enhanced certain employee benefits. We expect to continue to incur additional costs, which may be significant, as we continue to implement operational changes in response to this pandemic. COVID-19 has also caused supply chain disruption which has resulted in higher supply chain costs to replenish inventory in our stores and distribution centers and such increased costs in our supply chain are likely to continue. Furthermore, we have experienced restricted stock availability in a number of key categories, and while we have significantly increased our purchases across many key categories, we may face delays or difficulty sourcing certain products which could negatively impact us.

Further, our management is focused on mitigating COVID-19, which has required and will continue to require, a large investment of time and resources across our enterprise and will delay other value added services. For example, we have refocused certain resources from our Transformational Cost Management Program to work on COVID-19 impacts, have delayed the roll out of new growth initiatives, such as new product launches, and are selectively delaying investments in certain planned initiatives, such as our SAP rollout in the United States, which we expect to adversely impact our results. Additionally, currently some of our employees are working remotely. An extended period of remote work arrangements could strain our business continuity plans, introduce operational risk, including but not limited to cybersecurity risks, and impair our ability to manage our business.

If we do not respond appropriately to the pandemic, or if customers do not perceive our response to be adequate for the United States or United Kingdom or our other international markets, we could suffer damage to our reputation and our brands, which could adversely affect our business.

The extent to which the COVID-19 pandemic impacts us will depend on numerous evolving factors and future developments that we are not able to predict, including: the severity of the virus; the duration of the outbreak; governmental, business and other actions (which could include limitations on our operations or mandates to provide products or services); the promotion of social distancing and the adoption of shelter-in-place orders affecting foot traffic in our stores; the impacts on our supply chain; the impact of the pandemic on economic activity; the extent and duration of the effect on consumer confidence and spending, customer demand and buying patterns including spend on discretionary categories; the effects of additional store closures or other changes to our operations; the health of and the effect on our workforce and our ability to meet staffing needs in our stores, distribution facilities, wholesale operations and other critical functions, particularly if members of our work force are quarantined as a result of exposure; any impairment in value of our tangible or intangible assets which could be recorded as a result of a weaker economic conditions; and the potential effects on our internal controls including those over financial reporting as a result of changes in working environments such as shelter-in-place and similar orders that are applicable to our team members and business partners, among others. In addition, if the pandemic continues to create disruptions or turmoil in the credit or financial markets, or impacts our credit ratings, it could adversely affect our ability to access capital on favorable terms and continue to meet our liquidity needs, all of which are highly uncertain and cannot be predicted.

In addition, we cannot predict the impact that COVID-19 will have on our customers, suppliers, vendors, and other business partners, and each of their financial conditions; however, any material effect on these parties could adversely impact us. The impact of COVID-19 may also exacerbate other risks discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K, any of which could have a material effect on us. This situation is changing rapidly and additional impacts may arise that we are not aware of currently.

Item 2. Unregistered sales of equity securities and use of proceeds

The following table provides information about purchases by the Company during the quarter ended February 29, 2020 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act. Subject to applicable law, share purchases may be made from time to time in open market transactions, privately negotiated transactions including accelerated share repurchase agreements, or pursuant to instruments and plans complying with Rule 10b5-1.

| Period | Issuer purchases of equity securities | | | | |
|---------------------|---|------------------------------|--|--|---------------|
| | Total number of shares purchased by month | Average price paid per share | Total number of shares purchased by month as part of publicly announced repurchase programs ¹ | Approximate dollar value of shares that may yet be purchased under the plans or program ¹ | |
| 12/01/19 – 12/31/19 | 2,306,956 | \$ 58.55 | 2,306,956 | \$ | 2,984,875,104 |
| 01/01/20 – 01/31/20 | 2,905,226 | 55.33 | 2,905,226 | | 2,824,091,327 |
| 02/01/20 – 02/29/20 | 2,783,846 | 51.85 | 2,783,846 | | 2,679,723,832 |
| | 7,996,028 | \$ 55.05 | 7,996,028 | \$ | 2,679,723,832 |

¹ In June 2018, Walgreens Boots Alliance authorized a stock repurchase program, which authorized the repurchase of up to \$10.0 billion of Walgreens Boots Alliance common stock. This program has no specified expiration date.

Item 6. Exhibits

The agreements included as exhibits to this report are included to provide information regarding their terms and not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the applicable agreement, and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

| <u>Exhibit No.</u> | <u>Description</u> | <u>SEC Document Reference</u> |
|----------------------|---|--|
| 3.1 | Amended and Restated Certificate of Incorporation of Walgreens Boots Alliance, Inc. | Incorporated by reference to Exhibit 3.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K12B (File No. 1-36759) filed with the SEC on December 31, 2014. |
| 3.2 | Amended and Restated Bylaws of Walgreens Boots Alliance, Inc. | Incorporated by reference to Exhibit 3.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 1-36759) filed with the SEC on June 10, 2016. |
| 10.1 | Extension Agreement, dated as of December 18, 2019, by and among Walgreens Boots Alliance, Inc., the lenders party thereto and Mizuho Bank, Ltd., as administrative agent. | Incorporated by reference to Exhibit 10.1 to Walgreens Boots Alliance, Inc.'s Current Report on Form 8-K (File No. 1-36759) filed with the SEC on December 18, 2019. |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | Filed herewith. |
| 32.1 | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. | Furnished herewith. |
| 32.2 | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. | Furnished herewith. |
| 101.INS | Inline XBRL Instance Document (The following financial information from this Quarterly Report on Form 10-Q for the quarter ended February 29, 2020 formatted in Inline XBRL (Extensive Business Reporting Language) includes: (i) the Consolidated Condensed Balance Sheets; (ii) the Consolidated Condensed Statements of Equity; (iii) the Consolidated Condensed Statement of Earnings; (iv) the Consolidated Condensed Statements of Comprehensive Income; (v) the Consolidated Condensed Statements of Cash Flows; and (vi) Notes Financial Statements). | Filed herewith. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document | Filed herewith. |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document | Filed herewith. |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document | Filed herewith. |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document | Filed herewith. |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | Filed herewith. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL document and included in Exhibit 101) | Filed herewith. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Walgreens Boots Alliance, Inc.

(Registrant)

Dated: April 2, 2020

/s/ James Kehoe

James Kehoe

Executive Vice President and Global Chief Financial Officer

(Principal Financial Officer)

Dated: April 2, 2020

/s/ Heather Dixon

Heather Dixon

Senior Vice President, Global Controller and Chief Accounting Officer

(Principal Accounting Officer)

CERTIFICATION

I, Stefano Pessina, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walgreens Boots Alliance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/

Stefano Pessina

Chief Executive Officer

Date: April 2, 2020

Stefano Pessina

CERTIFICATION

I, James Kehoe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Walgreens Boots Alliance, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/

James Kehoe
James Kehoe

Global Chief Financial Officer

Date: April 2, 2020

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Walgreens Boots Alliance, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended February 29, 2020 as filed with the Securities and Exchange Commission (the "Report"), I, Stefano Pessina, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stefano Pessina
Stefano Pessina
Chief Executive Officer
Dated: April 2, 2020

A signed original of this written statement required by Section 906 has been provided to Walgreens Boots Alliance, Inc. and will be retained by Walgreens Boots Alliance, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Walgreens Boots Alliance, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the quarter ended February 29, 2020 as filed with the Securities and Exchange Commission (the "Report"), I, James Kehoe, Global Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James Kehoe

James Kehoe

Global Chief Financial Officer

Dated: April 2, 2020

A signed original of this written statement required by Section 906 has been provided to Walgreens Boots Alliance, Inc. and will be retained by Walgreens Boots Alliance, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.