



# Walgreens Boots Alliance

## Fiscal 2020 First Quarter Results

January 8, 2020

# Safe harbor and non-GAAP

**Cautionary Note Regarding Forward-Looking Statements:** All statements in these materials and the related presentation that are not historical including, without limitation, estimates of and goals for future tax, financial and operating performance and results and our fiscal year 2020 guidance and related assumptions and drivers 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, initiatives, and restructuring activities and the amounts and timing of their expected impact, including statements relating to our expected cost savings under our Store Optimization and Transformational Cost Management programs, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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.

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, the arrangements and transactions contemplated by our agreements with AmerisourceBergen and their possible effects, 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 will exceed estimates, our ability to realize expected savings and benefits from cost-savings initiatives, restructuring activities and acquisitions and joint ventures in the amounts and at the times anticipated, the timing and amount of any impairment or other charges, the timing and severity of cough, cold and flu season, risks related to pilot programs and new business initiatives and ventures generally, including the risks that anticipated benefits may not be realized, changes in management’s plans and assumptions, changes in economic and business conditions generally or in particular markets in which we participate, changes in financial markets, credit ratings and interest rates, the risks 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 proposed 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, 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, 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 Item 1A (Risk Factors) of our Form 10-K for the fiscal year ended August 31, 2019 and in other documents that we file or furnish with the SEC. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. Except to the extent required by law, we do not undertake, and expressly disclaim, any duty or obligation to update publicly any forward-looking statement after the date of this presentation.

**Non-GAAP Financial Measures:** Today’s presentation includes certain non-GAAP financial measures, including all measures whose label includes the words “adjusted”, “constant currency”, or “free cash flow” or variations of such words and similar expressions, and we refer you to the endnotes on page 17 and the Appendix to the presentation materials available on our investor relations website for reconciliations to the most directly comparable U.S. GAAP financial measures and related information.

These presentation materials, the appendix hereto and the related management presentation are integrally related and are intended to be presented, considered and understood together.



# Overview



Walgreens Boots Alliance

- **Soft start to the year but full year guidance maintained**
- **Making progress against four strategic priorities**
  - **Accelerate digitalization of company**
  - **Transform and restructure retail offering**
  - **Create neighbourhood health destinations around a modern pharmacy**
  - **Transformational Cost Management Program**
- **Formed Retail Procurement Alliance joint venture with Kroger**
- **Announced German joint venture with McKesson**



Walgreens Boots Alliance

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Refer to safe harbor and non-GAAP on page 2 and endnotes on page 17

# 1Q financial highlights



Walgreens Boots Alliance

- **Adjusted EPS \$1.37, -5.7% lower than prior year in constant currency**
- **RPU strong cost management and improving retail comparable sales trends offset by lower gross margin**
- **Retail Pharmacy International impacted by challenging UK market**
- **Pharmaceutical Wholesale delivered continued strong performance**
- **Transformational Cost Management Program**
  - **on track to achieve annual cost savings in excess of \$1.8bn by FY22**
- **Strong free cash flow: \$674m, +\$684m vs prior year**
- **Maintaining FY20 adj. EPS constant currency guidance flat (range +/- 3%)**



Walgreens Boots Alliance

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Refer to safe harbor and non-GAAP on page 2 and endnotes on page 17

# 1Q financial highlights



Walgreens Boots Alliance

\$ in millions (except EPS and % change)		1Q20	Reported currency Δ vs. 1Q19	Constant currency Δ vs. 1Q19
<b>Sales</b>		<b>\$34,339</b>	<b>+ 1.6%</b>	<b>+ 2.3%</b>
<b>Operating income:</b>	<b>GAAP</b>	<b>\$1,013</b>	<b>- 27.6%</b>	
	<b>Adjusted</b>	<b>\$1,463</b>	<b>- 15.6%</b>	<b>- 15.4%</b>
<b>Net earnings:</b>	<b>GAAP</b>	<b>\$845</b>	<b>- 24.8%</b>	
	<b>Adjusted</b>	<b>\$1,222</b>	<b>- 11.8%</b>	<b>- 11.6%</b>
<b>EPS:</b>	<b>GAAP</b>	<b>\$0.95</b>	<b>- 19.8%</b>	
	<b>Adjusted</b>	<b>\$1.37</b>	<b>- 6.0%</b>	<b>- 5.7%</b>



# Retail Pharmacy USA – financials



<b>\$ in millions (except %)</b>	<b>1Q20</b>	<b>Δ vs. 1Q19</b>
<b>Sales</b>	<b>\$26,133</b>	<b>+1.6%</b>
<b>Adj. gross profit</b>	<b>\$5,753</b>	<b>- 4.9%</b>
<b>Adj. SG&amp;A % of sales</b>	<b>17.6%</b>	<b>0.6%p</b>
<b>Adj. operating margin</b>	<b>4.4%</b>	<b>- 0.9%p</b>
<b>Adj. operating income</b>	<b>\$1,155</b>	<b>- 16.2%</b>



# Retail Pharmacy USA – pharmacy



<b>1Q20 vs. 1Q19</b>	<b>1Q Total</b>	<b>1Q Comparable</b>
<b>Pharmacy sales</b>	<b>+ 2.9%</b>	<b>+ 2.5%</b>
<b>Prescriptions</b>	<b>+ 1.4%</b>	<b>+ 2.8%</b>

- **Continued comparable prescription growth**
- **1Q market share 20.9%: down 55 bps including impact from store optimization**
- **1Q adj. gross margin declined**
  - **50 bps specialty impact**
  - **reimbursement pressure was broadly in line with our expectations**



# Retail Pharmacy USA – retail



<b>1Q20 vs. 1Q19</b>	<b>1Q</b>
<b>Total retail sales</b>	<b>- 2.2%</b>
<b>Comp. retail sales</b>	<b>- 0.5%</b>

- **1Q comparable sales improved to -0.5%**
  - **ex-tobacco and e-cigarettes up +0.8%**
  - **solid comparable growth in our core Health & Wellness and Beauty categories**
  - **results aided by favorable cough/cold flu season**
- **Slight decline in adj. gross margin reflects higher shrink and timing of prior year supplier funding; underlying category margins remain in-line with prior year**





# Retail Pharmacy International – financials



\$ in millions (except %)	Constant currency	
	1Q20	Δ vs. 1Q19
<b>Sales</b>	<b>\$2,745</b>	<b>- 2.7%</b>
<b>Adj. operating margin</b>	<b>2.9%</b>	<b>- 1.7%p</b>
<b>Adj. operating income</b>	<b>\$79</b>	<b>- 39.1%</b>
<b>Boots UK comp. pharmacy sales</b>		<b>+ 0.9%</b>
<b>Boots UK comp. retail sales</b>		<b>- 2.9%</b>

- Holding share in a declining UK retail market
- Adj. Op. Inc. reflects lower retail sales volume & margin, year on year bonus impact and higher technology investments



# Pharmaceutical Wholesale – financials

<b>\$ in millions (except %)</b>	<b>1Q20</b>	<b>Constant currency Δ vs. 1Q19</b>
<b>Sales</b>	<b>\$6,007</b>	<b>+ 8.3%</b>
<b>Adj. operating margin</b>	<b>2.3%</b>	<b>- 0.2%p</b>
<b>Adj. operating income</b>	<b>\$229</b>	<b>+ 4.9%</b>

- Continued strong sales growth, led by emerging markets and the UK
- Adj. Op. Inc. reflects strong revenue performance and a higher contribution from ABC
- Announced strategic JV in Germany to drive long term value in key European market



# Cash flow



Walgreens Boots Alliance

<b>\$ in millions</b>	<b>1Q20</b>	<b>Δ vs. 1Q19</b>
<b>Operating cash flow</b>	<b>\$1,061</b>	<b>\$601</b>
<b>Cash capital expenditure</b>	<b>- \$387</b>	<b>\$83</b>
<b>Free cash flow</b>	<b>\$674</b>	<b>\$684</b>

- **Strong free cash flow performance driven by working capital**
- **Key initiatives on track**
  - **inventory optimization**
  - **supplier payment terms**
- **Strong pipeline of future initiatives to drive significant improvement in working capital**

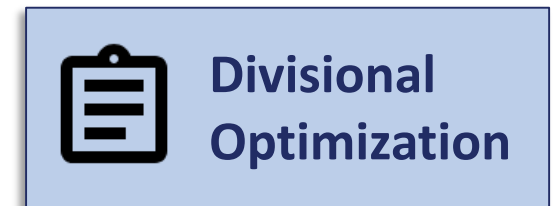
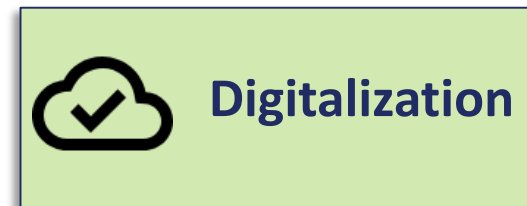
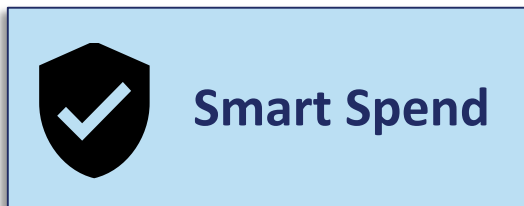


# Transformational Cost Management Program



**On target to deliver in excess of \$1.8 billion in annual cost savings by FY22**

- Pipeline of identified initiatives leads to higher level of confidence
- Savings initiatives gaining momentum
- Early working capital benefits materializing, future opportunities identified
- Unlocks investments to create new business models



# Transformational Cost Management Program



**On target to deliver in excess of \$1.8 billion in annual cost savings by FY22**



**Smart Spend**

- Accelerating energy management efficiency program
- Assessing GPO for goods not for resale
- Rolling out policies aligned to best in class standards



**Smart Organization**

- End-to-end process review in Boots UK
- Completed vision and strategy for business services
- Implemented additional HQ reductions in Mexico, Chile and Thailand



**Divisional Optimization**

- Completed 114 of 200 Walgreens closures and 28 of 200 Boots UK closures
- Operating 23 small format stores in the US
- Working capital improvements primarily driven by inventory optimization



**Digitalization**

- Started implementation of new IT operating model
- IT vendor optimization work progressing well
- Executing FY20 prioritized digital roadmap: pharmacy/personalization



# Retail Pharmacy USA – initiatives



**Transform and restructure retail offering**

- Kroger relationship takes another step forward:
  - pilot stores experiencing strong sales lift
  - Retail Procurement Alliance unlocks future efficiencies
- Solid performance in core categories Health & Wellness and Beauty
- Flagship No7 brand grew mid-teens in U.S.

**Create neighborhood health destinations around more modern pharmacy**

- Two of five VillageMD primary care locations opened in Houston
- Jenny Craig health and weight loss management to locate in ~100 Walgreens
- First to receive URAC accreditation for all community specialty pharmacies
- Strong adoption of new UnitedHealthCare Medicare Advantage offering

**Accelerate digitalization**

- Find Care expanded to 32 healthcare providers spanning 46 services
- Save A Trip Refills program to drive better clinical outcomes, up +25% vs. 4Q19
- Record breaking Black Friday weekend online sales, up +45% vs. last year
- Walgreens app downloaded 60 million times, up +12% vs. last year
- Total digitally initiated sales over \$3.7 billion, up +8.8% vs. last year



# Retail Pharmacy International – initiatives



## Transform retail

- 26 UK beauty halls implemented: performance in line with our expectations
- Rebalanced 200 stores and introduced 20 new UK beauty brands
- Partnership with Mothercare to become exclusive UK franchisee in baby category
- Agreement in Indonesia to create Boots branded health & beauty retail business

## Develop new healthcare service offerings

- Pharmacy operating system rolled out to >1,400 stores to provide greater level of efficiency and customer service
- Developing new healthcare services with diagnostics
- Ongoing adoption of digital pharmacy to broaden access to healthcare

## Accelerate digitalization

- Strong growth in Boots.com, up +12% vs. last year
- Record Black Friday weekend online sales, up +25% vs. last year
- Exclusive partnership to offer omni-channel photo & personalized gifting





Walgreens Boots Alliance

## Continued progress on strategic priorities

Accelerate  
digitalization of  
company

Transform and  
restructure retail  
offering

Create neighborhood  
health destinations

## Transformational Cost Management Program



Walgreens Boots Alliance

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Refer to safe harbor and non-GAAP on page 2 and endnotes on page 17





- Please see appendix for reconciliations of non-GAAP financial measures and related disclosures
  - The company presents certain information related to current period operating results in “constant currency,” which is a non-GAAP financial measure. These amounts are calculated by translating current period results at the foreign currency exchange rates used in the comparable period in the prior year. The company presents such constant currency financial information because it has significant operations outside of the United States reporting in currencies other than the U.S. dollar and this presentation provides a framework to assess how its business performed excluding the impact of foreign currency exchange rate fluctuations.
  - Retail Pharmacy USA segment GAAP results, dollars in millions – 1Q20: gross profit \$5,691; selling general and administrative expenses \$4,843; SG&A as a percent of sales 18.5%; operating income \$848; and operating margin 3.2%.
  - Retail Pharmacy International segment GAAP results on a reported currency basis, dollars in millions – 1Q20: operating income \$44; and operating margin 1.6%. In 1Q20 compared to prior year quarter, on a reported currency basis, the division's sales decreased 5.4%; operating income decreased 43.7%; and operating margin decreased 1.1 percentage points.
  - Pharmaceutical Wholesale segment GAAP results on a reported currency basis, dollars in millions – 1Q20: operating income \$122. In 1Q20 compared to the prior year quarter, on a reported currency basis, the division's sales increased 5.2%; and operating income decreased 21.5%. Pharmaceutical Wholesale segment operating margins excluding equity earnings in AmerisourceBergen on a reported currency basis in 1Q20 were 1.8% and decreased 0.2 percentage points compared to the prior year quarter.
  - Adjusted gross margin is a non-GAAP financial measure defined as adjusted gross profit by business unit divided by sales by business unit. Adjusted gross profit is a non-GAAP financial measure defined as gross profit by business unit, excluding the impact of costs associated with the Transformational Cost Management Program, acquisition-related costs and LIFO provision, divided by sales by business unit. The Company is providing comparative data relating to these non-GAAP financial measures to provide investors with additional perspective and insights when analyzing the core operating performance of the business units from period to period.
- Net earnings and net earnings per common share – diluted figures are attributable to Walgreens Boots Alliance, Inc.
- For our Retail Pharmacy divisions, comparable stores are defined as those that have been open for at least 12 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 12 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. For our Pharmaceutical Wholesale division, comparable sales are defined as sales excluding acquisitions and dispositions. 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, and with respect to the Pharmaceutical Wholesale division, comparable sales, are presented on a constant currency basis, which are non-GAAP financial measures. Refer to the discussion above for further details on constant currency calculations.
- Retail Pharmacy USA Pharmacy prescriptions (including immunizations) are reported on a 30-day equivalent basis.
- Prescription market share information is an estimate derived from the use of information under license from the following IQVIA information service: IQVIA Prescription Services as of November 30, 2019 and includes prescriptions filled at stores acquired from Rite Aid from and after the cutover date. IQVIA expressly reserves all rights, including rights of copying, distribution and republication. Due to revisions made by IQVIA to methodology used for its retail prescription database, market share has been restated for the comparable year-ago period.
- Retail Pharmacy USA retail refill scripts initiated via digital channel is inclusive of prescriptions filled at Walgreens and Duane Reade. For this purpose, the total number of 1Q retail refill prescriptions does not include prescriptions filled at non-converted Rite Aid stores.
- Boots UK market share data as of November 30, 2019.
- Working capital includes changes in the following operating assets and liabilities: accounts receivable net; inventories; other current assets; trade accounts payable; and accrued expenses and other liabilities.



# Appendix

*The following information provides reconciliations of the supplemental non-GAAP financial measures, as defined under SEC rules, presented in this presentation to the most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles in the United States (GAAP). The company has provided the non-GAAP financial measures in the presentation, which are not calculated or presented in accordance with GAAP, as supplemental information and in addition to the financial measures that are calculated and presented in accordance with GAAP. These supplemental non-GAAP financial measures are presented because management has evaluated the company's financial results both including and excluding the adjusted items or the effects of foreign currency translation, as applicable, and believe that the supplemental non-GAAP financial measures presented provide additional perspective and insights when analyzing the core operating performance of the company's business from period to period and trends in the company's historical operating results. These supplemental non-GAAP financial measures should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented in the presentation. The company does not provide a reconciliation for non-GAAP estimates on a forward-looking basis (including the information under fiscal year 2020 guidance) where it is unable to provide a meaningful or accurate calculation or estimation of reconciling items and the information is not available without unreasonable effort. This is due to the inherent difficulty of forecasting the timing or amount of various items that have not yet occurred, are out of the company's control and/or cannot be reasonably predicted, and that would impact diluted net earnings per share, the most directly comparable forward-looking GAAP financial measure. For the same reasons, the company is unable to address the probable significance of the unavailable information. Forward-looking non-GAAP financial measures provided without the most directly comparable GAAP financial measures may vary materially from the corresponding GAAP financial measures.*

*Amounts may not add due to rounding. All percentages have been calculated using unrounded amounts for the three months ended November 30, 2019.*

## ***Certain assumptions and supplemental information***

*Unless otherwise indicated or the context otherwise requires:*

- This presentation assumes constant currency exchange rates after the date hereof based on current rates; and*
- All financial estimates and goals assume constant currency exchange rates after the date hereof based on current rates and no major mergers, acquisitions, divestitures or strategic transactions.*

*References in this presentation to the "Company," "we," "us" or "our" refer to Walgreens Boots Alliance, Inc. and its subsidiaries, and do not include unconsolidated partially-owned entities, except as otherwise indicated or the context otherwise requires. Our fiscal year ends on August 31, and references herein to "fiscal 2020" refer to our fiscal year ended August 31, 2020.*



# Reconciliation of Non-GAAP financial measures

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

## NET EARNINGS

	Three months ended November 30,		Change vs. 1Q19	
	2019	2018	Amount	Percent
<b>Net earnings attributable to Walgreens Boots Alliance, Inc. (GAAP)</b>	\$ 845	\$ 1,123	\$ (278)	(24.8)
<b>Adjustments to operating income:</b>				
Acquisition-related costs	124	66		
Acquisition-related amortization and impairment	118	123		
Transformational cost management	86	30		
Adjustments to equity earnings in AmerisourceBergen	80	44		
LIFO provision	33	39		
Store optimization	9	20		
Certain legal and regulatory accruals and settlements	—	10		
Total adjustments to operating income	449	332		
<b>Adjustments to other income:</b>				
Gain on sale of equity method investment	(1)	—		
Net investment hedging gain	(11)	(3)		
Total adjustments to other income	(12)	(3)		
<b>Adjustments to income tax provision:</b>				
Equity method non-cash tax	(2)	4		
U.S. tax law changes <sup>1</sup>	(6)	(12)		
Tax impact of adjustments <sup>2</sup>	(80)	(57)		
Total adjustments to income tax provision	(88)	(65)		
<b>Adjustments to post tax equity earnings from other equity method investments:</b>				
Adjustments to equity earnings in other equity method investments <sup>3</sup>	28	—		
Total adjustments to post tax equity earnings from other equity method investments	28	—		
<b>Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure)</b>	\$ 1,222	\$ 1,386	\$ (164)	(11.8)



# Reconciliation of Non-GAAP financial measures

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

### DILUTED NET EARNINGS PER SHARE

	Three months ended November 30,		Change vs. 1Q19	
	2019	2018	Amount	Percent
<b>Diluted net earnings per common share (GAAP)</b>	\$ 0.95	\$ 1.18	\$ (0.23)	(19.5)
Adjustments to operating income	0.50	0.35		
Adjustments to other income (expense)	(0.01)	—		
Adjustments to income tax provision	(0.10)	(0.07)		
Adjustments to equity earnings in other equity method investments <sup>3</sup>	0.03	—		
<b>Adjusted diluted net earnings per common share (Non-GAAP measure)</b>	<b>\$ 1.37</b>	<b>\$ 1.46</b>	<b>\$ (0.09)</b>	<b>(6.0)</b>
Weighted average common shares outstanding, diluted (in millions)	892.6	951.4		

<sup>1</sup> Discrete tax-only items.

<sup>2</sup> Represents the adjustment to the GAAP basis tax provision commensurate with non-GAAP adjustments and the adjusted tax rate true-up.

<sup>3</sup> 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.



# Reconciliation of Non-GAAP financial measures

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

Three months ended November 30, 2019

	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale <sup>1</sup>	Eliminations	Walgreens Boots Alliance, Inc.
Sales	\$ 26,133	\$ 2,745	\$ 6,007	\$ (545)	\$ 34,339
<b>Gross profit (GAAP)</b>	<b>\$ 5,691</b>	<b>\$ 1,056</b>	<b>\$ 517</b>	<b>\$ (1)</b>	<b>\$ 7,263</b>
Acquisition-related costs	28	—	—	—	28
Transformational cost management	—	3	—	—	3
LIFO provision	33	—	—	—	33
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 5,753</b>	<b>\$ 1,059</b>	<b>\$ 517</b>	<b>\$ (1)</b>	<b>\$ 7,327</b>
<b>Selling, general and administrative expenses (GAAP)</b>	<b>\$ 4,843</b>	<b>\$ 1,012</b>	<b>\$ 407</b>	<b>—</b>	<b>\$ 6,262</b>
Acquisition-related costs	(94)	—	(1)	—	(95)
Acquisition-related amortization and impairment	(77)	(22)	(19)	—	(118)
Transformational cost management	(66)	(10)	(7)	—	(83)
Store optimization	(8)	—	—	—	(8)
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 4,597</b>	<b>\$ 980</b>	<b>\$ 380</b>	<b>\$ —</b>	<b>\$ 5,957</b>
<b>Operating income (GAAP)</b>	<b>\$ 848</b>	<b>\$ 44</b>	<b>\$ 122</b>	<b>\$ —</b>	<b>\$ 1,013</b>
Acquisition-related costs	122	—	1	—	124
Acquisition-related amortization and impairment	77	22	19	—	118
Transformational cost management	66	12	7	—	86
Adjustments to equity earnings in AmerisourceBergen	—	—	80	—	80
LIFO provision	33	—	—	—	33
Store optimization	9	—	—	—	9
<b>Adjusted operating income (Non-GAAP measure)</b>	<b>\$ 1,155</b>	<b>\$ 79</b>	<b>\$ 229</b>	<b>\$ —</b>	<b>\$ 1,463</b>
Gross margin (GAAP)	21.8 %	38.5 %	8.6 %		21.1 %
Adjusted gross margin (Non-GAAP measure)	22.0 %	38.6 %	8.6 %		21.3 %
Selling, general and administrative expenses percent to sales (GAAP)	18.5 %	36.9 %	6.8 %		18.2 %
Adjusted selling, general and administrative expenses percent to sales (Non-GAAP measure)	17.6 %	35.7 %	6.3 %		17.3 %
Operating Margin <sup>2</sup>	3.2 %	1.6 %	1.8 %		2.9 %
Adjusted Operating Margin (Non-GAAP measure) <sup>2</sup>	4.4 %	2.9 %	2.3 %		4.0 %

<sup>1</sup> Operating income for Pharmaceutical Wholesale includes equity earnings in AmerisourceBergen. As a result of the two month reporting lag, operating income for the three month period ended November 30, 2019 includes AmerisourceBergen equity earnings for the period of July 1, 2019 through September 30, 2019. Operating income for the three month period ended November 30, 2018 includes AmerisourceBergen equity earnings for the period of July 1, 2018 through September 30, 2018.

<sup>2</sup> Operating margins and adjusted operating margins have been calculated excluding equity earnings in AmerisourceBergen and adjusted equity earnings in AmerisourceBergen, respectively.



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# Reconciliation of Non-GAAP financial measures

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

Three months ended November 30, 2018

	Retail Pharmacy USA	Retail Pharmacy International	Pharmaceutical Wholesale <sup>1</sup>	Eliminations	Walgreens Boots Alliance, Inc.
Sales	\$ 25,721	\$ 2,901	\$ 5,708	\$ (537)	\$ 33,793
<b>Gross profit (GAAP)</b>	<b>\$ 6,000</b>	<b>\$ 1,128</b>	<b>\$ 512</b>	<b>\$ 1</b>	<b>\$ 7,641</b>
Acquisition-related costs	9	—	—	—	9
Transformational cost management	—	2	—	—	2
LIFO provision	39	—	—	—	39
<b>Adjusted gross profit (Non-GAAP measure)</b>	<b>\$ 6,049</b>	<b>\$ 1,129</b>	<b>\$ 512</b>	<b>\$ 1</b>	<b>\$ 7,692</b>
<b>Selling, general and administrative expenses (GAAP)</b>	<b>\$ 4,834</b>	<b>\$ 1,050</b>	<b>\$ 396</b>	<b>\$ 0</b>	<b>\$ 6,280</b>
Acquisition-related costs	(57)	—	—	—	(57)
Acquisition-related amortization and impairment	(76)	(27)	(20)	—	(123)
Transformational cost management	(2)	(25)	(1)	—	(28)
Store optimization	(19)	—	—	—	(19)
Certain legal and regulatory accruals and settlements	(10)	—	—	—	(10)
<b>Adjusted selling, general and administrative expenses (Non-GAAP measure)</b>	<b>\$ 4,670</b>	<b>\$ 997</b>	<b>\$ 375</b>	<b>\$ —</b>	<b>\$ 6,043</b>
<b>Operating income (GAAP)</b>	<b>\$ 1,166</b>	<b>\$ 78</b>	<b>\$ 155</b>	<b>\$ 1</b>	<b>\$ 1,400</b>
Acquisition-related costs	66	—	—	—	66
Acquisition-related amortization and impairment	76	27	20	—	123
Transformational cost management	2	27	1	—	30
Adjustments to equity earnings in AmerisourceBergen	—	—	44	—	44
LIFO provision	39	—	—	—	39
Store optimization	20	—	—	—	20
Certain legal and regulatory accruals and settlements	10	—	—	—	10
<b>Adjusted operating income (Non-GAAP measure)</b>	<b>\$ 1,379</b>	<b>\$ 132</b>	<b>\$ 220</b>	<b>\$ 1</b>	<b>\$ 1,732</b>
Gross margin (GAAP)	23.3 %	38.9 %	9.0 %		22.6 %
Adjusted gross margin (Non-GAAP measure)	23.5 %	38.9 %	9.0 %		22.8 %
Selling, general and administrative expenses percent to sales (GAAP)	18.8 %	36.2 %	6.9 %		18.6 %
Adjusted selling, general and administrative expenses percent to sales (Non-GAAP measure)	18.2 %	34.4 %	6.6 %		17.9 %
Operating margin <sup>2</sup>	4.5 %	2.7 %	2.0 %		4.0 %
Adjusted operating margin (Non-GAAP measure) <sup>2</sup>	5.4 %	4.6 %	2.4 %		4.9 %

<sup>1</sup> Operating income for Pharmaceutical Wholesale includes equity earnings in AmerisourceBergen. As a result of the two month reporting lag, operating income for the three month period ended November 30, 2019 includes AmerisourceBergen equity earnings for the period of July 1, 2019 through September 30, 2019. Operating income for the three month period ended November 30, 2018 includes AmerisourceBergen equity earnings for the period of July 1, 2018 through September 30, 2018.

<sup>2</sup> Operating margins and adjusted operating margins have been calculated excluding equity earnings in AmerisourceBergen and adjusted equity earnings in AmerisourceBergen, respectively.



# Reconciliation of Non-GAAP financial measures

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

## EQUITY EARNINGS IN AMERISOURCEBERGEN

	Three months ended November 30,	
	2019	2018
<b>Equity earnings in AmerisourceBergen (GAAP)</b>	<b>\$ 13</b>	<b>\$ 39</b>
U.S. tax law changes	—	(7)
Acquisition-related amortization	30	31
LIFO provision	12	16
Anti-Trust	(1)	—
Litigation settlements and other	36	(7)
Asset Impairment	—	6
PharMEDium remediation costs	3	5
<b>Adjusted equity earnings in AmerisourceBergen (Non-GAAP measure)</b>	<b>\$ 92</b>	<b>\$ 83</b>



# Reconciliation of Non-GAAP financial measures

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

ADJUSTED EFFECTIVE TAX RATE

	Three months ended November 30, 2019			Three months ended November 30, 2018		
	Earnings before income tax provision	Income tax provision	Effective tax rate	Earnings before income tax provision	Income tax provision	Effective tax rate
Effective tax rate (GAAP)	882	\$ 32	3.6%	\$ 1,265	\$ 180	14.2%
Impact of non-GAAP adjustments	437	84		329	55	
U.S. tax law changes	—	6		—	12	
Equity method non-cash tax	—	2		—	(4)	
Adjusted tax rate true-up	—	(4)		—	2	
Subtotal	\$ 1,320	\$ 120		\$ 1,593	\$ 245	
Exclude adjusted equity earnings in AmerisourceBergen	(92)	—		(83)	—	
<b>Adjusted effective tax rate excluding adjusted equity earnings in AmerisourceBergen (Non-GAAP measure)</b>	<b>\$ 1,227</b>	<b>\$ 120</b>	<b>9.8%</b>	<b>\$ 1,510</b>	<b>\$ 245</b>	<b>16.2%</b>





# Reconciliation of Non-GAAP financial measures

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

## FREE CASH FLOW

	Three months ended November 30,	
	2019	2018
Net cash provided by operating activities (GAAP)	\$ 1,061	460
Less: Additions to property, plant and equipment	(387)	(470)
Free cash flow (Non-GAAP measure) <sup>1</sup>	\$ 674	(10)



# Currency sensitivity

<b>Exchange Rates/Impact</b>	<b>FY19</b>	<b>Sep '19 Sensitivity</b>	<b>Dec '19 Sensitivity</b>
<b>GBP/USD</b>	<b>1.28</b>	<b>1.21</b>	<b>1.32</b>
<b>EUR/USD</b>	<b>1.13</b>	<b>1.11</b>	<b>1.11</b>
<b>TRY/USD</b>	<b>0.18</b>	<b>0.15</b>	<b>0.17</b>
<b>Fx Sales Impact vs. FY19</b>		<b>~(\$1,800m)/~(1.3%)</b>	<b>~\$50m/~0.0%</b>
<b>Fx Adj. Operating Income Impact vs. FY19</b>		<b>~(\$60m)/~(0.8%)</b>	<b>~\$20m/~0.3%</b>
<b>Fx Adj. EPS Impact vs. FY19</b>		<b>~(\$0.05)/~(0.8%)</b>	<b>~\$0.02/~0.4%</b>

- **Every 1% move in GBP/USD has ~\$150m impact to WBA group sales**
- **Every 1% move in EUR/USD has ~\$125m impact to WBA group sales**
- **Every 10% move in TRY/USD has ~\$235m impact to WBA group sales**

