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WBA - Q4 2016 Walgreens Boots Alliance Inc Earnings Call

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OVERVIEW:

WBA reported FY16 GAAP diluted net EPS of $3.82. 4Q16 sales were $28.6b, GAAP net earnings attributable to WBA were $1.0b, and GAAP diluted EPS was $0.95. Co. expects FY17 adjusted diluted net EPS to be $4.85-5.20.

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George Fairweather *Walgreens Boots Alliance Inc. - EVP & Global CFO*

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PRESENTATION

Operator

Welcome to the Walgreens Boots Alliance Incorporated fourth-quarter 2016 earnings conference call.

(Operator Instructions)

As a reminder, today's conference is being recorded. I would now like to introduce your host for today's conference call, Mr Gerald Gradwell. You may begin, sir.

Gerald Gradwell - *Walgreens Boots Alliance Inc. - IR*

Thank you. Hello. Welcome to our earnings call. As usual, Stefano Pessina, our Executive Vice Chairman and Chief Executive Officer; and George Fairweather, Executive Vice President and global Chief Financial Officer will take you through our results today. Alex Gourlay, co-Chief Operating Officer of Walgreens Boots Alliance is also here and will join us for questions.

You will find a link to the webcast on our investor relations website at investor.WalgreensBootsAlliance.com. After the call, this presentation and webcast will be archived on the website for 12 months. Certain statements and projections of future results made in this presentation constitute forward-looking statements that are based on our current market competitive and regulatory expectations and are subject to risks and uncertainties that could cause actual results to vary materially. Except to the extent required by the law, we undertake no obligation to update publicly any forward-looking statement after this presentation, whether as a result of new information, future events, changes in assumptions or otherwise.

Please see our latest Form 10-K and subsequent filings for a discussion of risk factors as they relate to forward-looking statements. As a reminder, today's presentation includes certain non-GAAP financial measures. We refer you to the appendix in the presentation materials available on our investor relations website for reconciliations to the most directly comparable GAAP financial measures and related information. I will now hand over to George to take you through the numbers.

George Fairweather - *Walgreens Boots Alliance Inc. - EVP & Global CFO*

Thank you, Gerald. I am pleased that we have delivered good results, which is a fitting close to what has been an outstanding financial year for the Company, exceeding the upper end of our guidance when we have again experienced strong currency headwinds and some challenging market conditions. As usual, this performance has been achieved through a combination of operational progress and corporate efficiencies. In particular, we have managed our costs well and generated a healthy cash flow. At the same time, we have announced a number of significant strategic partnerships in the US, which Stefano will talk about later.

But first, I will take you through our fourth-quarter results. Let me start with the financial highlights, sales totaled $28.6 billion, up 0.4% versus the comparable quarter last year. Our results were impacted by currency translation. On a constant currency basis, sales were up 2.5%. GAAP and operating income was $1.1 billion, an increase of 36.4%. GAAP net earnings attributable to Walgreens Boots Alliance were $1.0 billion. Diluted EPS was $0.95. Adjusted operating income was $1.6 billion, up 7.2% and in constant currency was up 10.3%. Adjusted net earnings attributable to Walgreens Boots Alliance were $1.2 billion, up 20.3%. Adjusted diluted net earnings per share was $1.07. That was up 21.6%. The adverse currency translation impact was around $0.03.

So, now, let me turn to the performance of our divisions in the quarter, beginning with retail pharmacy USA. Retail pharmacy USA sales were $20.7 billion, up 4.0% over the year ago quarter. Comparable store sales increasing by 3.2%. Adjusted gross profit was up 0.5% to $5.4 billion, adjusted gross margin being lower for both pharmacy and retail. Adjusted SG&A as a percentage of sales improved by 0.9 percentage points to 20.7%. Adjusted operating margin was stable at 5.3%, resulting in adjusted operating income of $1.1 billion, up 4.4%. This increase was primarily driven by increased pharmacy volume, procurement efficiencies, and cost control, partially offset by lower reimbursement rates.

We continue to make strong progress on our previously announced cost savings program, the majority of which is in the US. Overall, we are well on track to deliver our $1.5 billion in savings by the end of FY17. We now expect total pre-tax charges associated with the program to be between $1.3 billion to $1.5 billion, which is $300 million lower than we previously estimated.

So next, let's look in more detail at pharmacy. US pharmacy total sales were up 6.2%, driven by increased script volume and improved specialty sales. We filled 229.95 -- sorry, 229.5 million prescriptions. That's on a 30-day adjusted basis including immunizations, an increase of 3.7%. On a comparable basis for stores, which excludes central specialty, pharmacy sales increased by 5.0%, with scripts filled up 3.9%, mainly due to continued growth in Medicare Part D volume. Our reported market share of refill prescriptions on the usual 30-day adjusted basis was 19.3%, up approximately 40 basis points over the year ago quarter.

As you may know, IMS restated its market share numbers for the comparable period due to an enhancement to the IMS panel. In the appendix, we set out fully comparable historic market share statistics for the division. As in the last quarter, and as we expected, gross margins were lower, mainly due to reimbursement rates and changes in mix, which were partially offset by procurement efficiencies.

Retail sales on a comparable basis were down 0.3% on the same quarter last year.

Sales were impacted most significantly by declines in certain consumable categories and seasonal items, such as back-to-school and commodity electronics, where we took action to proactively clear out old and legacy stock as we move to the next phase of our retail transformation program. We are also seeing the impact of direct management action in tobacco, where we have continued to reduce space and visibility as we focus on helping customers who want to stop smoking.

Importantly, the health and wellness and beauty categories performed well. While gross margins in the quarter were slightly down, we don't see this as a permanent weakness as the recent declines have been mainly due to actions we have taken to put in place foundations for long-term growth. I am delighted to report that the first phase of our new beauty offering reached more than 1,600 stores across the US by the end of the fiscal year. This has three core elements: product, store environment, and customer experience.

First the product. In this phase, we are highlighting two of our best known brands, No7 and Soap & Glory, alongside existing national brands already well known to Walgreens customers. The second element is the store environment. Our stores' beauty areas are being transformed to provide a welcoming and colorful environment, with improved signage and lighting and a product range chosen to suit all types of customers regardless of age or background.

The third element of the new Walgreens beauty offer is the customer experience. This involved training and deploying specialist beauty consultants to offer high-quality advice to our customers. The program has drawn on our experience internationally, most directly from Boots in the UK, but has been tailored specifically for the US market based on customer engagement and research.

This is the first phase of a multi-phase, multi-year strategy to differentiate Walgreens' beauty offering.

So, now, let's look at the results of the Retail Pharmacy International division. Sales for the division were $3.0 billion, up 1.4% in constant currency. On the same basis, comparable store sales declined by 0.6%, mainly due to Chile and the UK, which I will cover in a moment. Adjusted operating margin for the division was 8.1%, up 1.0 percentage points. This resulted in adjusted operating income of $247 million, an increase of 15.7% in constant currency.

To improve comparability, you will see that we have made certain classification changes to prior period sales, cost of sales, and SG&A. These changes have had no impact on operating income. To help with modeling, in the appendix, we have provided revised numbers by quarter for FY15 and FY16.

Comparable pharmacy sales were flat on a constant currency basis, as the loss of institutional contracts in Chile offset growth in other markets.

In Boots UK, comparable pharmacy sales were up 0.6%. While we continue to experience reimbursement pressure, pharmacy services continued to perform well.

Comparable retail sales for the division decreased 1.0% due to a weaker Boots performance in the UK, where comparable retail sales were down 0.8% impacted by a particularly volatile and poor June.

So, now let's look at our Pharmaceutical Wholesale Division. Sales for the division were $5.4 billion, down 1.5% on a constant currency basis, due to the disposal of Alliance Healthcare Russia in April. Comparable sales on a constant currency basis, which excludes acquisitions and dispositions, increased by 2.9%. This was marginally behind our estimate of market growth weighted on the basis of our country wholesale sales due to competitive market conditions in continental Europe.

Adjusted operating margin for the division, which we define to exclude AmerisourceBergen income, was 2.9%. This was up 0.3 percentage points on a constant currency basis versus the comparable quarter last year. Adjusted operating income for the division was $208 million, up 39.2% in constant currency. While the increase was mainly due to equity earnings from ABC, excluding this, adjusted operating income grew by 7.6% in constant currency.

As you know, we report our share of ABC's net earnings on a two-month lag. As a result, this was our first full quarter of recognizing approximately 16% of ABC's net earnings.

When modeling ABC, remember that equity income related to our increased ownership from the August warrant exercise will be reflected in only five weeks of the first quarter due to the two-month reporting lag.

So now, let me turn to the full-year numbers for FY16. As I said at the beginning, this has been an outstanding financial year, exceeding the upper end of our guidance.

These results are, of course, not directly comparable with the previous year, due to the Alliance Boots transaction.

In summary, GAAP diluted net earnings per share of $3.82 was down 4.5%. This reflects a number of factors including the fluctuations in the ABC warrants and last year's non-cash gain relating to Alliance Boots.

On an adjusted basis, diluted earnings per share increased by 18.3% to $4.59. The adjusted effective tax rate, which we calculate excluding the equity income from ABC, this was 25.4%. This was lower than we had anticipated when we spoke to you last quarter.

Ignoring discrete tax items, our underlying adjusted effective tax rate would have been 26.3%. Discrete items of approximately 0.9 percentage points, primarily included completion of certain US tax audits and true-ups of prior-year accruals. The tax rate also reflects changes in the geographical mix of our pre-tax earnings and the US taxation of our non-US entities.

Operating cash flow was $2.7 billion in the quarter and $7.8 billion in the full fiscal year. Over the course of the year, working capital reduced by $1.4 billion due to improved payables.

Cash capital expenditure was $421 million in the quarter and $1.3 billion in the full fiscal year. During the year, we invested in key areas to develop our customer proposition including investment in stores and the US beauty program, as well as upgrades to our IT systems, which we began earlier in the year. Store investments included over 100 new openings in Mexico, which continues to be a focus area for expansion.

Overall, this resulted in free cash flow for the quarter of $2.2 billion and $6.5 billion in the full fiscal year, a year-on-year increase of $2.1 billion.

So turning now to our pending acquisition of Rite Aid. As announced on September 8, we remain actively engaged with the FTC on its review. Today, we still expect that the most likely outcome will be that the parties will be required to divest between 500 and 1,000 stores. We believe that we will be able to execute agreements to divest these stores to potential buyers pending FTC approval, by the end of calendar year 2016. I now expect to close the acquisition in early calendar 2017.

Taking into account our current expectations of store divestitures, we continue to expect that the acquisition will be accretive to adjusted diluted net earnings per share in the first full year after closing. We also continue to expect that we will realize synergies from the acquisition in excess of $1 billion, to be fully realized within three to four years of closing. These synergies have been updated where practicable and as previously disclosed are expected to come primarily from procurement, cost savings, and other operational matters.

So turning now to guidance for FY17. We are expecting adjusted diluted net earnings per share to be in the range of $4.85 to $5.20. This assumes Rite Aid accretion of $0.05 to $0.12 based on the assumptions that I have just mentioned, and the continuation of our normal anti-dilutive buyback program relating to equity incentives. In addition, this guidance is based on current exchange rates remaining constant for the rest of the fiscal year.

Please remember, Sterling today is around 15% lower versus the dollar than our weighted average operating income translation rate for FY16. This had an adverse impact on our guidance of around $0.13.

In terms of phasing, the timing and development of our recently announced new strategic pharmacy partnerships in the US means that we expect retail pharmacy USA script growth to be stronger than usual in the second half of the fiscal year.

The new rates come into effect on day one of the contracts, mainly around the end of the calendar year, while we believe that the enhanced volumes will take some time to build.

Overall, we therefore expect Retail Pharmacy USA gross margins to continue to decline in the coming quarters, but expect to see sales and profits for the year as a whole to continue to grow, as the expected volumes come through from our pharmacy contracts in the second half of the fiscal year.

So, I will now hand over to Stefano for his concluding comments.

Stefano Pessina - *Walgreens Boots Alliance Inc. - Executive Vice Chairman & CEO*

Thank you, George. As you have heard, this was a good quarter despite both currency and operational challenges. It is our fourth quarter in what I believe has been an extremely good year as a whole for the Company. That said, the work that we have been doing to control costs, reduce waste, and return our business to a path of growth has been showing marked effects for some time.

For the past eight quarters in a row, we have grown our adjusted net earnings over the comparable prior periods.

In FY14, if you make just a basic adjustment to add in the 55% of Alliance Boots not reflected in the historical published results, we would have generated an estimated $3.9 billion of adjusted net earnings.

As we reported $5 billion of adjusted net earnings in FY16, this would represent an increase of approximately 28% over the last two fiscal years on a reported currency basis. This is a compound annual growth rate of around 13%.

It also represents an annual increase of over 15% on a constant currency basis.

In addition, we have delivered $10.9 billion of free cash flow over the same period.

While I believe that this is impressive by any measure, it is not solely due to the merger that created Walgreens Boots Alliance.

We have continued to see progressive operations growth across the Company, which has been a significant driver of our strong financial performance. This success has been achieved despite it having been a very busy time.

Let's take a moment to remind ourselves of everything that we have achieved in the past year. In the US, we launched significant initiatives to advance our retail and pharmacy offering. These included investing in the customer experience, especially in beauty, to differentiate Walgreens as a retailer.

We also reset our relationships with healthcare payors and PBMs and worked to develop closer partnership as a platform for our future. Examples of these strategic partnerships include our new 90-day prescription agreement with OptumRX and EnvisionRX ... our enhanced agreement with Express Scripts and our innovative partnership with Prime Therapeutics. These close partnerships are central to our strategy of increasing volumes through our pharmacies and driving footfall to our stores. We strengthened our relationship with AmerisourceBergen, exercising both tranches of warrants and extending our pharmacy sales distribution and sourcing agreements. These move further cement the strong and collaborative working relationship our companies have built together over the past three years.

Our pending acquisition of Rite Aid continues to progress, as George said.

Globally, we continue to expand our reach and presence. In Russia, we divested our wholesale business and as part of the deal we retained a strategic stake in the country's leading health and beauty retainer. And in South Korea, we signed an agreement to form a franchise relationship with one of the Company's leading retailers.

At the Company level, we reached and surpassed our $1 billion synergy goal from the WBA merger and further progressed our cost savings goal of $1.5 billion by the end of FY17.

At the same time, we changed the roles and responsibilities of our senior management team to structure our leadership more efficiently and move to operating a totally unified Company.

Looking forward to 2017, we expect to face the same headwinds that we encountered this year but with some additional factors that are going to slightly change the profile for the year.

We are entering a period where we need to consolidate much of the recent activities in the Company.

We must ensure we are properly position to get the full benefit of our work to date, as the expected volume increases from our new commercial agreements begin to flow through our US pharmacy and global procurement network.

Additional benefits will come as our retail transformation work accelerates and compounds the expected increase in traffic that flows through our stores with these agreements.

We therefore expect a different phasing for the year ahead, with anticipated growth skewed significantly toward the second half of the year, but, as you have heard from George, we are expecting the year as a whole to continue our record of healthy growth. We believe this phasing is a temporary phenomenon, as we see our work to transform the Company have an increased impact. Transformation and integration, if done properly, is never instant or easy, but we are progressing well.

While we are delivering on the promises of the merger, we are also building strong foundations, based on establishing an outstanding team and the structuring our Company for growth in the core business, especially Walgreens. We are doing this without losing sight of the global opportunity and are preparing the Company to play an even greater role as healthcare evolves in the US and around the world.

Thank you. Now, I will hand you back to Gerald.

Gerald Gradwell - *Walgreens Boots Alliance Inc. - IR*

Thank you, Stefano. Kevin, can we open the line for questions please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Robert Willoughby, Credit Suisse.

Robert Willoughby - *Credit Suisse - Analyst*

What clarity do you have now on the volume slated to come in from Prime and Express and United? I would think you would have to have a healthy degree of conservatism in the guidance not knowing exactly how their selling seasons are going. Have you assumed any incremental volume coming through the Rite Aid stores from these relationships?

George Fairweather - *Walgreens Boots Alliance Inc. - EVP & Global CFO*

We obviously don't comment on individual contracts, but I think what we have tried to indicate, as I said in my prepared comments, is that we expect the volume to increase in the second half of the year as we look forward relative to the increase that we would anticipate in the first half. Because, it takes time for contracts to come through. In terms of Rite Aid, obviously we cannot make comments at this point as I am sure you appreciate.

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Good morning, Bob, it's Alex here. Obviously, we are really pleased to have this volume coming through. The majority, as George has said, is coming through in the early part of calendar year next year apart from TRICARE, which we expect to start to flow in December 1. The team has done a lot of planning here to make sure we take care of customers when they appear back in Walgreens and sometimes new to Walgreens.

Obviously as the year progresses, we'll be able to get a better feel on our ability to both get customers back into Walgreens and hold onto them. Remember many of these big new contracts are maybe narrow but some are actually very broad. The TRICARE contract for example still has the vast majority of pharmacies in the US in that contract. So, we penned what we think is a good estimate from what we know into the forecast and as things change, as George has said, we will update you.

Robert Willoughby - *Credit Suisse - Analyst*

Okay. Thank you.

Operator

Ross Muken, Evercore ISI.

Ross Muken - *Evercore ISI - Analyst*

I guess just, maybe not specifics on how gross margin in the US retail business are going to pace on a numerical basis, but more qualitatively. Obviously, you are getting a volume pickup to get that. There's obviously reimbursement pressure in the market. So can you just help us in the phasing of that relative to the procurement savings and then relative to the new beauty rollout? Just maybe qualitatively, how we should think about the different elements as they roll in, whether it is TRICARE or it's these new PBM relationships? Then offset by the front end, how we just should think about either the cadence or the other pushes and pulls outside of that?

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Hi, Ross, this is Alex here. Yes, we have a lot of confidence in terms of our ability to deliver both these strategies. So, the first one to speak about is the new volume, where we are getting better value for volume but we believe that we've seen already with the Med D work of the past, this really is accretive to our model. Again, as I said, the previous question to Bob, most of these contacts start in January 1, but we'll see the majority of the volume, as George has said, in the second half of our fiscal year, which I think starts in March of next year. So that will start to build up.

Then we have built solid plans on what we know about the market and what our great partners, who are helping us to build this business have told us about their networks. Some of the selling season is happening right now. You will see some more of this being announced particularly for Prime in the days and weeks ahead. On the front-end strategy, this is a multi-year multi-phase approach. We added 1,600 new beauty departments in the ground, not complete but new in terms of the brands that George mentioned, particularly No7 and Soap & Glory this phase, with new lighting importantly upgraded training and development of our consultants to give the customer's the information they need.

This is in the ground based on the trials they perform. The majority of this work will phase in over a two or three-year period in reality. But you should expect the ongoing improvement to the margin -- gross margins throughout 2017 and the years ahead. Remember that we focus our business on the whole box. We focus our business on operating margin and cutting costs and of course on adjusted net earnings. All of this work is designed to drive all elements of profitability within the box of Walgreens. We are very confident with what we are doing. The pace is accelerating.

Ross Muken - *Evercore ISI - Analyst*

I guess to that point, what I'm trying to get at is, should we think about on gross profit, it more on a dollar growth basis versus a margin basis, so long as it is accretive over time to returns in the operating margin? Because the market has been a little bit myopic on the margin percentage overall, but obviously not everything you can do to drive value will be necessarily gross margin accretive, correct?

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

I don't remember, our big focus is in growing our operating income, our overall income and our cash flow. So, in terms of reimbursement pressures, it is something that we have seen in the past, it will continue to happen. We have got to continue to drive efficiency. It has got to be a way of life. So really this is what we are focusing on, on offering our customers a competitive offer and then being very financially disciplined in a way that we can drive our overall shareholder values. So, in terms of thinking about it, that is how I would really encourage you to think.

George Fairweather - *Walgreens Boots Alliance Inc. - EVP & Global CFO*

We are absolutely focused on operating profit. That is what we are focused on, in summary, yes.

Ross Muken - *Evercore ISI - Analyst*

Thanks, guys.

Operator

Brian Tanquilut, Jefferies.

Brian Tanquilut - *Jefferies & Co. - Analyst*

Just a question on your views on the supply chain. As we think about potential pricing pressure in the drug world, whether it is government driven or just the pressures on the drug manufacturers, how do you think that flows through to your business as we think about that flowing through distributors and the PBMs? What is your exposure in your mind, to drug pricing pressure?

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Hi, it's Alex here. Yes, I think we have spoken of this since we have really been here with some experience from Europe, where reimbursement pressure really does come through the supply chain. In fact, you'll probably see if you read the UK papers this morning, the government has finally made their announcement and confirmed -- what we expected was (inaudible) supply chain pressure and reimbursement coming through in the UK business as we planned for and as we expected. So, we are quite used to this pressure.

Again, if you think back to what Stefano and George have said, we're working and really fortunate with AmerisourceBergen. They are proving to be strong partners to help us to not just improve our availability to make sure we take care of customers, which is driving our volume, but to make sure we do that in a really efficient and integrated and more integrated way going forward. So we feel confident that we can use our scale, use our partnerships, use our knowledge or know-how from Europe to be in a good position in what we expect to be continued supply chain pressure.

Brian Tanquilut - *Jefferies & Co. - Analyst*

Got it. Thanks, guys.

Operator

Lisa Gill, JPMorgan.

Lisa Gill - *JPMorgan - Analyst*

I just want to take an opportunity to go back to the strategic partnerships that you talk about and just have a better understanding as to how it works contractually? If we think about the fact that you've had PBM relationships with all of these parties in the past, how do we think about those relationships compared to the new strategic relationships? What I'm trying to get at is that my understanding is that come January 1, the trade of the volume for the price has to do with specifics around products on the maintenance side, where you're getting people to a 90-day script. It is not your overall PBM contract, but I just want clarification to better understand that.

Stefano Pessina - *Walgreens Boots Alliance Inc. - Executive Vice Chairman & CEO*

Lisa, this is really our strategy, it's always been our strategy. We want to partner with as many people as possible. When people understand this, they accept that we are on the market and we have to offer our best services to everybody who is in the market. If you don't really accept you as an operator of the market -- if you don't accept that these concept of collaboration, sooner or later you are isolated and you cannot really explore your potential at best.

When we have announced some of these deals, of course we have spoken to the other customers that we have, the other PBMs, and we have explained which is our logic. We have explained that we are willing to help collaborate with everybody you have seen that in a few months we have been able to announce the agreement, the special collaboration, practically with most of the operators in the sector. This is a strategy, a strategy which has always worked for us in the past, in other counties and I believe it will work also in the US.

Of course, as George said, every time that we do something new, every time that we propose, let's say, an agreement or take into consideration an agreement which is proposed by one of our customers, we are running the numbers in a very [disciplined] way considering of course everything, considering the volume, considering the discounts, considering what we can extract more from our suppliers if anything, considering the increased efficiencies of the pharmacies. Then we decide whether we can do these particular kinds of deals or not.

Of course, we are very conscious of that when we come with innovative deal with a partnership on the market, we have to be prepared to offer similar things to other people. I believe that this is the beauty of being independent. We can work with everybody. We can offer our services to everybody. We are not seen as particularly skewed towards this or that player in the market.

Lisa Gill - *JPMorgan - Analyst*

Okay, great. Then if I could just follow-up, when I think about your strategy, specialty is clearly a big and growing area. Stefano, do you feel that you need to make an acquisition in the area of specialty to continue to grow that business? Or do you feel that some of the partnerships that you have today, most recently Prime and talking about making some investments around specialty there, that will be enough?

Stefano Pessina - *Walgreens Boots Alliance Inc. - Executive Vice Chairman & CEO*

We believe that if we could improve our position in specialty through partnerships, these would be much more efficient and much more profitable, because if we have to buy something -- first of all, we have to buy something in the market, which has a potential for development. Now in this market, we see that many people have an outlook which is not particularly positive in our judgment, first of all. Secondly, this would be extremely expensive. So again, we are very disciplined. We will not buy something just because it is nice to have. We want to be sure that if we use our money, our money will have an important return -- a cash return. We value all of what we do, not in terms of earnings per share, we value it in terms of IRR, in terms of NEA, in terms of cash. Alex, do you want to add something about specialties?

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Yes, specifically on Prime, Lisa, I think this is a joint venture, which we will get done in the first few months of next year. We have always had a good relationship with Prime and the team at Prime through Jim. We are getting closer, which is fantastic. Fundamentally, we're combining our central specialty in a joint venture operational. So we use the efficiencies that we can bring together to the market. We can buy better together in that area as well. So actually what we're doing here -- of course by doing that through the PBM, which is owned by the Blue through Prime, we hope to be able to, over time when we get that efficiency in, attract more patients and more customers. It's a build out strategy. It's a classic example of (inaudible) sort of partnership approach that Stefano described.

Lisa Gill - *JPMorgan - Analyst*

Okay, great. Thank you.

Operator

Michael Cherny, UBS.

Michael Cherny - *UBS - Analyst*

Thank you for all the details. So, just a quick question on the front-end retail side. You talked about some of the investments you're making in the improving the beauty side in particular. I don't know if you touch too much on the digital initiatives that you guys are pursuing? Can you maybe talk about the success you've had so far as you expand areas around the loyalty card and other digital marketing initiatives? Then, if you can, any incremental plans you have sort of targeting improved areas on a go forward basis?

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Sure, Michael. Yes, I think as we've said before and I think as people know, we have had a successful digital team, an app, for seven years I think now. Our really quick fill continues for refilling prescriptions continues to be a breakthrough app that we continue to develop along with a mobile app, which we continue to develop to make it absolutely fit for the modern customer. We continue to get the CSAT scores the team frankly deserve. It's a great platform for us. We obviously transformed the photographic business here in the US through that approach a couple of years ago, and we transferred out most of it to Europe as well.

So where to next, which I think is your question. We closed down operations for beauty and drugstore.com, that has been done successfully. Now it's time to focus really on the retail part of our business. We announced last Monday, order online (inaudible) to store or ship to store in 7,600 drugstores, including Duane Reade, a model we successfully built in, again, the Boots business through the sharing of knowledge between the front end in the UK is a really important part of our journey here.

So, we continue to invest behind the digital team. They are very strong team in my view, a very impressive team. We are very confident with the platforms we have and know who we have and now we're focusing back on Walgreens health and beauty strategy, particularly in the front end to become the integrated omni-channel retailer. Now, we have a lot of room to grow. While the risks are very clear, we understand the risks very well. We believe with our a-corners across America and it's capability, we're pretty well-positioned.

Michael Cherny - *UBS - Analyst*

Thank you.

Operator

Rivka Goldwasser, Morgan Stanley.

Rivka Goldwasser - *Morgan Stanley - Analyst*

My first question is on Rite Aid, obviously divesting the Rite Aid stores has been taking longer than expected, yet you did include the Rite Aid accretion in your guidance. So, what gives you confidence in an early 2017 close?

Stefano Pessina - *Walgreens Boots Alliance Inc. - Executive Vice Chairman & CEO*

Rite Aid, yes, I agree with you that it is taking more than we expected. But, I have to tell you that as you have seen from our presentation and from the fact that we have included some part of Rite Aid potential profit now in our guidance, from this you can really understand that we are confident, as confident as we were before about this deal. Nothing has changed, we just have a delay in the execution of the deal. This is our perception, we have always been optimistic because we have never seen an attitude from the FTC, which was an absolute negative, of course they were inquiring. They were detailed. They were asking a lot of questions. Sometimes they were taking time to respond, but at the end of the day, I believe we have a good collaboration -- we're having a good collaboration. We try to respond to all of their needs. This takes time. But at the end, we are still confident.

Of course, I know that we read on the papers are different news, no idea about the sources of this news, but for sure if we could talk, and of course you know that we cannot (laughter) our news would be different. For what we see today, we see just a long administrative process, but we don't see substantial differences from what we were expecting. Yes, probably more stores, a little more stores here and there, but at the end of the day -- as far as I can see today, as far as we can see today, we are absolutely confident that we can create, that we can do the deal and we can create the value. Just this value will be a little postponed on time.

Because, even when we would do the deal, of course for the first month, we will not be able to extract immediately the synergies. It will take some time. We were hoping to do the deal at the beginning of this fiscal year for us. In this case, we would have had time to level up some of the synergies. Of course, if we close the deal relatively late in our fiscal year, the synergies will be smaller. But we will find all of them next year.

Rivka Goldwasser - *Morgan Stanley - Analyst*

Okay, thank you. Then my follow-up question is about the PBM contract that you signed. When we think about the partnerships, in aggregate, they manage more than 50% of the US script market versus your share that is a little below 20%. When we think about the opportunity from a long-term perspective, how much incremental share do you think that you can gain through these relationships? When we look at CVS, we estimate that their share with their Maintenance Choice accounts, at retail it's about 33% versus the 20% national share. So is this a good goalpost for us to use when we think about this opportunity and the returns over the longer-term?

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Hi, Rivka, it's Alex here again. Yes, we don't really think that way to be honest. What we're focused on is two elements of growing our business. One, which you've seen in the last period which is a culmination of access through Med D as that channel grows, a growing channel, but really through delivering for customers. Our customer experience scores in our pharmacies have moved. A big credit to Richard Ashworth and all of the teams involved (inaudible) because that really has been a big shift in how we have been able to take care of customers in our pharmacies. That has really been a driver of the recent share you've seen in the past. We will be completely focused on continuing to do that.

Secondly, as Stefano said as well too, we want to make sure that the people who are paying for these prescriptions both customers and payers, we just make sure we get the right understanding of what they want from the networks that we are in. That is what we're trying to do in different ways. We have all sorts of different ways as we demonstrated of getting that done. So we do it really customer by customer and payer by payer and also network by network to make sure that we can grow our business.

We're [learning] this strategy, I reckon to be honest. We're learning in this strategy. We're really learning how to really drive this to make it work. I'm going to remain confident that we'll learn a lot this year with the ambitions we have and the lives that access back into Walgreens that didn't have access before. Again, we will continue to revaluate in time their goals going forward.

Rivka Goldwasser - *Morgan Stanley - Analyst*

Okay. Thank you. Lastly, does the new terms with Express have any impact on the margins in the fourth quarter? Or it's all in FY17?

Stefano Pessina - *Walgreens Boots Alliance Inc. - Executive Vice Chairman & CEO*

Could you repeat, sorry.

Gerald Gradwell - *Walgreens Boots Alliance Inc. - IR*

Of the new terms, Express having any impact on the fourth quarter or it's in 2017?

George Fairweather - *Walgreens Boots Alliance Inc. - EVP & Global CFO*

Yes, so the TRICARE contract, as you know is the one, we have declared and that starts December 1. We'll clear that in 2017, yes.

Rivka Goldwasser - *Morgan Stanley - Analyst*

But for the rest of the Express book, assuming that has been repriced as well. So, do you see any impact in that in the fourth quarter results? Or is this all going to be in FY17, outside TRICARE?

George Fairweather - *Walgreens Boots Alliance Inc. - EVP & Global CFO*

Rivka, as you know, we agree what we disclose with our partners very carefully. I haven't disclosed anything outside of TRICARE, so we can't disclose anything else this morning.

Rivka Goldwasser - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Steven Valiquette, Bank of America Merrill Lynch.

Steven Valiquette - *BofA Merrill Lynch - Analyst*

Just a question or two on the Medicare margins. It seems like with Medicare becoming a bigger part of your mix, I guess there was some noise in the channel about maybe some Medicare gross margins compressing as calendar 2016 was progressing for the industry. We are kind of seeing that in your US gross margin as well, so kind of look at the progression year-over-year. So, I guess I'm wondering, first, are you seeing any falloff in Medicare gross margins of calendar 2016 as progressing? Or have they remained fairly stable? Then also just your -- or is it maybe just a mix issue, where if Medicare is a bigger part of your mix, we are just seeing -- are Medicare gross margins maybe lower than commercial gross margins? I just wanted to sort of just tackle those two ankles on the US gross margins. Thanks.

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Yes, hi, it's Alex again. Yes, Steve, it's as stable a margin as we expected. Clearly, there's pressure in the margin in Med D because the volume is growing. But it's stable and as we expected, the mix as you can see in our bigger business is shifting. So therefore that is what is driving the further pressure on the margin.

Steven Valiquette - *BofA Merrill Lynch - Analyst*

Okay. So if some companies were seeing that pressure maybe as the year is progressing, you're saying that you are not seeing any material falloff in just your Medicare margin as the year is progressing?

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

That is correct. There is the trend down way, year after year in these annual contracts. But the trend is not any greater than it was in the past. It's as we expected.

Steven Valiquette - *BofA Merrill Lynch - Analyst*

Okay. That is encouraging. Okay, great. Thanks.

Operator

George Hill, Deutsche Bank.

George Hill - *Deutsche Bank - Analyst*

I'm going to pull a little bit further on Steve's thread here. Alex, if we think about the business and you talk about the EBIT margin and kind of continued pressure there, I guess can you separate the payer pressure and the underlying pressure on business versus the impact of mix, the move to 90-day, the new relationships with PBM to take share? I guess what I'm trying to get at is a better understanding of what is actual pressure on the business? What is the margin change as a reflection of mix? Even digging into that further, how much of that is by the Company's design versus how much of it is the design of payers pushing down on you guys?

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Yes, I would say that as a Company, we know actively manage both these elements. I think as George described really well on the script on the front end, we're actively managing the seasonal cash-base, some historic stock. Also, yes, we're managing out of some product lines, in particular again in the consumables and seasonal lines, which -- as we manage more into giving more space as appropriate over time to help them give the biggest example been creating space for 1,600 stores for extended beauty ranges. So we are actually managing that. We're managing -- again as we said, operating -- our operating margin level -- (inaudible) the store box and times the question on reimbursement pressure, again, we're actively managing it.

We've spoken very clearly that we recognize on predictive trend. We start conversations much earlier and much more strategically with payers. A big call-out to Brad and the team from Rick, knows his strategy. We do this very actively now to understand how we can help them grow and help ourselves grow. We're very confident that we can grow, particularly when you look at adjusted operating profit within the box, taking both these parts. I don't think we can see any more than that to be honest. Because obviously we keep these things tight within the business for obvious reasons. But we are actively managing it. That's what we do. That's what we're paid to do, to be honest.

George Hill - *Deutsche Bank - Analyst*

Okay. Then maybe a quick follow-up is, one large payer, Caremark is noticeably absent from the deals that you guys have signed recently. Can you talk to us about when the current contract with them runs through? How we should think about how you will pursue the next renewal of Caremark payer arrangement? Thank you.

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Yes, we can't speak about the contracts of any of our big payers. We can't talk about it obviously for obvious reasons. But we'll pursue it exactly the same way that Stefano has described. We want to operate with everyone in the marketplace in a way that works for them and works for us.

George Hill - *Deutsche Bank - Analyst*

Okay. Thank you.

Operator

Robert Jones, Goldman Sachs.

Robert Jones - *Goldman Sachs - Analyst*

On the cost savings program, George, last year you shared where you ended the year on the SG&A savings, which I believe was $775 million. I know you said you're well on track to achieve the $1.5 billion by the end of 2017, but can you maybe just share with us where you actually ended the year on that program in 2016? Then along those lines, beyond the $1.5 billion, are there any other major areas of further cost savings that you guys have been able to identify?

George Fairweather - *Walgreens Boots Alliance Inc. - EVP & Global CFO*

Thanks Robert. On the program overall, as I have said, we are very much on track overall. The big change really, from where we were a year ago has really been that we were able to deliver this for $300 million less than we previously anticipated, of which quite a portion of that will be true cash savings. So, we're very pleased that we have been able to do this. We're very much on track to complete the program next year. It is very much a defined program with a start and a finish. But, of course there are always ways to drive efficiencies.

It is just a way of life for us, we're looking out at every day across all aspects of our business. We will continue to drive to do that. Clearly, some of the investment that you are seeing in capital in some of the areas like IT, it will take us a little bit of time to get some of the new systems in place. That will further enable us to both drive efficiencies and to drive -- and to manage the business in an increasingly more tighter way.

Stefano Pessina - *Walgreens Boots Alliance Inc. - Executive Vice Chairman & CEO*

Next year, of course, we will have the big task of extracting value from Rite Aid. This will be another huge opportunity for saving costs.

Robert Jones - *Goldman Sachs - Analyst*

No, that is very helpful. So, I guess just one other one around SG&A. You talked about the beauty initiative, can you maybe just help us frame the investment needed to achieve that rollout? Just trying to think about, on the model, SG&A within the retail USA segment as a percent of sales in 2017 maybe relative -- in the core business relative to what we saw in 2016. That would be helpful. Thanks.

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Hi, it's Alex here. I can't give you the specifics but what I can say is that taking workload particularly out of our 8,200 drugstores is a big part of the cost program. I said already in the call that we're very pleased with the progress we've made on our internal measure -- independent internal measure to be honest on customer care where it has really moved forward despite the fact that we have held costs in the drugstores more or less flat this year.

So, we are very confident that we can move that cost to give better advice and care as George described in the beauty model. That will drive incremental sales and of course better margins for us as we see in the trials. So, we are very focused, as George said, on cost but we're also very focused on reinvesting that cost back where customers appreciate it.

George Fairweather - *Walgreens Boots Alliance Inc. - EVP & Global CFO*

Just to remind ourselves, as I said in the presentation here, SG&A in the USA as a percent of sales fell 0.9 percentage points. I think that's the best evidence really of what we are delivering. Just add on to the question on capital, I haven't obviously given any specific guidance on capital for FY17, but in terms of thinking, I would expect it to be a little bit higher than we have seen in FY16, which is really reflecting some of the initiatives that we have got to develop in the offer that we talked about as well as the investment in the new IT that we are working on.

Robert Jones - *Goldman Sachs - Analyst*

Okay. Thanks so much.

Operator

Eric Percher, Barclays.

Eric Percher - *Barclays Capital - Analyst*

So, on the Rite Aid accretion number, I understand that you are not including a lot of synergy here and that will come over time. It looks like this is going to represent about seven months of the fiscal year. It still looks quite low relative to the run rate of Rite Aid and what we might have thought accretion would have run. So, can you speak to -- is this a fairly conservative number? I know there is a wide range of potential stores -- I get that the indication of confidence is really step one here, but any comments on that number itself?

George Fairweather - *Walgreens Boots Alliance Inc. - EVP & Global CFO*

This is our view of it, which is why we have included on our accretion, it is built on our economics, which is the way we have built of the model up. Really to emphasize a little bit of what Alex just said, and that Stefano was saying, the synergies will take some time to come through. As ever, when we approach a merger like this, our focus is always on the customer first to make sure that we deliver for the customer through this period. We have got a very detailed plan to deliver the synergies but as we have said, this will take three to four years. The important thing is to go in a straight line. But it does very much reflect our view on the timing and the time it will take to start to deliver the synergies.

Stefano Pessina - *Walgreens Boots Alliance Inc. - Executive Vice Chairman & CEO*

If I can give you an indication -- this is Stefano. Normally, I do not speak about the specific case, but normally when we have done a big merger, we have started to deliver the synergies after five, six months or something, because the first months of course you can do something. But the first months are really needed to prepare the plan. We cannot accelerate the plan. We cannot do the plan now.

We are working on integration but we cannot do the plan for the synergies now because we do not know the numbers of Rite Aid. As you know, we are not allowed to see their numbers. So, in reality we cannot put together the plan. As soon as we will know their numbers, we will have done the deal. We will start to put in place a plan, which will take a few months and after, we will execute the plan. This is why it's so skewed. At the end of the first year -- the first year of the merger, of any merger, not just this one.

Eric Percher - *Barclays Capital - Analyst*

Okay. So we have your best estimate there. Then for the fiscal year, I know, Alex, you mentioned earlier some of the cuts that we have seen potentially in the UK. I know there was a 6% cut that was delayed earlier. Was your comment around that cut actually being put into place? Or maybe equally important, George, is that in the expectation for FY17?

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Yes, that was my comment, I think it has been -- I'm certain it's been announced this morning. We heard it this morning from the UK. George will confirm -- I can confirm also, yes, it is in the guidance.

George Fairweather - *Walgreens Boots Alliance Inc. - EVP & Global CFO*

Absolutely, it is in our guidance. David [Mullett] made the announcement just a few hours ago, just orally. But it was very consistent with what we have been anticipating, so no surprises there.

Eric Percher - *Barclays Capital - Analyst*

Perfect, thank you.

Operator

Eric Bosshard, Cleveland Research.

Eric Bosshard - *Cleveland Research Company - Analyst*

Curious if -- George, if you could outline at all some cornerstones of how we should think about how the US retail profit path should work going forward. Obviously, you have got these new partnerships and you have outlined how that might influence gross margin and volume in 2017. But looking over the next handful of years, it would be just helpful to understand the walk of what the expectation might be in terms of either sales growth or profit growth, just to have some metrics to think about in regards to that outside of acquisitions but just within the core business, what your envisioning and how you're -- what goals you are running the business to achieve.

George Fairweather - *Walgreens Boots Alliance Inc. - EVP & Global CFO*

I think the overall goal obviously, as we have said, is to focus on our operating income and cash flow. In terms of thinking, as we have tried to sort of shape, you should think as we develop the new partnerships, that we are able to build our pharmacy volume and as we have said and we expect that to be -- the growth to be faster in the second half of the year. You can think then about taking that beyond, as we have said, a lot of the new partnerships come in around the end of this calendar, beginning of the next calendar.

There is obviously then the function of your views on inflation and then on mix and of course with very different profile in somewhere like our central specialty versus our core pharmacy. There's an element of mix that comes through there and that will obviously change over time. But we will continue to see the reimbursement pressures, but just very much aware of life. In terms of retail, a lot of our focus has been on developing the offer, as Alex has said, both in terms of the actual offer in store, our own brand's leading US brands, the work we're doing on omni-channel.

So a lot of our focus has been on working our way through getting ready for that. You should start to see the benefits of that coming through over time, focus being on the offer over time then we believe we will be able to grow. But we're looking to grow in the right categories, which is very important. So, mix is very important. We know mix is an important way of managing the margin -- the gross margin in the retail products part of the US business. So, we would expect to see the benefits of that coming through over time.

Then on costs, as we say as we drive efficiency then we are certainly very focused on continuing to improve our cost ratios, our SG&A as a percentage of sales is in a key area of focus. Again, we would be seeking to see that progressing. So, these really are the core drivers of what should drive the profit. I am particularly talking obviously retail pharmacy USA here.

Eric Bosshard - *Cleveland Research Company - Analyst*

So within that -- I appreciate all of those core drivers and how dynamic it is. But what would be curious to know is, in terms of what you are shooting for this to achieve in terms of operating profit growth from this. Is this -- again, I understand there's a lot of moving parts. But is the goal of this -- this a mid single-digit operating profit growth, or an upper single-digit operating profit growth over the next three to five years, not necessarily the second half of 2017.

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Our overall growth is really as we target -- is really as, in terms of generating profit, is the goal we really talked about just over this time a year ago from our underlying activities to seek to drive by profit around the double-digit level. Assuming there are no extraneous factors, currency would be a good example of an extraneous factor, where there's not a lot we can in currency translation, It can go one way one year, another way the other year.

But fundamentally, that's what we're focused on is driving profit, from core activities and then obviously doing shareholder enhancing transactions periodically like the Rite Aid deal. Also at the same time, we are very focused on -- I know it is a little old-fashioned, but we're very focused on cash flow, because cash flow is an engine for growth in the long-term. You see we have made good progress on working capital this year. This really lets us invest. It let's us invest over time in M&A. It enables us to continue to drive shareholder value.

Stefano Pessina - *Walgreens Boots Alliance Inc. - Executive Vice Chairman & CEO*

As we have said in our presentation, in constant currency, in the last two years, we have delivered a compound growth of more than 15% in earnings on a comparable basis. So, this is independent on the acquisition of AB because we have restated performa. This is an independent on the number of shares. Tactically, we have not had any acquisition in the meantime, excluding AB (inaudible) acquisition we have contributed much in the last two years.

We've also divested something. So the real growth, the underlying growth of our Company in the last two years has been 13% if we consider the effect of the devaluation of the pound Sterling, more than 15% in constant currency. We have always said that we can deliver underlying double-digit growth -- low double-digit growth. This is what we are doing. This is what we are focused on.

Eric Bosshard - *Cleveland Research Company - Analyst*

Perfect, that is helpful. Thank you.

Operator

Charles Rhyee, Cowen and Company.

Charles Rhyee - *Cowen and Company - Analyst*

Just a couple of questions to clarify, in the guidance for FY17, can you give us a sense of where we should think about a tax rate for the year, particularly as we think about the Rite Aid business coming on? Should we expect that as a US business to bring the tax rate up slightly? Also, Alex, you talked about minimizing -- or someone talked about minimizing the tobacco footprint in the stores. How much of a headwind may that have caused in front-end sales? Should we think about that -- what type of headwind that could cause as you continue to minimize that going forward?

George Fairweather - *Walgreens Boots Alliance Inc. - EVP & Global CFO*

Okay, I will take the tax one first. Then I will let Alex take the second one. In terms of tax, we have obviously not given specific guidance for FY17 on tax, but in terms of thinking about it, if you strip out the discrete items as I talked about last year, then our real underlying tax, pre-Rite Aid, last year was -- our underlying tax last year was 26.3% on an adjusted basis. That is obviously excluding the ABC income, because of course that gets reported on a post-tax basis. So it's quite -- in terms of modeling, we always model and think about it, the way I've just described, excluding ABC.

If you think of that 26.3% then, excluding Rite Aid, that is a fairly good proxy for what it should be going forward, because pre-Rite Aid, the mix will be broadly the same. In terms of Rite Aid, you are absolutely right. With Rite Aid as the proportion of profit increases from the Rite Aid deal once we are able to complete it, then we will see a higher portion of profit here in the USA and of course, here the tax rates are higher than in most parts of Europe, where the rest of the business operates. But of course, this year, given the accretion that we have indicated, that will be a relatively modest impact.

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

Hi, Charles, it's Alex here. On the tobacco comments that George made in the script, we will continue to obviously minimize and readjust visibility to tobacco in our drugstores. A bit more importantly, we will continue to help customers to stop smoking through the various platforms, smoking cessation platforms in pharmacies, online and with our key suppliers that have been put in place, for example healthy balance -- healthy choices -- balance rewards for healthy choices, as one example. But you should expect that we will continue to see reducing sales in tobacco (inaudible) in Walgreens going forward.

Charles Rhyee - *Cowen and Company - Analyst*

Are you going to be able to quantify what that headwind is as we think about that? Or can you talk about how much the category in sales has been for you historically? I know CVS put out a number of a couple billion a few years back.

Alex Gourlay - *Walgreens Boots Alliance Inc. - co-COO*

I'm sorry, beyond the market data that's available, we can't give that number. As I said before, it is an effect of the market as well as effect of what we're doing. So, we are just stating what we're doing. As [our effect] rolls out, we'll give you more updates.

Charles Rhyee - *Cowen and Company - Analyst*

Great. Then if I could just add one follow-up on Rite Aid again, in terms of the divesture package, obviously a lot of noise, people making comments here and there. How flexible is this package as you think about stores that you are looking to or willing to divest? Is this one where you have flexibility in terms of shaping the portfolio to be able to satisfy, not only the FTC but potential buyers?

Stefano Pessina - *Walgreens Boots Alliance Inc. - Executive Vice Chairman & CEO*

Stefano here. We're not able to give the details. First of all, I'll repeat again, we don't know in detail all the data of Rite Aid. It is an early time for us to take these decisions, after, of course, even if we knew them, (laughter) we could not disclose them. So, it is too early. In a few months, probably we will be able to discuss about this.

Charles Rhyee - *Cowen and Company - Analyst*

Okay. Great, thank you.

Stefano Pessina - *Walgreens Boots Alliance Inc. - Executive Vice Chairman & CEO*

Thank you very much.

Operator

Ladies and gentlemen, this does conclude the Q&A portion of today's conference. I'd like to turn the call back over to our host.

Gerald Gradwell - *Walgreens Boots Alliance Inc. - IR*

Thank you. Thank you, everyone for joining us today and for your questions. That was our final question. If anybody does have any further questions, the IR team here, myself, Ashish, Deborah, Jay and Patrick are around for the next couple of days. Of course, we're always around and available at the end of a phone or email. We'll look forward between us to seeing you or talking to you over the next few weeks. Thank you very much, indeed for participating in the call.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect. Have a wonderful day.

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