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EDITED TRANSCRIPT

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PRESENTATION

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Good morning. My name is Lisa Gill, and I'm the healthcare services analyst with JPMorgan. It is with great pleasure this morning that I have with me Walgreens Boots Alliance. We're going to do a fireside chat. With me is Tim Wentworth and I'm sorry, Manmohan what...

Manmohan Mahajan - *Walgreens Boots Alliance, Inc. - Senior VP & Interim Global CFO*

Manmohan Mahajan.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Mahajan? Manmohan Mahajan, who is their interim CFO. And so we're just going to run through some stuff here for the fireside. So first off, I wanted to just welcome Tim back. The last time we were on the stage together was 6 years ago, January of 2018, when he was CEO of Express Scripts. He was here during his tenure with Cigna, but the last time you were here as the CEO. So welcome back.

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Thanks. Great to be back.

QUESTIONS AND ANSWERS

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

All right, Tim. So it's been almost a quarter that you've been the CEO of WBA. Maybe just spend a couple of minutes talking about what have you learned? What's been surprising to you?

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Sure. And thanks for showing some interest in this great company. In terms of joining the company and then subsequently really getting inside of it deeply, there are a few things that I would point out.

One is my enthusiasm to join this company has been completely validated in terms of the reasons that I joined, the brand, the trust that we build with folks, the reach that we have, the platform. I was doing an interview with a well-known business publication. And the author asked me, "What's it like to be responsible for one of the three most iconic brands in America?"

And I said that's why I actually joined because I honestly believe that this brand, the trust it builds and the reach it can have for engaging patients and creating value is unmatched, even by a PBM. And I love the PBM business. And he said, "Who are the other two?" Or I asked him, "Who are the other two?" He said, "I don't know, but there must be two other ones." And I think that's where we sit.

So I have had it validated that people love this brand. They trust this brand. The other thing that's been really awesome is I know this company has been through a lot in the last few years. And under my leadership already, we've had to make some very difficult decisions. The reservoir of goodwill and belief in this company, in the management team and in the employees is far beyond what I would have hoped and is actually speeding decisions and speeding the results that we're looking to achieve longer term.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

I think one of those decisions that you're talking about is cutting the dividend. And we applaud you for that because I think that's the right long-term decision. When you think about some of the other more difficult decisions that you feel like you've had to make in the first 90 days here, what are some of the other things that you feel like, good or bad, or tough -- let's talk about the tough decisions and then let's talk about some of the potential opportunity decisions.

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Sure. So it's always a tough decision when you let folks go, particularly because we've had several waves of that. And so now you're really seeing people with tenure that are really committed to the company, but who simply are in roles that you can't justify. At my table alone, I eliminated, completely eliminated two roles. And they were two great humans. One who was with the company quite a long time. But there wasn't a role there.

And so you've seen that throughout the business as my team has dug in and done the very hard work of looking at what's truly necessary. That's also been true with capital, where we were running at a $2 billion-plus clip on capital. And this year, it's going to be less than $1.4 billion. And those are not easy cuts. Because I can tell you all the projects that were there were things that people believe they needed. But we've had to be really tough-minded about what is going to drive shareholder value, high EVA of your high IRRs on the investments and really pare down to that.

So those are two examples. The dividend was a significant decision. And certainly, we can go deeper on that in a moment. We can talk about how disciplined and the process we used to come to the number that we did. But we knew this. My first Board meeting 4 days into the company, 4 formal days into the company, I was asked by the Board what I thought the dividend cut should be and when we should do it.

And I was a little uncomfortable being the new guy. But I said, "Well, listen, I've looked at this, and I want some analysis. But my gut is we should do it now and we should make it meaningful. And we should leave the shareholders a good enough dividend that we can also point to the fact that we are still taking care of the shareholders from a return standpoint on that."

So those are three examples. We have a number of other things that we are looking at that I'm not prepared to go deep on now, where we have work streams to look at additional ways to create value for shareholders based on kind of sitting where we sit now.

The opportunity stuff though has been -- I'm just going to point to one just as an example. Because my theory of the case, and Manmohan and I are lockstep on this, is capital-efficient health services expansion. And if you look at clinical trials for pharma, we've written in 2 quarters, 25 contracts. Some of these contracts are double-digit million-dollar contracts, multiple-year contracts.

They require very little capital to invest. And they leverage our trust to recruit for pharma diverse patient populations for trials at 4x the rate that traditional methods have delivered. And so we've got tons of incoming in a pipeline from pharma on that. That's the kind of thing when we look at, "Hey, we don't need to invest a lot of capital. We can leverage the things that we've got, both the trust we build in the store as well as our systems and our access to patients and data that we can create meaningful future value for shareholders."

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Tim, when we think about a new leader coming in, we think about them building out their management team. We know you're in the middle of a CFO search. Can you talk about where you are in that search? And then are there any other senior-level positions that you're looking to fill?

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Sure. Thanks for that question because I tell people that only two things that matter on strategy are your talent and your capital structure. Everything else basically cascades from that. I am super happy with the team that we have now.

As it relates to the CFO search, as you know, we have Manmohan, who is doing a terrific job as our interim. And we are committed to concluding that search and making an announcement in the shorter term than the longer term. But I can tell you that we are losing no steps with the several departures we've had. And with Manmohan as an interim, quite frankly, you've seen the kind of work that we've been able to do.

You saw the earnings. I think we're cleaning up and making it easier to read through our numbers. And I recognize that historically, there's been a lot, whether it's sale leasebacks or other things that made us very hard to understand. U.S. healthcare is something that we're committed to even further, helping people better understand as we go forward.

And so I love the team I've got. As I mentioned to you last night, by the Board meeting in January, where I'll have been here 90 days, all but one of my executive team, the U.S.-based executive team, will be sitting around the table in Chicago at least 3 days a week, if not 4 days a week, all the time. And that's not where we were.

And when you're in a situation like we are, I believe the way you get speed and innovation and results is breathe the same air. And so not only are we bringing employees back to work in some waves very thoughtfully in February, but my team are all going to be essentially Chicago-based. And I have one offer that's been accepted for a key role at my table. I have another one that I'm pretty confident is going to be accepted.

And I have a third candidate for the third role that I'm just beginning to kind of work through the process. So I am very happy. The exciting thing for us is we have a great team on the field. And in where we have open roles, you find out that this brand didn't just attract Tim Wentworth off the bench, there are some very, very good people that want to come here and build this company with me.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Great. If I think back to the earnings call, which was last week, and I look at some of your other competitors, there's discussion in the industry about changes in the reimbursement model. And having followed from drug retailers since 2007, so for some period of time, each and every year, you've seen pressure put on drug retail around the reimbursement model. And it feels to us like you kind of get to an inflection point where there's just not that possibility any longer.

When I look at some of the changes in the reimbursement model, can you talk about how you view potential changes in the reimbursement model, what you're interested in? What do you think are the biggest obstacles to getting to a cost-plus type of model? And then lastly, I know I asked this on the call, but -- and I don't expect you to answer it here either. But is there any way to quantify the potential opportunity when I think about it on the margin side?

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Sure. So it's a big, long question, very important question. It's a question -- and Rick Gates is here. What's good is that I don't only come here as -- he's not an old man, but he's got 28 years with Walgreens. So he is also a great leader as it relates to understanding that dynamic and how it's evolved over time.

And he and I see it eye-to-eye in terms of where we are at today, which is clearly if you look over the last 4, 5 years in retail pharmacy reimbursements as a percentage of overall AWP, they are going down meaningfully in terms of the negotiated discounts back to the payers and PBMs. And I think that's because, quite frankly, we are in a situation where there's not much left to give.

I mean, we just saw what happened to Rite Aid. Again, we see a -- both retail -- large retail and national chains, struggling to grow the front of the store and invest in it because of the reimbursements at the back. And so from our standpoint, we've already begun the process of meaningfully being paid for other services at fair market value.

And so you if look at vaccines, testing adherence, which I could never get paid for well at the PBM, I've got credit for it, but it's hard to charge a service fee there, we were able to charge fair fees and show the value that we get for those things working with payers.

Now I also would point out that when I was in the marketplace, and I think this would be true today, payers -- and I think this is the big change about the cost-plus sort of concept that we hardly embrace, we already work in and we would be very supportive of an evolution to that. But we don't require it in order to have our stores be profitable.

But what I would say is to get a payer who I think are asking for some of these things more, which is why both of the large PBMs or two of the large PBMs have announced something with a cost-plus element to it, you typically, to get a payer to switch away from one of the major chains, would have to give a 3%, 4%, 5% at least advantage by making the change.

And otherwise, the payers didn't see it was worth disrupting their patients. And I can tell you now that there isn't that kind of gas left in the tank. And therefore, I think you're going to continue to see that the -- especially if inflation stays low, that the year-over-year reimbursement decreases will continue to moderate toward far, far less.

And certainly, we're probably half of the rates that they were maybe 5 years ago in terms of the reduction. So we're closer to the bottom than not. And we love alternative models because they're patient-friendly. They're actually payer-friendly in terms of transparency. And they position us to get paid for doing the things that actually add value.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

And you talked about services. You talked about vaccinations. You talked about the clinical trials. When I think about that path towards services, and you've run a number of services organizations, what do you think are some of the other areas that you could move towards?

When I think about Medicare Advantage and how important it is and adherence in Medicare Advantage, vaccinations in Medicare Advantage, you say you get paid for those services today. But is there an opportunity for it to be bigger? Are there other verticals that you can add on from a services perspective?

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

The short answer is yes. And we're doing some of it today. Again, when you look at something as challenging but helpful to a plan as getting the right population who should take a Cologuard test, and it's my example because everyone instantly knows that's a hard thing to get people to actually action, we are 4 to 5x more effective than if the insurance company calls the patient who has already been identified as a high-risk patient to actually execute the test and so forth.

And we are able -- and again, if you think about it, if you get a phone call from a Walgreens pharmacist -- and by the way, it doesn't have to be a person at the back of a busy store. It can be centrally managed -- as we have 10,000 people in our central services organization, people don't understand that about us. Those -- that phone call where it's a Walgreens pharmacist calling you to counsel you on this opportunity that your insurance company will pay for, our response is over the moon compared to if someone from pick your favorite insurance company calls for all the obvious reasons, right?

So we look at getting tests, for example, as something that's very valuable. But what I would tell you is we're sort of clean-sheeting this right now. So I don't have a glib answer for what are the three additional services. Because actually, we've got several of the major, major health plans in the country that want to sit down with us. We just sat down with a large health system where we're doing some additional things for.

And six of their Senior and Executive Vice Presidents spent a day in Chicago with our team sort of brainstorming what are other things you can do, leveraging this engagement platform that creates high trust, touches 10 million people a day and is in every community and neighborhood pretty much that you would want to be in, in order to affect your strategy as a payer. So more to follow, but I think you're going to see there's a tremendous amount we're going to be able to do.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

You touched on this a little earlier also that the two of the large PBMs are shifting more towards different types of transparent models. If we don't have transparency though in the retail model and we have more transparency here on the PBM side, or maybe we start initially on the PBM side and it ultimately gets to the retail side, how do we think about the impact on the retail business as we know it today? And is there any impact?

And then secondly, when you talk to your former colleagues, whether it's in the health plan business or in the PBM business, you touched a little bit on what they're looking for. But more specifically, what are some other things that you think can really be done on the pharmacy side?

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Sure. So the first question was, I'm sorry?

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Well, if we have more transparency on the PBM side.

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Yes, sure, okay. But it doesn't flow through. In that case, then we're sort of in a position we're in now, which is -- by the way, as I said, we do have -- particularly Medicare Advantage, we do have cost-plus arrangements today. Because it actually makes it easier for the PBM or the health plan to administer the retail benefit. But in those other cases, we will continue to negotiate traditional deals.

The thing that I think you will begin to see though is as new drugs come out on the branded side over these next few years, for those relationships where we don't have a cost-plus element or some other way to create a class of drugs to negotiate around differently, GLPs are a good example. Everyone knows the retail pharmacies are not being paid for the services on GLPs. And look at the results of that.

We've got lousy adherence, relatively speaking, that's been being written about. You've got patients who are potentially engaged in side effects that we could help them with. And I believe the manufacturers are actually -- and I think there was an announcement last week that may point to this idea of surrounding the patient more. And that's the kind of thing we can do independent of whether it's a cost-plus or a pass-through.

But certainly, I think as new drugs come out, if we can't be paid for the services directly, then we will have a different set of arrangements with the payers as it relates to treating those patients. Or frankly, we'll look at should we be the dispensing pharmacy for some of those drugs?

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Yes. So I think you brought up a good point with GLP-1s. And I think many people saw the Eli Lilly announcement last week, LillyDirect. And the way that I read it, and I'm not sure if you have a different opinion, but the way I read it is that Lilly said exactly that, right, that patients are getting these drugs in different channels than the usual channel, not getting it from their primary care doctor, maybe getting it from a medical spot. Therefore, the adherence is not quite what it should be.

So do you see those programs where pharma pays you for that program, where pharma says, "I want to make sure that this patient stays adherent"? I mean, I think GLP-1s are a huge drug category. But as we all know, there are side effects to those drugs, right? And the first few weeks can be very difficult to stay adherent. And once you go off it, everything reverses, and so any of that benefit.

So when I think about that -- and the benefit would honestly accrue to a health plan. So when I think about something like that, to me, appears to be a potential opportunity on either side, right? Lilly would want you or any pharmaceutical manufacturer would want you to stay adherent to the drug. And the managed care company says, "Hey, if I'm going to pay for this, I want to make sure the person is using it properly."

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Yes. And by the way, the data that's created by our relationship with that patient is also of interest to that entire ecosystem. And the short answer is it looks a lot like a specialty model, right, where you want -- everyone is aligned. The folks that are on these products that need to be on them need to stay on them. The benefits are very clear. They're demonstrated. It's important to the pharma company that they'd be used safely and appropriately.

So there's a lot we can do again with the data, with the -- adherence is a piece of the patient -- the overall patient engagement that we can enable with our touch points and with our access to patients and their data. And again, we know we will get higher response rates relatively speaking because of the fact it's Walgreens that's engaging with you potentially even in your neighborhood. It's just a different dynamic than if it's somebody else.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

And when you talked about the economics on GLP-1s, my understanding is that part of the issue is: one, it has to be refrigerated, right, the handling of the product; and two, the patient counseling and the time that it takes to manage that patient. And that's why the profitability is less than a traditional pharmaceutical. Is that right?

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

That's part of it. But also, just -- the other thing that when we talk about pass-through or cost-plus models is that we are still living with the results of a very rational system that allowed retail pharmacies and frankly PBMs to make money on generics by cross-subsidizing, by brand pricing being actually higher. And those negotiations flowed through to the PBMs and then to the marketplace.

We've already seen the distortion effect of that creating opportunities for people like Mark Cuban or GoodRx or other things, where the generics that a cash-paying patient was going to get are meaningfully more expensive inside of the benefit than if they just go pay cash. I think the same sort of dynamic is at play here.

And so again, as we look at these drugs, removing the cross-subsidy that no longer really serves the purpose that it did, at least for these new drugs that are so expensive that put us so far behind the eight ball financially, is going to be a thing that I think not only we will be able to affect, but that will benefit everybody. Because then the services that come along with that will be the ones that frankly are needed, and we'll be able to do those in a way that's economic for us, and we can continue to employ people to do it.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

One of the targets for your 2024 guidance was market-level script growth this year. And while growth has come in a little bit below expectation, I think cough, cold and flu impacted that a little bit in the most recent quarter. How have labor investments that the company has made over the last year supported that potential script growth? And then over the longer term, how can you take market share when we think about script growth?

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Sure. Well, I'm going to let Manmohan take that first question because he's actually been around longer than me. And he's been part of the whole process of essentially reengineering the workflow as well as the cost structure. So Manmohan?

Manmohan Mahajan - *Walgreens Boots Alliance, Inc. - Senior VP & Interim Global CFO*

Yes, a couple of things. So as you think about the script growth target we put out in the year, we said this back in October, we said we think we're going to continue to grow in line with the market. And first quarter out, as we came out in January, we are holding our share within the market. And so that's one. Two, the market itself, we had certain expectations as to how the market growth is going to come around. We do believe now that the overall market is going to grow slower into the year. So market growing slower into the year, we're going to continue to hold our share.

As it relates to the labor investments, we have, over the last couple of years, made significant investments, both on the back end of the store as well as on the retail side of the store. And to me, I think from a financial perspective, the last quarter that had an impact of it was the first quarter. And so as we move forward into the second quarter and the rest of the year, we've bumped all those increases and it's just part of our base cost structure right now.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

And when I -- earlier, we talked a little bit about Rite Aid and the fact that I think most people know that Rite Aid went bankrupt this year. And I think under the bankruptcy plan, it's something like 30% to 40% of their stores will -- are projected to close. Do you see an opportunity there, whether it's just to pick up scripts because you're in the same neighborhood or to potentially buy some of that script volume?

Manmohan Mahajan - *Walgreens Boots Alliance, Inc. - Senior VP & Interim Global CFO*

Yes. So Lisa, the process is ongoing. As you know, Rite Aid is going through that process. The bids are going to be due in January. And as you would imagine, we, together with obviously other players in the market, are looking at that. We're -- we've had a lot of experience in terms of file-buy transactions historically, including specifically as it relates to Rite Aid.

And we believe that these are transactions where when we think about return on capital are highly accretive. And so we're definitely out there looking at these. And there's a potential that we're going to come out and grab a little bit of share there.

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Yes. And we have declared we are not buying stores. We're not buying physical bricks and mortar. We are looking at the files because it has been proven to be highly, highly efficient use of capital to do that.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Staying within the retail pharmacy segment for a minute. You have talked about the macroeconomic weakness and the impact on the front end of the store. Can you maybe just talk about the state of the consumer, talk about what you're seeing on foot traffic?

And also, maybe help us understand attachment rate. So if I'm coming in to pick up my prescription, is there some average that the person usually spends? I don't know why I'm only spending like $49 every time I go to Walgreens.

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

That's a little above average. That's good. Thank you. We -- the state of the consumer, I think, is a little bit mixed. I think the state of our consumer is probably not as buoyant as perhaps some of what you read about consumers more generally. I do think that there's a sense that our consumer is a main street consumer. They are looking at Costco and Walmart and other places to make key purchases to stretch their dollars still. And you see credit card balances going up and those kind of things.

And so we are assuming that our consumer will continue to be looking for value, will be looking for loyalty reward sort of -- and so we're doing a lot around those things, looking for private label and own label, which we're uniquely positioned, particularly in health and beauty, to credibly, because the Walgreens trust, and have a pharmacist sort of authority telling you that our brand of pick your favorite product is okay.

So I think that we're cautiously optimistic about the second part of this year as it relates to that. But we've not been -- we've not gotten over our skis as it relates to our guidance. We're also crossing over the second half of this year, as we mentioned, a softer comp, which is giving us a great deal of confidence, given where we see the business right now.

And as it relates to the spillover, the halo effect, it's very real. The things that we do, which is why our services business is a multiplier is anything that's bringing folks into our store, we know is directly correlated with then goes out the front. Now that doesn't mean you just get to put whatever you want on the shelves.

And we are massively engaged in looking at, and this is one of those hard-to-do things I mentioned, SKU reduction and again relooking at our own label and determining where we can drive significant -- we're at 19% or something like that now. I'd like this to be at 40% in 5 years.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Is that possible? That was my -- second part of my question was where do you think private label can go?

Manmohan Mahajan - *Walgreens Boots Alliance, Inc. - Senior VP & Interim Global CFO*

So I think the efforts that we have put in place within the short term, just looking at Q1, we were up 90 bps in terms of penetration on the own brands. And that goes back to we do see customers looking for value and looking at own brands versus national brands. So that's the thing we continue to see.

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

And I think national brands, we can be the place where if you're a national brand and you want a bit more shelf space than you've traditionally had with us, we're going to be someone you want to work with. Because ultimately, as you reduce SKUs, you are naturally going to pick winners. That looks like a formula in a PBM, right, which I'm pretty accustomed to.

It's the same sort of thing is understanding our consumers well enough to be able to put the right assortment on our shelves that is efficient from an inventory standpoint, a flow-through standpoint and so forth. And again, the amount of work that's being done on this is astronomic. I can tell you the Pareto chart of how much stuff sits on our shelves for a day, a week, a month and a year, what percentage of the overall SKU mix. And that's the kind of analytics that we're actually going to ultimately drive.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Just one other question on the front end. I'm sure most people in the audience noticed that whether it's your store or another drug retailer, everything is locked up these days. Can we talk about shrink and what you think can happen with shrink over time?

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Yes. I mean, it's very real, let me be clear. It is very real. It is an industry problem. We're sitting in a city where one of the great department stores in our country had to close its flagship location. I mean, it's -- that's where we're at. What that means is all 8,600 of our stores or so don't have the problem at the same level, right? As much as we think about our stores is urban, suburban and out into the rural areas, the urban area, in particular, in some cities is challenged, some more than others.

We are -- we believe that it's something that is going to take some time. So in our guidance, we assumed it's not going to get better this year. We are working with our industry association, with other retailers, with our own teams, our own asset protection teams to continue to try to both innovate the model for those stores, right? And if you come to downtown Chicago, for example, we actually have a format which is a lot more consumer-friendly than sort of just the locks that we've had to kind of quickly put in place on certain items that otherwise would just fly off the shelves without being paid for.

I worry more frankly about my employees and the sort of work culture and environment that in those stores, those employees are encountering every day. And we spend a lot of money to try to give them and our customers a feeling of safety. But it's very difficult right now. And so we have stores we are closing. And it is painful but necessary. And it's not to say we can't come back into some of these neighborhoods as governments get their act together, as we work effectively with some governments to actually create the right sort of disincentives for this. I mean, there's a lot -- this is a multiheaded problem.

It's going to be a multiheaded solution. And our assumption is we're going to have to invest behind it for a while but not degrade long term the consumer experience. And we think again home delivery in some of these cities is a good way to go, for example, versus having folks come into a store, so you would change your store to being a depot kind of environment. I did something like that at Mary Kay years ago in China. I mean, so this stuff can be done. We're taking it really seriously though.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

So you've committed to closing 200 stores this year. Tim, you talked about having nearly 9,000 stores. What's the right number?

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Do you want to take it? We're working through that.

Manmohan Mahajan - *Walgreens Boots Alliance, Inc. - Senior VP & Interim Global CFO*

So maybe let me start with the first part first, which is 200 stores. We did say we were going to close 200 stores in the year. As we're 3 months into the year, we've already closed 100 of those. And so there's 100 more to go. Now this is a -- for us and as well as for all the other retailers as you'd imagine, this is a process that's continuous.

We're always looking at our retail footprint and always looking to optimize. And there are a number of factors that go into it, pretty complex equations in terms of, is it cash flow? Is it coverage? Is it payer dynamics? And so we're considering all of that.

In terms of what is the right number for us, I think this is going to play out a little bit over the next year or 2. We need to obviously work on our healthcare strategy, which we continue to build. We talked about healthcare services here today, and so how is that going to evolve and how is that going to have an impact on us, as well as the dynamics within the urban locations versus suburban or rural.

I mean, those need to play out a little bit. And so we're looking at all of that and we're constantly evaluating that. Having said that, if you take a step back and you look at us over the last 5 years, we have been pretty active in this space and including the Rite Aid transaction we did back in those days. And so you look, we're somewhere around 2,000 locations down and so definitely active in the space.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

When we think about the cost structure, we've talked about the reimbursement environment. But you talk about $1 billion of cost savings. And many times from an investor perspective, we get this question of how much visibility do they have into that $1 billion? And how do we think about the different buckets that, that $1 billion falls into?

Manmohan Mahajan - *Walgreens Boots Alliance, Inc. - Senior VP & Interim Global CFO*

Yes. So we have a very good visibility into our cost profile, as you'd imagine. This is something within our control and something that we manage on a daily basis. Rightsizing the cost structure is, together with obviously a reduction on the CapEx, is one of the short-term focus areas for me and Tim. And we're making good progress on that.

So maybe a couple of thoughts on, first of all, where is this coming from? Let me give you some examples, and these are pretty obvious ones. I mean, we talked about store closures. There's cost associated with it. There is store hours. We talked about that last quarter that we're optimizing beyond -- roughly around 1,000-plus stores, we optimized store hours based on where the local market was. And that has cost saving associated with it.

Tim talked about one of the toughest decisions he has made in the first 60 days around team members and reduction in workforce. I think we've made significant progress on that front. And that has that has impact on our cost. We've gone through and looked at our supply chain. One of the DC distribution center, was closed. And that has optimized. So we're looking at all things possible.

IT, we are beginning to make good progress with Neal in place now, who's our new CIO. And so these are all things that are on the table. We're working through it and good visibility. I'd say this, based on the actions we've already taken, we have more than half of that cost saving line of sight into.

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Very confident.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Let's shift over to healthcare services for the last few minutes that we're together. And if I look at your healthcare services business, it's Summit with VillageMD and CityMD. So we call that the providers all under VillageMD, have CareCentrix and Shields, right? CareCentrix and Shields are both profitable. And you have VillageMD with the combined other two entities that are on hopefully a nice J-curve as they continue to add membership.

So when I think about your strategy longer term, can you talk about your strategy in each of those areas? So when we think about healthcare services collectively and we think about the provider aspect versus specialty, which I know you have an enormous amount of experience in, or in really the whole market, right, so if I think about what CareCentrix does, and that's really kind of managing that patient's journey from a healthcare facility into the home, which also is somewhat provider-related, so maybe talk about how you view this business, Tim.

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Yes, I mean -- and I do throw specialty into healthcare services. I frankly throw -- again, and I want to clean up our vernacular or clean up -- maybe simplify our vernacular over the next couple of quarters because I view the work that we do with patients that isn't filling scripts but is in the back of the store, whether it's testing or -- those are also healthcare services. I can tell you that our large Medicare Advantage plans view those as a service, right?

So what we look -- but there are synergies from some of them when you look at who pays the bills. Because for me, that's the lens we need to place on it. Ultimately, you need to take care of patients, whatever you're doing. But for me, versioning those assets around a health system versus a Medicare Advantage plan versus a large commercial insurer, you would take different -- many of them the same if you did a Venn diagram, but you would take different aspects.

So when I look at Shields particularly, for example, who have been just a tremendous acquisition for Walgreens, and we are super encouraged by what they do, they are a trusted partner to health systems. And they enable health systems, I would tell you, in some cases, to keep the doors open. When you look at sort of what the specialty pharmacy and the 340B particularly as means to some health systems, I know I'm on the Board of one that literally of a hospital system in Rochester, New York, that if not for 340B, we are underwater.

And so when you look at health systems, you say, "Okay, we've got these assets that we can bring to bear." And if they have risk-bearing physicians inside of the system, then we're doing things with VillageMD that we can export to those, such as adherence programs, such as a patient discharge program. As you know, when you get out of the hospital, half the reason you go back in is a drug misadventure. We can predict a lot of that, use the data and so forth.

So again, looking by payer group and then assembling the assets and listening to the payers. I think the other thing that I've been doing since I took the role and my team has been doing a great job of. And you know John and his team and Rick and his team, we've been meeting with payers saying, "What else could our platform be doing for you?" And they've got ideas, and so stay tuned.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

When I look at VillageMD and I look at the ownership structure and they looked at going public a couple of years ago -- and I think that they've talked pretty publicly that their plan is again to go public. And I've heard you talk today and in other conversations you and I have had that you really prefer more asset-light models, good cash flow, asset-light services components to the business. So when I think of other things that you potentially will add over time to your healthcare services business, what are some of the things that I should think about?

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

Yes. I mean, I think that -- and I know I've said it, we like our investment in VillageMD. They're performing well this year. And they are a fabulous partner for us to imagine and develop services that help them manage the risks that they're taking. And you've seen how hard -- just last week, how hard it is for these organizations to take risk. And so we think we're playing a really key role there.

But as I look out, I mean, it's -- when I think about this conference and how many smaller companies that are here that would die to have access to 10 million Americans a day to affect some outcomes that they believe they can affect, I think in disease state management, even a class level like a GLP is a good example but not by far a sole example, there may be some very interesting things that are out there.

But I will also tell you, a lot of companies struggle with build versus buy when they're our size. But the technology leadership that we have and where we sit, we have the potential to build some pretty interesting things that don't require a lot of time. Because usually, it's speed to market when you look at some of these things.

But we're open for business as it relates to looking at small- to mid-sized ideas. We are not cash-rich right now. We are not in a position where we can do large acquisitions. And I believe we're not in a position where we need to, to grow the company in a meaningfully responsible way on an earnings basis for the longer term. So we're out there looking, but we don't need it.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

One of the key drivers to the guidance for 2024 is the swing factor in healthcare services, primarily driven based on the amount of loss that we'll see with VillageMD. Tim, you alluded to a competitor of Village last week, preannouncing around medical cost trend being higher.

Can you give us any color as to what you saw at least through your quarter, which ended in November, and your ability to be able to have visibility into medical cost trend? Because it feels like not all of these providers are created equal. Some have seem to have very good visibility and others seem to have less visibility.

Manmohan Mahajan - *Walgreens Boots Alliance, Inc. - Senior VP & Interim Global CFO*

Yes, sure. So let me, first of all, start broader for the year and then I'll talk about the quarter. So as you think about our fiscal year '24, the guidance we've put out is adjusted -- at the midpoint of the range, adjusted EBITDA for our healthcare segment to increase year-over-year roughly around $375 million. And that's contributed by Village and Summit, some part of it.

And then there is other part, which is all the other businesses that we just talked about, Shields and CareCentrix and clinical trials and data services and analytics platform. And so all of that is coming together and contributing. If you look at the trends in Q1 and quite frankly in Q4 as well, we've had a couple of quarters where year-over-year adjusted EBITDA is growing in line with our expectation together with we're seeing growth across all the businesses. So I think we're moving definitely in the right direction.

Village, we talked about as we came out in October. And we said we want to really concentrate on accelerating the profitability within Village. And that team has taken that task and is working through it. We talked about we're going to exit roughly around 5 markets, 60 clinics. I think we're halfway there at this point. Their growth that we talked about, both on the risk-based book and fee-for-service panel in markets where they are dense, we continue to see that. So yes, I think we're moving in the right direction as it relates to where the fiscal year is, and we'll continue to...

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

And I do think the things they're working toward are not a result of mismanaging their risk or not being able to manage a risk. In fact, in their core locations, they do a phenomenal job. And we actually do a phenomenal job to help them. It is -- where they're at is just sort of pulling back a bit at some expansion, kind of rightsizing things to build back off of. But their underlying risk management is very good.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

We have about 20 seconds left. I'd like to end all of my presentations with a year from now when we sit together, Tim, what do you hope people will appreciate about Walgreens that they don't today?

Timothy C. Wentworth - *Walgreens Boots Alliance, Inc. - CEO & Director*

I hope what they appreciate is that the Walgreens brand and the trust that our brand has and can build can be a powerful turbocharger for health systems, providers and health plans in achieving their goals in ways you might not have thought about when you walked into your local Walgreens.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - Analyst*

Great. Thanks very much. Thank you.
