Walgreen Co. Reports Fiscal 2014 Second Quarter Results

March 25, 2014

- *Company reports adjusted second quarter earnings per diluted share of 91 cents, compared with adjusted earnings per diluted share of 96 cents in year-ago quarter; GAAP earnings per diluted share of 78 cents compared with 79 cents in last year's second quarter*
- Second-quarter sales increase 5.1 percent to record $19.6 billion as total sales in comparable stores increase 4.3 percent
- Combined synergies with Alliance Boots in first half of fiscal 2014 reach approximately $236 million; strategic partnership with Alliance Boots contributes 8 cents per diluted share to second quarter adjusted results
- Walgreens delivers second-quarter operating cash flow of $1.1 billion

DEERFIELD, Ill., March 25, 2014 - Walgreen Co. (NYSE: WAG) (Nasdaq: WAG) today announced earnings and sales results for the second quarter and first half of fiscal year 2014 ended Feb. 28.

Net earnings determined in accordance with generally accepted accounting principles (GAAP) for the fiscal 2014 second quarter were $754 million or 78 cents per diluted share, compared with $756 million or 79 cents per diluted share in the year-ago quarter.

Adjusted fiscal 2014 second quarter net earnings were $880 million or 91 cents per diluted share, compared with adjusted net earnings of $915 million or 96 cents per diluted share in the year-ago quarter. This year's second quarter earnings adjustments had a net positive impact of $126 million or 13 cents per diluted share. Last year's second quarter earnings adjustments had a net positive impact of $159 million or 17 cents per diluted share.

Net earnings for the first half of fiscal 2014 ended Feb. 28 determined in accordance with GAAP were $1.45 billion or $1.51 per diluted share, compared with $1.17 billion or $1.23 per diluted share in the first half of fiscal 2013.

Adjusted net earnings for the first half of fiscal 2014 were $1.57 billion or $1.63 per diluted share, compared with adjusted net earnings of $1.47 billion or $1.54 per diluted share in the first half of fiscal 2013. This year's first-half earnings adjustments had a net positive impact of $119 million or 12 cents per diluted share. Last year's first-half earnings adjustments had a net positive impact of $299 million or 31 cents per diluted share.

Please see the "Reconciliation of Non-GAAP Financial Measures" table and accompanying disclosures at the end of this press release for more detailed information regarding the non-GAAP financial measures in this press release, including the factors reflected in adjusted net earnings calculations.

"Our second quarter performance, in spite of expected headwinds from slower generic drug introductions, comparisons with last year's flu season and severe weather, was marked by solid top-line growth driven by record quarterly sales and record second-quarter prescriptions filled," said President and CEO Greg Wasson. "We also continued to gain prescription market share while we maintained a firm hold on our costs.

"We head into the second half of the year with nearly 80 million active members in our Balance® Rewards loyalty program and with expectations that the generic drug headwind that affected the first half will ease and turn around by the end of the year. In addition, our joint synergy program with Alliance Boots is expected to exceed its second-year estimate, and we are bringing critical elements of the Well Experience to additional stores."

The combined synergies for Walgreens and its strategic partner, Alliance Boots, in the first half of fiscal 2014 were approximately $236 million. The joint synergy program is now estimated to deliver second-year combined synergies of $375-$425 million, an increase from the previous second-year estimate of $350-$400 million. Alliance Boots contributed 8 cents per diluted share to Walgreens second quarter 2014 adjusted results. The company estimates that the accretion from Alliance Boots in the third quarter of fiscal 2014 will be an adjusted 13 to 14 cents per diluted share. This estimate does not include amortization expense, the impact of AmerisourceBergen warrants or one-time transaction costs, and reflects the company's current estimates of IFRS to GAAP conversion and foreign exchange rates.

FINANCIAL HIGHLIGHTS
Sales
Second quarter sales increased 5.1 percent from the prior-year quarter to a record $19.6 billion, while first half sales increased 5.5 percent to $37.9 billion. Front-end comparable store sales (those open at least a year) increased 2.0 percent in the second quarter, customer traffic in comparable stores decreased 1.4 percent and basket size increased 3.4 percent, while total sales in comparable stores increased 4.3 percent.

The company is leveraging insights from its Balance Rewards loyalty program to provide customers with more value and simplified promotions. Balance Rewards reached a milestone in February with more than 100 million enrollees and nearly 80 million active members at the end of this year's second quarter.

Prescription sales, which accounted for 62.2 percent of sales in the quarter, increased 7.0 percent, while prescription sales in comparable stores increased 5.8 percent. The company filled 214 million prescriptions in the quarter, an increase of 2.8 percent over last year's second quarter. Prescriptions filled in comparable stores increased 2.2 percent in the quarter. As of Feb. 28, Walgreens increased its retail prescription market share 20 basis points from a year ago to 19.0 percent as reported by IMS Health on a 30-day adjusted basis.

Walgreens also saw strong growth in prescriptions filled for Medicare Part D patients, which increased 16 percent in the second quarter compared with last year's quarter, while the company's Part D market share increased 0.8 percentage point in February compared with the same month a year ago.

The total number of all CDC-recommended immunizations and vaccines administered by Walgreens reached 8.6 million in the first half of the fiscal year, an 11 percent increase over the previous year.

Gross Profit and SG&A
GAAP total gross profit dollars increased $43 million, or 0.8 percent, compared with the year-ago second quarter, with gross profit margins decreasing 1.3 percentage points versus the year-ago quarter to 28.8 as a percentage of sales. Adjusted gross profit dollars increased $22 million, or 0.4 percent, compared with the year-ago second quarter.

Pharmacy gross profit dollars were primarily impacted by the shift in the generic drug wave from a peak in the prior year to a trough in the first half of fiscal 2014. A less severe flu season in this year's second quarter compared with a year ago also negatively impacted pharmacy gross profit dollar growth. Front-end margins decreased as the company invested in promotions. The LIFO provision was $51 million in this year's second quarter versus $72 million last year.

GAAP selling, general and administrative expense dollars increased $72 million, or 1.6 percent, compared with the year-ago quarter. Incremental winter weather related expenses added 0.5 percentage points to SG&A expenses in the quarter, new store expenses added 1.3 percentage points and comparable store expense added 0.4 percentage point. These expenses were offset by lower headquarters and acquisition related costs of 0.5 percentage point and 0.1 percentage point, respectively. Adjusted selling, general and administrative expense dollars increased $76 million, or 1.7 percent, compared with the year-ago quarter.

Walgreens delivered free cash flow of $877 million in the second quarter and operating cash flow of $1.1 billion in the quarter, as lower inventories drove improvements in working capital. Inventories benefited from the company's ongoing transition to source generic drugs from AmerisourceBergen, which is expected to be completed by Sept. 1. AmerisourceBergen already supplies all Walgreens stores with brand name prescription drugs.

Walgreens also announced today that as part of its efforts to optimize the company's asset base, it plans to close 76 drugstores during the second half of fiscal 2014. Including these store closures, Walgreens still expects a net increase in its store count in fiscal 2014 of approximately 55-75 locations.

"While we seize the opportunity for store growth as the population ages and consumers look to community pharmacy for their health care needs, we also continue to focus on optimizing our assets and organization to position Walgreens for our future as a global company," Wasson said.

The company's store optimization is expected to result in an annual operating income (EBIT) benefit of $40-$50 million beginning in fiscal 2015, representing an estimated 2 to 3 cents in adjusted diluted earnings per share benefit in fiscal 2015. It also is expected to result in charges of $240-$280 million, substantially all of which is expected to be recognized in the third and fourth quarters of fiscal 2014.

In the fiscal 2014 second quarter, the company opened or acquired 28 new drugstores compared with 29 in the year-ago quarter.

At Feb. 28, Walgreens operated 8,681 locations in all 50 states, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands. The company has 8,210 drugstores nationwide, 138 more than a year ago. Walgreens also operates worksite health and wellness centers, infusion and respiratory services facilities, specialty pharmacies and mail service facilities. Its Take Care Health Systems subsidiary manages more than 700 in-store convenient care clinics and worksite health and wellness centers.

Walgreens will hold a one-hour conference call to discuss the second quarter results beginning at 8:30 a.m. Eastern time today, March 25. The conference call will be simulcast through Walgreens investor relations website at: http://investor.walgreens.com. A replay of the conference call will be archived on the website for 12 months after the call. A podcast also will be available on the investor relations website.

The replay also will be available from 11:30 a.m. Eastern time, March 25 through April 1 by calling 855-859-2056 within the U.S. and Canada, or 404-537-3406 outside the U.S. and Canada, using replay code 12526699.

Cautionary Note Regarding Forward-Looking Statements. Statements in this release that are not historical, including, without limitation, estimates of future financial and operating performance, including the amounts and timing of future accretion and synergies, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "expect," "likely," "outlook," "forecast," "would," "could," "should," "can," "will," "project," "intend," "plan," "goal," "target," "continue," "sustain," "synergy," "on track," "believe," "seek," "estimate," "anticipate," "may," "possible," "assume," variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are not guarantees of future performance and involve risks, assumptions and uncertainties, including, but not limited to, those relating to whether the costs associated with our store optimization plan will exceed current forecasts, our ability to realize expected savings and benefits in the amounts and at the times anticipated, our commercial agreement with AmerisourceBergen, the arrangements and transactions contemplated by our framework agreement with AmerisourceBergen and Alliance Boots and their possible effects, the Purchase and Option Agreement and other agreements relating to our strategic partnership with Alliance Boots, the arrangements and transactions contemplated thereby and their possible effects, the parties' ability to realize anticipated synergies and achieve anticipated financial results, the risks associated with transitions in supply arrangements, the risks associated with international business operations, the risks associated with governance and control matters in minority investments, whether the option to acquire the remainder of the Alliance Boots equity interest will be exercised and the financial ramifications thereof, the risks associated with equity investments in AmerisourceBergen including whether the warrants to invest in AmerisourceBergen will be exercised and the financial ramifications thereof, changes in vendor, payer and customer relationships and terms, changes in network participation, the implementation, operation and growth of our customer loyalty program, changes in economic and market conditions, competition, risks associated with new business areas and activities, risks associated with acquisitions, joint ventures and strategic investments, the ability to realize anticipated results from capital expenditures and cost reduction initiatives, outcomes of legal and regulatory matters, and changes in legislation or regulations. These and other risks, assumptions and uncertainties are described in Item 1A (Risk Factors) of our most recent Annual Report on Form 10-K, which is incorporated herein by reference, and in other documents that we file or furnish with the Securities and Exchange Commission. 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, Walgreens does not undertake, and expressly disclaims, any duty or obligation to update publicly any forward-looking statement after the initial distribution of this release, whether as a result of new information, future events, changes in assumptions or otherwise.

Please refer to the supplemental information presented below for reconciliations of the non-GAAP financial measures used in this release to the most comparable GAAP financial measure and related disclosures.