



Walgreens Boots Alliance

Fourth Quarter and Fiscal 2019 Results

October 28, 2019

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, 2018 and Item 1A (Risk Factors) of our Form 10-Q for the fiscal quarter ended February 28, 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”, “organic sales”, or “free cash flow” or variations of such words and similar expressions, and we refer you to the endnotes on page 21 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

- **Results broadly in line with our expectations**
- **Making progress against four strategic priorities:**
 - **Accelerate digitalization**
 - **Transform and restructure retail offering**
 - **Create neighborhood health destination around a modern pharmacy**
 - **Deliver Transformational Cost Management Program**
- **Continued progress on strategic partnerships**
- **Confidence in long term strategy**
 - **FY20 guidance broadly in line with our expectations**
 - **Constant currency adjusted EPS growth: flat versus prior year**



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Refer to safe harbor and non-GAAP on page 2 and endnotes on page 21

4Q and FY19 highlights



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- **Adjusted EPS**
 - 4Q19 \$1.43, -2.9% lower than prior year constant currency
 - FY19 \$5.99, up +0.5% constant currency
- **Improved second half comp. sales & adj. gross margin performance in the U.S.**
- **Retail Pharmacy International impacted by challenging U.K. market**
- **Continued strong performance in Pharmaceutical Wholesale**
- **Transformational Cost Management Program is on track**
 - increasing the annual savings target



Fiscal year financial highlights



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| \$ in millions (except EPS and % change) | | FY19 | Reported currency Δ vs. FY18 | Constant currency Δ vs. FY18 |
|--|-----------------|------------------|---------------------------------|---------------------------------|
| Sales | | \$136,866 | + 4.1% | + 5.8% |
| Operating income: | GAAP | \$4,998 | - 20.5% | |
| | Adjusted | \$6,942 | - 9.6% | - 8.6% |
| Net earnings: | GAAP | \$3,982 | - 20.7% | |
| | Adjusted | \$5,529 | - 7.6% | - 6.7% |
| EPS: | GAAP | \$4.31 | - 14.6% | |
| | Adjusted | \$5.99 | - 0.5% | + 0.5% |

- FY19 select investments in labor, development and digital: adj. EPS impact 13 cents or -2.2%
- 4Q18 post retirement curtailment gain: adj. EPS impact 9 cents or -1.4%



4Q financial highlights



Walgreens Boots Alliance

| \$ in millions (except EPS and % change) | | 4Q19 | Reported currency Δ vs. 4Q18 | Constant currency Δ vs. FY18 |
|--|-----------------|-----------------|---------------------------------|---------------------------------|
| Sales | | \$33,954 | + 1.5% | + 2.6% |
| Operating income: | GAAP | \$878 | - 37.0% | |
| | Adjusted | \$1,558 | - 11.9% | - 11.1% |
| Net earnings: | GAAP | \$677 | - 55.2% | |
| | Adjusted | \$1,284 | - 11.3% | - 10.6% |
| EPS: | GAAP | \$0.75 | - 51.4% | |
| | Adjusted | \$1.43 | - 3.7% | - 2.9% |

- 4Q19 select investments in labor, development and digital: adj. EPS impact -2.8%
- 4Q18 post retirement curtailment gain adj. EPS impact -5.9% and previously disclosed adjustment to certain legal accruals & settlements -3.6%



Retail Pharmacy USA – financials



| <i>\$ in millions (except %)</i> | 4Q19 | Δ vs. 4Q18 | FY19 | Δ vs. FY18 |
|----------------------------------|-----------------|----------------|------------------|----------------|
| Sales | \$26,040 | + 2.1% | \$104,532 | +6.2% |
| Adj. gross profit | \$5,710 | - 1.1% | \$23,718 | - 0.7% |
| Adj. SG&A % of sales | 17.6% | -%p | 17.7% | - 0.7%p |
| Adj. operating margin | 4.4% | - 0.7%p | 5.0% | - 0.9%p |
| Adj. operating income | \$1,135 | - 12.2% | \$5,255 | - 9.6% |

- **4Q19 adj. operating income growth impacted by:**
 - **select investments in labor, stores and digital in the quarter of -4.1%**
 - **4Q18 one-time benefit associated with a previously disclosed adjustment related to certain legal accruals & settlements -5.3%**



Retail Pharmacy USA – pharmacy



| 4Q19 vs. 4Q18 FY19 vs. FY18 | 4Q Total | 4Q Comparable | FY Total | FY Comparable |
|--------------------------------------|---------------------|--------------------------|---------------------|--------------------------|
| Pharmacy sales | + 4.2% | + 5.4% | + 8.6% | + 4.0% |
| Prescriptions | + 1.2% | + 3.3% | + 5.1% | + 3.0% |

- **2H19 comp. script growth of +4.0% compared to 1H19 growth of +1.9%**
- **4Q market share 21.0%: down 55 bps mainly due to Store Optimization Program; FY19 market share of 21.3%: up 35 bps**
- **4Q adj. gross margin declined ~65 bps, improved versus year to date result**
 - **reflects ~40 bps specialty impact and continued reimbursement pressure**



Retail Pharmacy USA – retail



| 4Q19 vs. 4Q18 FY19 vs. FY18 | 4Q | FY |
|-------------------------------|--------|--------|
| Total retail sales | - 3.9% | - % |
| Comp. retail sales | - 1.2% | - 2.4% |

- 4Q comp. sales -1.2%, with comp. sales ex-tobacco up +0.5%
- 2H19 comp. sales decline of -1.1% compared to 1H19 of -3.5%
- 4Q adjusted gross margin improved by ~35 bps



Retail Pharmacy International – financials



| \$ in millions (except %) | Constant currency | | Constant currency | |
|--------------------------------------|-------------------|----------------|-------------------|----------------|
| | 4Q19 | Δ vs. 4Q18 | FY19 | Δ vs. FY18 |
| Sales | \$2,703 | - 1.8% | \$11,462 | - 2.0% |
| Adj. operating margin | 7.2% | - 1.7%p | 6.5% | - 1.1%p |
| Adj. operating income | \$194 | - 20.7% | \$747 | - 16.2% |
| Boots UK comp. pharmacy sales | | - 2.0% | | - 1.6% |
| Boots UK comp. retail sales | | - 3.1% | | - 2.6% |

- Continued weak performance in 4Q, mainly due to UK market
- Holding share in a declining market, with good Beauty share performance



Pharmaceutical Wholesale – financials



| \$ in millions (except %) | Constant currency | | Constant currency | |
|------------------------------|-------------------|----------------|-------------------|----------------|
| | 4Q19 | Δ vs. 4Q18 | FY19 | Δ vs. FY18 |
| Sales | \$5,742 | + 7.9% | \$23,053 | + 8.0 % |
| Adj. operating margin | 2.2% | - 0.1%p | 2.4% | - 0.1%p |
| Adj. operating income | \$229 | + 6.9% | \$939 | + 5.9% |

- Continued strong sales growth led by the UK and emerging markets
- Adjusted operating income growth reflects strong revenue performance, as well as contribution from AmerisourceBergen



Cash flow



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| \$ in millions | 4Q19 | Δ vs. 4Q18 | FY19 | Δ vs. FY18 |
|---------------------------------|----------------|-------------------|----------------|-------------------|
| Operating cash flow | \$2,378 | - \$439 | \$5,594 | - \$2,669 |
| Cash capital expenditure | \$456 | - \$71 | \$1,702 | - \$335 |
| Free cash flow | \$1,923 | - \$510 | \$3,892 | - \$3,004 |

- **Free cash flow adversely impacted by ~\$2.4 billion of year on year headwinds**
 - **FY18 U.S. tax reform non-recurring benefit & FY19 U.S. transition tax payment**
 - **Rite Aid working capital benefits in FY18**
 - **legal settlement in FY19**
 - **Rite Aid store optimization and integration program**
 - **cash charges for Transformational Cost Management Program**
- **FY19 Free cash flow excluding exceptional items ~\$5.2 billion**



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Refer to safe harbor and non-GAAP on page 2 and endnotes on page 21

Retail Pharmacy International – initiative update



Actions focused on revenue growth and creating a lean operating model

Transform Retail & Develop Healthcare

- Beauty reinvention in 26 beauty halls
- Flagship locations: Covent Garden (London) & Meadowhall (Sheffield) opened
- Introduced 35 new beauty brands: 18 in 2H19, 17 in September
- Digital healthcare: developing plans for expanding pharmacy services

Digital Acceleration

- Online pharmacy launched May 2019: expanded to include repeat scripts
- Boots Advantage Card digitalized: app integrated across consumer platforms
- Boots.com: strong sales growth, up 14.4% in FY19 and up 18.4% in 4Q

Transformational Cost Management

- 20% reduction in Boots UK head office personnel completed
- Store optimization of 200 locations: 18 completed in 4Q, remainder FY20
- Cost reductions through simplification of care home operations & supply chain



Retail Pharmacy USA – initiative update



Transform and restructure retail offering

- Kroger relationship continues to expand:
 - Kroger offer extending to 50 Walgreens locations
 - Walgreens owned Health & Beauty brands to be in 17 Kroger locations
- Nationwide retail product return service with FedEx
- Focus on Health & Beauty through Skincare & direct to consumer site No7Beauty.com

Create neighborhood health destinations around more modern pharmacy

- Ongoing development of physician and clinical pharmacist led primary care model
- Launch of Jenny Craig health and weight loss management in 100 locations by Jan. 2020
- Shields Health Solutions: minority investment in specialty pharmacy provider
- Better clinical outcomes through patient adherence programs
- Innovative pharmacy collaboration with Centene and RxAdvance
- Multiyear agreement with UnitedHealth for co-branded Medicare Advantage plans

Accelerate digitalization

- Microsoft cloud migration on plan
- Find Care Now platform: expanded to 30 healthcare providers spanning over 40 services
- Walgreens app downloaded 58.9 million times, up +11.8% to last year
- Total digitally initiated sales over \$15 billion, up +24.9% to last year



Transformational Cost Management Program



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Increasing target to in excess of \$1.8 billion in annual cost savings by FY22

- Stronger progress than expected against select investments
- Improved line of sight on long term pipeline of initiatives
- Rising confidence in working capital “unlock”
- Transformational Cost Management → Save to Invest to Grow



Smart Spend



Smart Organization



Digitalization



Divisional Optimization



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Transformational Cost Management Program



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Increasing target to in excess of \$1.8 billion in annual cost savings by FY22



Smart Spend

- Initiated policy changes for key programs including payment terms and consultants
- Initiatives built into FY20 budgets



Smart Organization

- Select corporate office reductions in the US
- Initiated additional restructuring efforts in RPI and PW
- Defining business services vision and roadmap



Divisional Optimization

- Completed store real estate review and optimization in process
- Established dedicated teams for large programs including pharmacy cost to fill and shrink



Digitalization

- Unified digital and IT leadership
- Defined new technology operating model
- Focusing our IT and digital spend on our growth priorities



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Fiscal year 2020 guidance assumptions



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- **Adjusted effective tax rate** **~17%**
- **Share repurchases (excluding anti-dilutive)** **~\$1.75 billion**
- **Digitalization and development investments**

| \$ in millions | <u>Expense</u> | <u>Capital</u> | <u>Total</u> |
|-------------------------------|-----------------------|-----------------------|---------------------|
| Total FY20 investments | \$300-\$350 | ~\$500 | \$800-\$850 |
| Incremental vs. FY19 | \$100-\$150 | ~\$150 | \$250-\$300 |





Constant currency adjusted EPS growth: flat
Range is plus or minus 3%

- Year over year growth adversely impacted by reduction of 2019 bonus ~6.5%
- Transformational Cost Management Program embedded



Fiscal year 2020 guidance drivers



Constant currency adjusted EPS growth: flat
Range is plus or minus 3%

FY20 projected drivers

Adjusted EPS impact

- Reduction of 2019 bonus ~ (6.5%)
- Adjusted effective tax rate ~ (2.0%)
- + Net share repurchases ~ 3.5%
- + Operational performance: ~ 5.0%
including core growth, investments in digitalization
and development, removal e-cigarettes

FY20 Adjusted EPS Guidance

Flat





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Continued progress on strategic priorities

Accelerate
digitalization of
company

Transform and
restructure retail
offering

Create neighborhood
health destinations

Transformational Cost Management Program



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Refer to safe harbor and non-GAAP on page 2 and endnotes on page 21

Endnotes



- 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 – 4Q19: gross profit \$5,631, selling general and administrative expenses \$4,932, SG&A as a percent of sales 18.9%, operating income \$700, and operating margin 2.7%. FY19: gross profit \$23,511, SG&A expenses \$19,424, SG&A as a percent of sales 18.6%, operating income \$4,088 and operating margin 3.9%.
 - Retail Pharmacy International segment GAAP results on a reported currency basis, dollars in millions – 4Q19: gross profit \$1,104, operating income \$49, and operating margin 1.8%. FY19: operating income \$438, operating margin 3.8%. In FY19 compared to the prior year, the division's operating income decreased 46.8%, operating margin decreased 2.9 percentage points.
 - Retail Pharmacy International segment GAAP results – 4Q19: on a constant currency basis, sales decreased 1.8%, comparable store sales decreased 2.0%, comparable pharmacy sales decreased 1.0% and comparable retail sales decreased 2.7%. On a reported currency basis, sales decreased 6.3%, comparable store sales decreased 6.5%, comparable pharmacy sales decreased 5.7%, comparable retail sales decreased 7.1%, Boots UK comparable pharmacy sales decreased 7.1% and Boots UK comparable retail sales decreased 8.1%. FY19: on a constant currency basis, sales decreased 2.0%, comparable store sales decreased 1.7%, comparable pharmacy sales decreased 0.9% and comparable retail sales decreased 2.2%. On a reported currency basis, sales decreased 6.7%, comparable store sales decreased 6.4%, comparable pharmacy sales decreased 5.7%, comparable retail sales decreased 6.8%, Boots UK comparable pharmacy sales decreased 6.3% and Boots UK comparable retail sales decreased 7.3%.
 - Pharmaceutical Wholesale segment GAAP results on a reported currency basis, dollars in millions – 4Q19: operating income \$129, and operating margin 1.2%. In 4Q19 compared to the prior year quarter, the division's operating income decreased 20.1%, operating margin decreased 0.8%, sales increased 3.1%. FY19: operating income \$471, and operating margin 1.3%. In FY19 compared to the prior year, the division's operating income decreased 30.4%, operating margin decreased 0.8 percentage points, sales increased 0.2%.
 - Pharmaceutical Wholesale adjusted operating income includes adjusted equity earnings in AmerisourceBergen, which were \$101 and \$88 in the three months ended August 31, 2019 and three months ended August 31, 2018, respectively. Pharmaceutical Wholesale adjusted operating margin has been calculated excluding adjusted equity earnings in AmerisourceBergen.
 - Organic sales is a non-GAAP financial measure defined as sales excluding certain sales relating to non-comparable acquisitions, divestitures and joint ventures that have been consummated in the past twelve months. Retail Pharmacy USA's fourth quarter sales were \$26.0 billion, an increase of 2.1 percent over the year-ago quarter. Non-comparable acquisitions, divestitures and joint ventures had a negative impact of 0.8 percentage point, or \$139 million.
 - With respect to fiscal 2019, free cash flow excluding exceptional items (\$5.2 billion) is a non-GAAP measure defined as net cash provided by operating activities (\$5.6 billion), less additions to property, plant and equipment (capital expenditures) (\$1.7 billion), and adding back exceptional items relating to (i) restructuring and acquisition-related costs, including costs associated with the integration of Rite Aid stores and actions under the Transformational Cost Management Program (\$449 million), (ii) U.S. tax reform transition payments (\$285 million), (iii) Rite Aid capital improvements (\$284 million) and (iv) legal settlements (\$243 million).
 - 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 amortization, store optimization expenses, hurricane-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 and that have not been closed for seven or more consecutive days, undergone a major remodel or been subject to a natural disaster during 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.
- 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 August 31, 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. See restatement in the appendix.
- 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 4Q retail refill prescriptions does not include prescriptions filled at non-converted Rite Aid stores.
- Boots UK market share data as of September 7, 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 and twelve months ended August 31, 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 2019" refer to our fiscal year ended August 31, 2019.



Reconciliation of Non-GAAP financial measures

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

| NET EARNINGS | (in millions) | | Change vs. 4Q18 | | Twelve months ended August 31, | | Change vs. FY18 | |
|--|-------------------------------|-----------------|-----------------|----------------|--------------------------------|-----------------|-----------------|---------------|
| | Three months ended August 31, | | Amount | Percent | 2019 | 2018 | Amount | Percent |
| | 2019 | 2018 | | | | | | |
| Net earnings attributable to Walgreens Boots Alliance, Inc. (GAAP) | \$ 677 | \$ 1,512 | \$ (835) | (55.2)% | \$ 3,982 | \$ 5,024 | \$ (1,042) | (20.7)% |
| Adjustments to operating income: | | | | | | | | |
| Acquisition-related amortization and impairment ¹ | 194 | 119 | | | 567 | 448 | | |
| Transformational cost management | 212 | — | | | 477 | — | | |
| Acquisition-related costs | 75 | 58 | | | 303 | 231 | | |
| Adjustments to equity earnings in AmerisourceBergen | 42 | 39 | | | 233 | 175 | | |
| Store optimization | 97 | 76 | | | 196 | 100 | | |
| LIFO provision | 60 | (82) | | | 136 | 84 | | |
| Certain legal and regulatory accruals and settlements ² | — | 164 | | | 31 | 284 | | |
| Asset recovery | — | — | | | — | (15) | | |
| Hurricane-related costs | — | — | | | — | 83 | | |
| Total adjustments to operating income | 680 | 374 | | | 1,944 | 1,390 | | |
| Adjustments to other income (expense): | | | | | | | | |
| Net investment hedging loss (gain) | 8 | 15 | | | 18 | (21) | | |
| Gain on sale of equity method investment | — | (322) | | | — | (322) | | |
| Impairment of equity method investment | — | — | | | — | 178 | | |
| Termination of option granted to Rite Aid | — | — | | | (173) | — | | |
| Total adjustments to other income (expense) | 8 | (307) | | | (155) | (165) | | |
| Adjustments to interest expense, net: | | | | | | | | |
| Prefunded acquisition financing costs | — | — | | | — | 29 | | |
| Total adjustments to interest expense, net | — | — | | | — | 29 | | |
| Adjustments to income tax provision: | | | | | | | | |
| Equity method non-cash tax | 9 | 6 | | | 18 | 25 | | |
| U.S. tax law changes ³ | (5) | (169) | | | (8) | (125) | | |
| Tax impact of adjustments ⁴ | (103) | 31 | | | (291) | (193) | | |
| Total adjustments to income tax provision | (99) | (132) | | | (281) | (293) | | |
| Adjustments to post tax equity earnings from other equity method investments: | | | | | | | | |
| Adjustments to equity earnings in other equity method investments ⁵ | 17 | — | | | 40 | — | | |
| Total adjustments to post tax equity earnings from other equity method investments | 17 | — | | | 40 | — | | |
| Adjusted net earnings attributable to Walgreens Boots Alliance, Inc. (Non-GAAP measure) | \$ 1,284 | \$ 1,447 | \$ (163) | (11.3)% | \$ 5,529 | \$ 5,985 | \$ (456) | (7.6)% |



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Reconciliation of Non-GAAP financial measures

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

DILUTED NET EARNINGS PER SHARE

| | Three months ended August 31, | | Change vs. 4Q18 | | Twelve months ended August 31, | | Change vs. FY18 | |
|--|-------------------------------|---------|-----------------|---------|--------------------------------|---------|-----------------|---------|
| | 2019 | 2018 | Amount | Percent | 2019 | 2018 | Amount | Percent |
| Diluted net earnings per common share (GAAP) | \$ 0.75 | \$ 1.55 | \$ (0.80) | (51.4)% | \$ 4.31 | \$ 5.05 | \$ (0.74) | (14.6)% |
| Adjustments to operating income | 0.75 | 0.38 | | | 2.10 | 1.40 | | |
| Adjustments to other income (expense) | 0.01 | (0.31) | | | (0.17) | (0.17) | | |
| Adjustments to interest expense, net | — | — | | | — | 0.03 | | |
| Adjustments to income tax provision | (0.11) | (0.14) | | | (0.30) | (0.29) | | |
| Adjustments to equity earnings in other equity method investments ⁵ | 0.02 | — | | | 0.04 | — | | |
| Adjusted diluted net earnings per common share (Non-GAAP measure) | \$ 1.43 | \$ 1.48 | \$ (0.05) | (3.7)% | \$ 5.99 | \$ 6.02 | \$ (0.03) | (0.5)% |
| Weighted average common shares outstanding, diluted (in millions) | 900.7 | 977.9 | | | 923.5 | 995.0 | | |

¹ Includes impairment of \$73 million for indefinite-lived pharmacy licenses intangible asset recorded during the three months ended August 31, 2019, in the Boots reporting unit within the Retail Pharmacy International segment.

² Beginning in the quarter ended August 31, 2018, management reviewed and refined its practice to include all charges related to the matters included in Certain legal and regulatory accruals and settlements. In order to present non-GAAP measures on a consistent basis for fiscal year 2019, the Company included adjustments in the quarter ended August 31, 2018 of \$14 million, \$50 million and \$5 million which were previously accrued in the Company's financial statements for the quarters ended November 30, 2017, February 28, 2018, and May 31, 2018, respectively. These additional adjustments impact the comparability of such results to the results reported in prior and future quarters.

³ Discrete tax-only items.

⁴ Represents the adjustment to the GAAP basis tax provision commensurate with non-GAAP adjustments and the adjusted tax rate true-up.

⁵ 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 August 31, 2019

| | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale ¹ | Eliminations | Walgreens Boots Alliance, Inc. |
|---|---------------------|-------------------------------|---------------------------------------|--------------|--------------------------------|
| Sales | 26,040 | 2,703 | 5,742 | (532) | 33,954 |
| Gross profit (GAAP) | 5,631 | 1,104 | 492 | — | 7,228 |
| Transformational cost management | — | 3 | — | — | 3 |
| Acquisition-related costs | 13 | — | — | — | 13 |
| Store optimization | 5 | — | — | — | 5 |
| LIFO provision | 60 | — | — | — | 60 |
| Adjusted gross profit (Non-GAAP measure) | 5,710 | 1,107 | 492 | — | 7,309 |
| Selling, general and administrative expenses (GAAP) | \$ 4,932 | \$ 1,055 | \$ 421 | \$ — | \$ 6,408 |
| Acquisition-related amortization and impairment ² | (78) | (97) | (19) | — | (194) |
| Transformational cost management | (130) | (42) | (36) | — | (208) |
| Acquisition-related costs | (58) | (3) | (1) | — | (62) |
| Store optimization | (91) | — | — | — | (91) |
| Adjusted selling, general and administrative expenses (Non-GAAP measure) | 4,574 | 913 | 364 | — | 5,852 |
| Operating income (GAAP) | \$ 700 | \$ 49 | \$ 129 | \$ — | \$ 878 |
| Acquisition-related amortization and impairment ² | 78 | 97 | 19 | — | 194 |
| Transformational cost management | 130 | 46 | 36 | — | 212 |
| Acquisition-related costs | 72 | 3 | 1 | — | 75 |
| Adjustments to equity earnings in AmerisourceBergen | — | — | 42 | — | 42 |
| Store optimization | 97 | — | — | — | 97 |
| LIFO provision | 60 | — | — | — | 60 |
| Adjusted operating income (Non-GAAP measure) | \$ 1,135 | \$ 194 | \$ 229 | \$ — | \$ 1,558 |
| Gross margin (GAAP) | 21.6% | 40.8% | 8.6% | | 21.3% |
| Adjusted gross margin (Non-GAAP measure) | 21.9% | 41.0% | 8.6% | | 21.5% |
| Selling, general and administrative expenses percent to sales (GAAP) | 18.9% | 39.0% | 7.3% | | 18.9% |
| Adjusted selling, general and administrative expenses percent to sales (Non-GAAP measure) | 17.6% | 33.8% | 6.3% | | 17.2% |
| Operating margin (GAAP) ³ | 2.7% | 1.8% | 1.2% | | 2.4% |
| Adjusted operating margin (Non-GAAP measure) ³ | 4.4% | 7.2% | 2.2% | | 4.3% |

¹ Operating income for Pharmaceutical Wholesale includes equity earnings in AmerisourceBergen. As a result of the two month reporting lag, operating income for the three and twelve month periods ended August 31, 2019 includes AmerisourceBergen equity earnings for the periods of April 1, 2019 through June 30, 2019 and July 1, 2018 through June 30, 2019, respectively. Operating income for the three and twelve month periods ended August 31, 2018 includes AmerisourceBergen equity earnings for the period of April 1, 2018 through June 30, 2018 and July 1, 2017 through June 30, 2018, respectively.

² Includes impairment of \$73 million for indefinite-lived pharmacy licenses intangible asset recorded during the three months ended August 31, 2019, in the Boots reporting unit within Retail Pharmacy International segment.

³ Operating margins and adjusted operating margins have been calculated excluding equity earnings in AmerisourceBergen.



Reconciliation of Non-GAAP financial measures

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

| | Three months ended August 31, 2018 | | | | |
|--|------------------------------------|-------------------------------|---------------------------------------|---------------|--------------------------------|
| | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale ¹ | Eliminations | Walgreens Boots Alliance, Inc. |
| Sales | \$ 25,508 | \$ 2,886 | \$ 5,568 | \$ (520) | \$ 33,442 |
| Gross profit (GAAP) | \$ 5,860 | \$ 1,225 | \$ 491 | \$ (1) | \$ 7,575 |
| Acquisition-related amortization | (3) | — | — | — | (3) |
| LIFO provision | (82) | — | — | — | (82) |
| Adjusted gross profit (Non-GAAP measure) | \$ 5,775 | \$ 1,225 | \$ 491 | \$ (1) | \$ 7,490 |
| Selling, general and administrative expenses (GAAP)² | \$ 4,856 | \$ 995 | \$ 377 | \$ — | \$ 6,228 |
| Acquisition-related amortization | (77) | (25) | (20) | — | (122) |
| Acquisition-related costs | (58) | — | — | — | (58) |
| Store optimization | (76) | — | — | — | (76) |
| Certain legal and regulatory accruals and settlements ³ | (164) | — | — | — | (164) |
| Adjusted selling, general and administrative expenses (Non-GAAP measure)² | \$ 4,481 | \$ 970 | \$ 357 | \$ — | \$ 5,808 |
| Operating income (GAAP)² | \$ 1,004 | \$ 230 | \$ 163 | \$ (1) | \$ 1,396 |
| Acquisition-related amortization | 74 | 25 | 20 | — | 119 |
| Acquisition-related costs | 58 | — | — | — | 58 |
| Adjustments to equity earnings in AmerisourceBergen | — | — | 39 | — | 39 |
| Store optimization | 76 | — | — | — | 76 |
| LIFO provision | (82) | — | — | — | (82) |
| Certain legal and regulatory accruals and settlements ³ | 164 | — | — | — | 164 |
| Adjusted operating income (Non-GAAP measure)² | \$ 1,294 | \$ 255 | \$ 222 | \$ (1) | \$ 1,770 |
| Gross margin (GAAP) | 23.0% | 42.4% | 8.8% | | 22.7% |
| Adjusted gross margin (Non-GAAP measure) | 22.6% | 42.4% | 8.8% | | 22.4% |
| Selling, general and administrative expenses percent to sales (GAAP) ² | 19.0% | 34.5% | 6.8% | | 18.6% |
| Adjusted selling, general and administrative expenses percent to sales (Non-GAAP measure) ² | 17.6% | 33.6% | 6.4% | | 17.4% |
| Operating margin (GAAP) ^{2,4} | 3.9% | 8.0% | 2.0% | | 4.0% |
| Adjusted operating margin (Non-GAAP measure) ^{2,4} | 5.1% | 8.8% | 2.4% | | 5.0% |

¹ Operating income for Pharmaceutical Wholesale includes equity earnings in AmerisourceBergen. As a result of the two month reporting lag, operating income for the three and twelve month periods ended August 31, 2019 includes AmerisourceBergen equity earnings for the periods of April 1, 2019 through June 30, 2019 and July 1, 2018 through June 30, 2019, respectively. Operating income for the three and twelve month periods ended August 31, 2018 includes AmerisourceBergen equity earnings for the period of April 1, 2018 through June 30, 2018 and July 1, 2017 through June 30, 2017, respectively.

² The Company adopted new accounting guidance in Accounting Standards Update 2017-07 as of September 1, 2018 (fiscal 2019) on a retrospective basis for the Consolidated Statements of Earnings presentation. This change resulted in reclassification of all the other net cost components (excluding service cost component) of net pension cost and net postretirement benefit cost from selling, general and administrative expenses to other income (expense) with no impact on the Company's net earnings.

³ See note 2 on page 24.

⁴ Operating margins and adjusted operating margins have been calculated excluding equity earnings in AmerisourceBergen.



Reconciliation of Non-GAAP financial measures

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

Twelve months ended August 31, 2019

| | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale ¹ | Eliminations | Walgreens Boots Alliance, Inc. |
|---|---------------------|-------------------------------|---------------------------------------|--------------|--------------------------------|
| Sales | \$ 104,532 | \$ 11,462 | \$ 23,053 | \$ (2,180) | \$ 136,866 |
| Gross profit (GAAP) | \$ 23,511 | \$ 4,522 | \$ 2,041 | \$ 2 | \$ 30,076 |
| Transformational cost management | — | 45 | — | — | 45 |
| Acquisition-related costs | 63 | — | — | — | 63 |
| Store optimization | 8 | — | — | — | 8 |
| LIFO provision | 136 | — | — | — | 136 |
| Adjusted gross profit (Non-GAAP measure) | \$ 23,718 | \$ 4,567 | \$ 2,041 | \$ 2 | \$ 30,328 |
| Selling, general and administrative expenses (GAAP) | \$ 19,424 | \$ 4,084 | \$ 1,734 | \$ — | \$ 25,242 |
| Acquisition-related amortization and impairment ² | (315) | (173) | (78) | — | (567) |
| Transformational cost management | (189) | (89) | (155) | — | (432) |
| Acquisition-related costs | (237) | (3) | (1) | — | (241) |
| Store optimization | (189) | — | — | — | (189) |
| Certain legal and regulatory accruals and settlements ³ | (31) | — | — | — | (31) |
| Adjusted selling, general and administrative expenses (Non-GAAP measure) | \$ 18,464 | \$ 3,819 | \$ 1,499 | \$ — | \$ 23,783 |
| Operating income (GAAP) | \$ 4,088 | \$ 438 | \$ 471 | \$ 1 | \$ 4,998 |
| Acquisition-related amortization and impairment ² | 315 | 173 | 78 | — | 567 |
| Transformational cost management | 189 | 133 | 155 | — | 477 |
| Acquisition-related costs | 300 | 3 | 1 | — | 303 |
| Adjustments to equity earnings in AmerisourceBergen | — | — | 233 | — | 233 |
| Store optimization | 196 | — | — | — | 196 |
| LIFO provision | 136 | — | — | — | 136 |
| Certain legal and regulatory accruals and settlements ³ | 31 | — | — | — | 31 |
| Adjusted operating income (Non-GAAP measure) | \$ 5,255 | \$ 747 | \$ 939 | \$ 1 | \$ 6,942 |
| Gross margin (GAAP) | 22.5% | 39.5% | 8.9% | | 22.0% |
| Adjusted gross margin (Non-GAAP measure) | 22.7% | 39.8% | 8.9% | | 22.2% |
| Selling, general and administrative expenses percent to sales (GAAP) | 18.6% | 35.6% | 7.5% | | 18.4% |
| Adjusted selling, general and administrative expenses percent to sales (Non-GAAP measure) | 17.7% | 33.3% | 6.5% | | 17.4% |
| Operating margin (GAAP) ⁴ | 3.9% | 3.8% | 1.3% | | 3.5% |
| Adjusted operating margin (Non-GAAP measure) ⁴ | 5.0% | 6.5% | 2.4% | | 4.8% |

¹ Operating income for Pharmaceutical Wholesale includes equity earnings in AmerisourceBergen. As a result of the two month reporting lag, operating income for the three and twelve month periods ended August 31, 2019 includes AmerisourceBergen equity earnings for the periods of April 1, 2019 through June 30, 2019 and July 1, 2018 through June 30, 2019, respectively. Operating income for the three and twelve month periods ended August 31, 2018 includes AmerisourceBergen equity earnings for the period of April 1, 2018 through June 30, 2018 and July 1, 2017 through June 30, 2018, respectively.

² Includes impairment of \$73 million for indefinite-lived pharmacy licenses intangible asset recorded during the three months ended August 31, 2019, in the Boots reporting unit within Retail Pharmacy International segment.

³ See note 2 on page 24.

⁴ Operating margins and adjusted operating margins have been calculated excluding equity earnings in AmerisourceBergen.



Reconciliation of Non-GAAP financial measures

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

Twelve months ended August 31, 2018

| | Retail Pharmacy USA | Retail Pharmacy International | Pharmaceutical Wholesale ¹ | Eliminations | Walgreens Boots Alliance, Inc. |
|--|---------------------|-------------------------------|---------------------------------------|---------------|--------------------------------|
| Sales | \$ 98,392 | \$ 12,281 | \$ 23,006 | \$ (2,142) | \$ 131,537 |
| Gross profit (GAAP) | \$ 23,758 | \$ 4,958 | \$ 2,081 | \$ (5) | \$ 30,792 |
| Acquisition-related amortization | \$ 11 | \$ — | \$ — | \$ — | \$ 11 |
| LIFO provision | 84 | — | — | — | 84 |
| Hurricane-related costs | \$ 43 | \$ — | \$ — | \$ — | \$ 43 |
| Adjusted gross profit (Non-GAAP measure) | \$ 23,896 | \$ 4,958 | \$ 2,081 | \$ (5) | \$ 30,930 |
| Selling, general and administrative expenses (GAAP)² | \$ 18,971 | \$ 4,134 | \$ 1,594 | \$ (5) | \$ 24,694 |
| Acquisition-related amortization | (249) | (105) | (83) | — | (437) |
| Acquisition-related costs | (231) | — | — | — | (231) |
| Store optimization | (100) | — | — | — | (100) |
| Certain legal and regulatory accruals and settlements ³ | (284) | — | — | — | (284) |
| Asset recovery | 15 | — | — | — | 15 |
| Hurricane-related costs | (40) | — | — | — | (40) |
| Adjusted selling, general and administrative expenses (Non-GAAP measure)² | \$ 18,082 | \$ 4,029 | \$ 1,511 | \$ (5) | \$ 23,617 |
| Operating income (GAAP)² | \$ 4,787 | \$ 824 | \$ 678 | \$ — | \$ 6,289 |
| Acquisition-related amortization | 260 | 105 | 83 | — | 448 |
| Acquisition-related costs | 231 | — | — | — | 231 |
| Adjustments to equity earnings in AmerisourceBergen | — | — | 175 | — | 175 |
| Store optimization | 100 | — | — | — | 100 |
| LIFO provision | 84 | — | — | — | 84 |
| Certain legal and regulatory accruals and settlements ³ | 284 | — | — | — | 284 |
| Asset recovery | (15) | — | — | — | (15) |
| Hurricane-related costs | 83 | — | — | — | 83 |
| Adjusted operating income (Non-GAAP measure)² | \$ 5,814 | \$ 929 | \$ 936 | \$ — | \$ 7,679 |
| Gross margin (GAAP) | 24.1% | 40.4% | 9.0% | | 23.4% |
| Adjusted gross margin (Non-GAAP measure) | 24.3% | 40.4% | 9.0% | | 23.5% |
| Selling, general and administrative expenses percent to sales (GAAP) ² | 19.3% | 33.7% | 6.9% | | 18.8% |
| Adjusted selling, general and administrative expenses percent to sales (Non-GAAP measure) ² | 18.4% | 32.8% | 6.6% | | 18.0% |
| Operating margin (GAAP) ^{2,4} | 4.9% | 6.7% | 2.1% | | 4.6% |
| Adjusted operating margin (Non-GAAP measure) ^{2,4} | 5.9% | 7.6% | 2.5% | | 5.6% |

¹ Operating income for Pharmaceutical Wholesale includes equity earnings in AmerisourceBergen. As a result of the two month reporting lag, operating income for the three and twelve month periods ended August 31, 2019 includes AmerisourceBergen equity earnings for the periods of April 1, 2019 through June 30, 2019 and July 1, 2018 through June 30, 2019, respectively. Operating income for the three and twelve month periods ended August 31, 2018 includes AmerisourceBergen equity earnings for the period of April 1, 2018 through June 30, 2018 and July 1, 2017 through June 30, 2018, respectively.

² The Company adopted new accounting guidance in Accounting Standards Update 2017-07 as of September 1, 2018 (fiscal 2019) on a retrospective basis for the Consolidated Condensed Statements of Earnings presentation. This change resulted in reclassification of all the other net cost components (excluding service cost component) of net pension cost and net postretirement benefit cost from selling, general and administrative expenses to other income (expense) with no impact on the Company's net earnings.

³ See note 2 on page 24.

⁴ Operating margins and adjusted operating margins have been calculated excluding equity earnings in AmerisourceBergen.



Reconciliation of Non-GAAP financial measures

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

EQUITY EARNINGS IN AMERISOURCEBERGEN

| | Three months ended August 31, | | Twelve months ended August 31, | |
|---|-------------------------------|-------|--------------------------------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| Equity earnings in AmerisourceBergen (GAAP) | \$ 59 | \$ 49 | \$ 164 | \$ 191 |
| Gain on sale of equity investment | — | — | (3) | — |
| U.S. tax law changes | — | — | (17) | (152) |
| Acquisition-related amortization | 30 | 32 | 125 | 119 |
| LIFO provision | (2) | (3) | — | (15) |
| Anti-Trust | — | — | (28) | — |
| Litigation settlements and other | 12 | 14 | 9 | 199 |
| Early debt extinguishment | — | (7) | — | (2) |
| Loss on previously held equity interest | — | — | — | 11 |
| Asset Impairment | (1) | — | 129 | 8 |
| PharMEDium remediation costs | 4 | 3 | 16 | 7 |
| Adjusted equity earnings in AmerisourceBergen (Non-GAAP measure) | \$ 101 | \$ 88 | \$ 397 | \$ 366 |



Reconciliation of Non-GAAP financial measures

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

ADJUSTED EFFECTIVE TAX RATE

| | Three months ended August 31, 2019 | | | Three months ended August 31, 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) | \$ 708 | \$ 26 | 3.7% | \$ 1,661 | \$ 159 | 9.6% |
| Impact of non-GAAP adjustments | 688 | 111 | | 67 | (20) | |
| U.S. tax law changes | — | 5 | | — | 169 | |
| Adjusted tax rate true-up | — | (8) | | — | (6) | |
| Equity method non-cash tax | — | (9) | | — | (11) | |
| Subtotal | \$ 1,396 | \$ 125 | | \$ 1,728 | \$ 291 | |
| Exclude adjusted equity earnings in AmerisourceBergen | (101) | — | | (88) | — | |
| Adjusted effective tax rate excluding adjusted equity earnings in AmerisourceBergen (Non-GAAP measure) | \$ 1,295 | \$ 125 | 9.6% | \$ 1,640 | \$ 291 | 17.7% |

ADJUSTED EFFECTIVE TAX RATE

| | Twelve months ended August 31, 2019 | | | Twelve months ended August 31, 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) | \$ 4,527 | \$ 588 | 13.0% | \$ 5,975 | \$ 998 | 16.7% |
| Impact of non-GAAP adjustments | 1,789 | 291 | | 1,254 | 193 | |
| U.S. tax law changes | — | 8 | | — | 125 | |
| Equity method non-cash tax | — | (18) | | — | (25) | |
| Subtotal | \$ 6,316 | \$ 870 | | \$ 7,229 | \$ 1,291 | |
| Exclude adjusted equity earnings in AmerisourceBergen | (397) | — | | (366) | — | |
| Adjusted effective tax rate excluding adjusted equity earnings in AmerisourceBergen (Non-GAAP measure) | \$ 5,919 | \$ 870 | 14.7% | \$ 6,863 | \$ 1,291 | 18.8% |



Reconciliation of Non-GAAP financial measures

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

FREE CASH FLOW

| | Three months ended August 31, | | Twelve months ended August 31, | |
|---|-------------------------------|-----------------|--------------------------------|-----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net cash provided by operating activities (GAAP) ¹ | \$ 2,378 | \$ 2,817 | \$ 5,594 | \$ 8,263 |
| Less: Additions to property, plant and equipment | (456) | (384) | (1,702) | (1,367) |
| Free cash flow (Non-GAAP measure)² | \$ 1,923 | \$ 2,433 | \$ 3,892 | \$ 6,896 |

¹ The Company adopted new accounting guidance in Accounting Standards Update 2016-18 as of September 1, 2018 (fiscal 2019) on a retrospective basis for the Consolidated Condensed Statements of Cash Flows presentation. This change resulted in restricted cash being included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Condensed Statement of Cash Flows.

² Free cash flow is defined as net cash provided by operating activities in a period less additions to property, plant and equipment (capital expenditures) made in that period. This measure does not represent residual cash flows available for discretionary expenditures as the measure does not deduct the payments required for debt service and other contractual obligations or payments for future business acquisitions. Therefore, we believe it is important to view free cash flow as a measure that provides supplemental information to our entire statements of cash flows.



Pension and post retirement benefit reclassification¹

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

| | Three months ended November 30, 2017 | | | Three months ended February 28, 2018 | | | Three months ended May 31, 2018 | | | Three months ended August 31, 2018 | | | Twelve months ended August 31, 2018 | | |
|--|--------------------------------------|---------------|-----------------|--------------------------------------|---------------|-----------------|---------------------------------|---------------|-----------------|------------------------------------|-----------------|-----------------|-------------------------------------|-----------------|-----------------|
| | As reported | Adjustments | As revised | As reported | Adjustments | As revised | As reported | Adjustments | As revised | As reported | Adjustments | As revised | As reported | Adjustments | As revised |
| Retail Pharmacy USA | | | | | | | | | | | | | | | |
| Selling, general and administrative expenses | 4,476 | (1) | 4,475 | 4,865 | (1) | 4,864 | 4,776 | — | 4,776 | 4,745 | 111 | 4,856 | 18,862 | 109 | 18,971 |
| Operating income | \$ 1,126 | \$ 1 | \$ 1,127 | \$ 1,402 | \$ 1 | \$ 1,403 | \$ 1,253 | \$ — | \$ 1,253 | \$ 1,115 | \$ (111) | \$ 1,004 | \$ 4,896 | \$ (109) | \$ 4,787 |
| Retail Pharmacy International | | | | | | | | | | | | | | | |
| Selling, general and administrative expenses | 1,040 | 5 | 1,045 | 1,042 | 4 | 1,046 | 1,043 | 5 | 1,048 | 991 | 4 | 995 | 4,116 | 18 | 4,134 |
| Operating income | \$ 184 | \$ (5) | \$ 179 | \$ 252 | \$ (4) | \$ 248 | \$ 172 | \$ (5) | \$ 167 | \$ 234 | \$ (4) | \$ 230 | \$ 842 | \$ (18) | \$ 824 |
| Pharmaceutical Wholesale | | | | | | | | | | | | | | | |
| Selling, general and administrative expenses | 396 | (1) | 395 | 411 | — | 411 | 412 | (1) | 411 | 377 | — | 377 | 1,596 | (2) | 1,594 |
| Operating income | \$ 14 | \$ 1 | \$ 15 | \$ 323 | \$ — | \$ 323 | \$ 176 | \$ 1 | \$ 177 | \$ 163 | \$ — | \$ 163 | \$ 676 | \$ 2 | \$ 678 |
| Eliminations | | | | | | | | | | | | | | | |
| Selling, general and administrative expenses | (5) | — | (5) | — | — | — | — | — | — | — | — | — | (5) | — | (5) |
| Operating income | \$ (2) | \$ — | \$ (2) | \$ 3 | \$ — | \$ 3 | \$ — | \$ — | \$ — | \$ (1) | \$ — | \$ (1) | \$ — | \$ — | \$ — |
| Walgreens Boots Alliance, Inc. | | | | | | | | | | | | | | | |
| Selling, general and administrative expenses | 5,907 | 3 | 5,910 | 6,318 | 3 | 6,321 | 6,231 | 4 | 6,235 | 6,113 | 115 | 6,228 | 24,569 | 125 | 24,694 |
| Operating income | \$ 1,322 | \$ (3) | \$ 1,319 | \$ 1,980 | \$ (3) | \$ 1,977 | \$ 1,601 | \$ (4) | \$ 1,597 | \$ 1,511 | \$ (115) | \$ 1,396 | \$ 6,414 | \$ (125) | \$ 6,289 |
| Other income (expense) | (137) | 3 | (134) | 9 | 3 | 12 | (4) | 4 | — | 309 | 115 | 424 | 177 | 125 | 302 |

¹ See note 2 on page 26

Pension and post retirement benefit reclassification¹

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

| | Three months ended November 30, 2016 | | | Three months ended February 28, 2017 | | | Three months ended May 31, 2017 | | | Three months ended August 31, 2017 | | | Twelve months ended August 31, 2017 | | |
|--|--------------------------------------|-------------|-----------------|--------------------------------------|---------------|-----------------|---------------------------------|-----------------|-----------------|------------------------------------|---------------|-----------------|-------------------------------------|-----------------|-----------------|
| | As reported | Adjustments | As revised | As reported | Adjustments | As revised | As reported | Adjustments | As revised | As reported | Adjustments | As revised | As reported | Adjustments | As revised |
| Retail Pharmacy USA | | | | | | | | | | | | | | | |
| Selling, general and administrative expenses | 4,334 | (2) | 4,332 | 4,756 | (2) | 4,754 | 4,337 | 107 | 4,444 | 4,828 | (2) | 4,826 | 18,255 | 101 | 18,356 |
| Operating income | \$ 1,105 | \$ 2 | \$ 1,107 | \$ 1,120 | \$ 2 | \$ 1,122 | \$ 1,170 | \$ (107) | \$ 1,063 | \$ 800 | \$ 2 | \$ 802 | \$ 4,195 | \$ (101) | \$ 4,094 |
| Retail Pharmacy International | | | | | | | | | | | | | | | |
| Selling, general and administrative expenses | 993 | (6) | 987 | 1,006 | (10) | 996 | 1,006 | (2) | 1,004 | 1,007 | (12) | 995 | 4,012 | (30) | 3,982 |
| Operating income | \$ 182 | \$ 6 | \$ 188 | \$ 198 | \$ 10 | \$ 208 | \$ 142 | \$ 2 | \$ 144 | \$ 219 | \$ 12 | \$ 231 | \$ 741 | \$ 30 | \$ 771 |
| Pharmaceutical Wholesale | | | | | | | | | | | | | | | |
| Selling, general and administrative expenses | 359 | — | 359 | 362 | 1 | 363 | 375 | — | 375 | 383 | 1 | 384 | 1,479 | 2 | 1,481 |
| Operating income | \$ 160 | \$ — | \$ 160 | \$ 165 | \$ (1) | \$ 164 | \$ 200 | \$ — | \$ 200 | \$ 96 | \$ (1) | \$ 95 | \$ 621 | \$ (2) | \$ 619 |
| Eliminations | | | | | | | | | | | | | | | |
| Selling, general and administrative expenses | — | — | — | — | — | — | (6) | — | (6) | — | — | — | (6) | — | (6) |
| Operating income | \$ — | \$ — | \$ — | \$ (4) | \$ — | \$ (4) | \$ 5 | \$ — | \$ 5 | \$ (1) | \$ — | \$ (1) | \$ — | \$ — | \$ — |
| Walgreens Boots Alliance, Inc. | | | | | | | | | | | | | | | |
| Selling, general and administrative expenses | 5,686 | (8) | 5,678 | 6,124 | (11) | 6,113 | 5,712 | 105 | 5,817 | 6,218 | (13) | 6,205 | 23,740 | 73 | 23,813 |
| Operating income | \$ 1,447 | \$ 8 | \$ 1,455 | \$ 1,479 | \$ 11 | \$ 1,490 | \$ 1,517 | \$ (105) | \$ 1,412 | \$ 1,114 | \$ 13 | \$ 1,127 | \$ 5,557 | \$ (73) | \$ 5,484 |
| Other income (expense) | 1 | (8) | (7) | (15) | (11) | (26) | (8) | 105 | 97 | 11 | (13) | (2) | (11) | 73 | 62 |

¹ See note 2 on page 26

Restatement of Pharmacy Market Share IQVIA¹

Walgreens Boots Alliance, Inc. and Subsidiaries
Retail Pharmacy USA
Restatement of US Pharmacy Market Share as reported by IQVIA

| | Fiscal Year 2019 | | Fiscal Year 2018 | | | |
|---|---|---|---|---|------------------------------------|---------------------------------------|
| | Three months ended November 30, 2018 | Three months ended February 28, 2019 | Three months ended November 30, 2017 | Three months ended February 28, 2018 | Three months ended May 31, 2018 | Three months ended August 31, 2018 |
| US Pharmacy Prescription Market Share - previously reported | 22.4% | 22.3% | 20.6% | 21.4% | 22.4% | 22.3% |
| Methodology change impact | (0.9)% | (0.9)% | (0.8)% | (0.8)% | (0.7)% | (0.8)% |
| US Pharmacy Prescription Market Share - post restatement | 21.5% | 21.4% | 19.8% | 20.5% | 21.7% | 21.6% |

¹Due to revisions made by IQVIA to methodology used for its retail prescription database, market share has been restated for the comparable year-ago period

Currency sensitivity

| Exchange Rates/Impact (constant currency based on FY19) | FY19 | FY20 |
|---|-------------|------------------------------|
| GBP/USD | 1.28 | 1.21 |
| EUR/USD | 1.13 | 1.11 |
| TRY/USD | 0.18 | 0.15 |
| Fx Sales Impact vs. FY19 | | ~(\$1,800m) / ~(1.3%) |
| Fx Adj. Operating Income Impact vs. FY19 | | ~(\$60m) / ~(0.8%) |
| Fx Adj. EPS Impact vs. FY19 | | ~(\$0.05) / ~(0.8%) |

- Every 1% move in GBP/USD has ~\$140m 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 ~\$195m impact to WBA group sales

