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WBA.OQ - Q2 2021 Walgreens Boots Alliance Inc Earnings Call

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OVERVIEW:

Co. reported 2Q21 YoverY sales growth (including currency tailwind of 1.1%) of 4.6% and adjusted EPS of $1.40. Expects full-year 2021 adjusted EPS to grow mid-to-high single-digit in constant currencies.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Walgreens Boots Alliance, Inc. Second Quarter 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I'd now like to hand the conference over today to Mr. Gerald Gradwell, Senior Vice President of Investor Relations and Special Projects. Please go ahead.

Gerald Gradwell - *Walgreens Boots Alliance, Inc. - SVP of IR*

Good morning, ladies and gentlemen, and welcome to our earnings call for the second quarter of fiscal year 2021. On the call with me today are Roz Brewer, the Chief Executive Officer of Walgreens Boots Alliance; James Kehoe, our Global Chief Financial Officer; Alex Gourlay, Co-Chief Operating Officer of Walgreens Boots Alliance; and our former CEO, Stefano Pessina, is also here for any relevant questions this quarter as he transitions fully to his Executive Chairman role.

Before I hand you over to Roz to make some opening comments, I will, as usual, take you through the legal safe harbor and cautionary declarations. Certain statements and projections of future results made in this presentation constitute forward-looking statements that are based on our current market, competitive and regulatory expectations and are subject to risks and uncertainties that could cause actual results to vary materially. We undertake no obligation to update publicly any forward-looking statement after this presentation, whether as a result of new information, future events, changes in assumptions or otherwise. Please see our latest Form 10-K and 10-Q for a discussion of risk factors as they relate to forward-looking statements and note, in particular, that these forward-looking statements may be affected by risks relating to the spread and impact of the COVID pandemic.

In today's presentation, we will use certain non-GAAP financial measures. We refer you to the appendix in the presentation materials available on our Investor Relations website for reconciliations to the most directly comparable GAAP financial measures and related information.

In addition to our earnings announcement, this morning, we have issued an 8-K, providing a recast of our historical financial statements to reflect the pending disposition of our Alliance Healthcare business as well as our new reportable operating segments. Please be aware that we may during this presentation, and answers to questions, make reference to the information contained in that 8-K. You'll find a link to the webcast on our investor Relations website at investor.walgreensbootsalliance.com.

The earnings announcement, the presentation materials from this call and the 8-K are all available on the website. After this call, the presentation and webcast will be archived on the website for 12 months. I will now hand you over to Roz.

Rosalind Gates Brewer - *Walgreens Boots Alliance, Inc. - CEO & Director*

Thank you, Gerald. I want to begin by saying how glad I am to be joining you today for my first earnings call since starting at Walgreens Boots Alliance. After two and a half weeks on the job, I'm optimistic about the future of our company and our ability to drive sustainable, long-term value for our shareholders. I accepted this opportunity because of the vast potential that lies ahead for WBA. And my initial impressions have been confirmed even more after spending some early days in the business.

During this time, I've met incredible leaders, partners and customers, and been briefed in-depth on some of our core initiatives, including our vaccine rollout. I've also gained a greater understanding of our operations by visiting some of our stores and specialty pharmacies.

What I've learned already is that we have many incredibly passionate and talented team members who are deeply motivated by our purpose to help people across the world lead healthier and happier lives. And I definitely share their passion. It's truly remarkable how WBA is uniquely positioned with our wide global reach and unmatched expertise to be a force for good in the lives of millions of people every day.

Of course, nothing demonstrates our impact more than the leadership we have shown during the pandemic. By ensuring personal protective equipment is on shelves, by keeping our doors open to continue providing vital medication, by setting up mobile units in neighborhoods without pharmacy access, by launching new pickup and delivery options, by rolling out extensive testing and vaccination programs in record time, we've played a vital role in the health and wellness of our communities like never before. We now have to take some of the lessons that we learned in the last year and build on them.

When faced with a terrible, deadly virus, it's obvious, the team moved quickly, thought more creatively and worked together more closely and with great collaboration. This shared experience allowed the team to appreciate what WBA provides to its customers and patients even more profoundly. And these insights need to continue to propel us forward, along with decisive leadership and clear strategic direction. As a team, we will be intensely focused on accelerating our growth, instilling a culture of agility, establishing new health care solutions and building best-in-class consumer engagement across all of WBA.

Our patients and customers have deep loyalty and trust in our brands, and we need to continue to find ways that we can serve and reach them even better. Our latest "mass personalization" programs and omnichannel capabilities are definitely gaining traction, but we are only just beginning to see what can be achieved, particularly with our more than 100 million loyalty members in the U.S. We must lead the way to the health care of the future with consumer-centric, tech-enabled platforms that bring together the best of our physical locations and digital assets and engage with our patients and customers on a one-to-one level.

Of course, you'll be hearing much more from me as I continue to spend more time assessing our strengths and challenges. Some of these challenges can be addressed more immediately, and others will take more time to solve. And there are already several major initiatives happening across the business to take on our most pressing challenges, which you'll hear more about later in the call. But with strong positions in core markets, world-class partnerships and unmatched assets, we have all that we need to overcome obstacles and reach new heights.

Overall, we're in a strong financial position to invest in future growth and to deliver shareholder returns. And the earnings we are reporting today show further evidence of that, with Q2 results ahead of expectations and giving us the confidence to raise full-year guidance, despite the significant operational impacts from COVID.

So with that, I'll turn it over to James, and then Alex, to take us into more depth on both our results and operations. James.

James Kehoe - *Walgreens Boots Alliance, Inc. - Executive VP & Global CFO*

Thank you, Roz, and good morning. On the 6th of January, we announced the sale of the majority of our Alliance Healthcare business to AmerisourceBergen for $6.5 billion. With the announcement, the related assets, liabilities and operating results of the business to be divested have been reported as discontinued operations and are reflected as such in the second quarter financial results.

As a result of the transaction, the company has reorganized its continuing operations into 2 reporting segments, United States and International. The United States segment includes our Walgreens business and our AllianceRx Walgreens Prime joint venture. iA will be consolidated within the U.S. segment. And our equity earnings in AmerisourceBergen are also included within the segment. The International segment includes all of our operating businesses outside of the U.S. Included here are Boots U.K., Republic of Ireland and Opticians; our retail pharmacy operations in Mexico, Chile and Thailand; our franchising businesses; and our wholesale JV in Germany.

Please note that corporate overhead costs and costs associated with development of the health care technology start-up are reported separately outside the two operating segments. Please refer to our 8-K filing for further information.

With that out of the way, let's turn now to our results. Adjusted EPS came in at $1.40, well ahead of our expectations and 8.2% lower than prior year on a constant currency basis. On a continuing basis, adjusted EPS was $1.26, a year-on-year decline of 10.8%.

COVID-19 continued to have a material impact on our retail and pharmacy businesses. We experienced a winter surge in COVID-19 incidences across many of our markets. In the U.K., stricter restrictions in November, which we outlined on the last earnings call, eased temporarily in early December before going into a full lockdown state in January and February. Across the U.S., many states and local communities adopted renewed measures designed to stem the increases.

As we indicated on our last call, restrictions and social distancing have caused flu incidences to be significantly lower than prior year levels, and this has had a significant impact on both seasonal pharmacy scripts and front-of-store cough, cold, flu categories. Additionally, we invested heavily in SG&A to both safeguard our store environments as well as prepare for the rollout of mass vaccinations.

Overall, we estimate an adverse COVID-19 impact of between $0.40 and $0.45 per share in the second quarter. Despite this, our second quarter performance was better than expected as we delivered improved operational performance across a number of fronts. In particular, we saw better pharmacy margins, continued strong cost management, increased digital participation, and our International segment exceeded expectations. In summary, we continue to actively manage through COVID-19 related headwinds, and we remain confident of delivering strong growth in the second half of the fiscal year as the flu season subsides, and COVID-19 vaccinations accelerate.

Cash generation was strong with year-to-date free cash flow of $1.9 billion, 4.8% higher than prior year. Finally, based on the strength of our underlying performance, we are increasing our full year adjusted EPS guidance from low single-digit growth to mid to high single-digit growth.

Let's now look in more detail at the results. Second quarter sales were up 4.6%, including a currency tailwind of 1.1%. COVID-19 had a negative impact of more than 4 percentage points in the quarter. However, this was largely offset by the formation of the Germany JV.

Adjusted operating income declined 22.9% on a constant currency basis, reflecting higher than expected COVID-19 impacts of approximately $450 million to $500 million, partially offset by stronger underlying business performance and good cost management.

Total adjusted EPS includes both discontinued operations and continuing operations and was $1.40 in the quarter, a constant currency decline of 8.2%. Adjusted EPS for discontinued operations was $0.14 in the quarter, up 26% versus prior year. The result includes a non-operational benefit of approximately $0.02 as the accounting for discontinued operations required us to stop depreciating the divested assets.

On a continuing basis, adjusted EPS was $1.26, a constant currency decline of 10.8%. A favorable tax rate contributed 8 percentage points of growth, and prior year share repurchase activity contributed an additional 2 percentage points of EPS growth. However, these were more than offset by the very significant 27 to 31 percentage point impact from COVID-19.

The lower second quarter tax rate was mostly due to discrete tax benefits. On a year-to-date basis, the tax rate is tracking slightly better than our full year expectations. Finally, on a continuing basis, GAAP EPS increased 8.7%, with a gain on the partial sale of our investment in Option Care Health and a lower effective tax rate, partly offset by lower operating income due to COVID-19.

Now, let's move to the year-to-date highlights. Year-to-date sales were up 4.8%, including a currency tailwind of 0.8%. On a constant currency basis, sales advanced 4%. Adjusted operating income declined 17.6% on a constant currency basis, reflecting higher than expected COVID-19 impacts of approximately 25 percentage points, offset in part by favorable underlying business performance, including strong cost management across all businesses.

Total adjusted EPS was $2.62, a constant currency decline of 9.8%. On a continuing basis, adjusted EPS was $2.36, a constant currency decline of 12%, entirely due to COVID-19 impacts. GAAP EPS decreased 66.7%, mainly driven by a charge within our equity earnings in AmerisourceBergen, partially offset by a gain on the partial sale of our investment in Option Care Health.

Now, let's move to the U.S. segment. Sales increased 0.4% in the quarter with 3% growth in pharmacy, partially offset by lower retail sales and the 2020 leap year. Both retail and pharmacy continued to be adversely impacted by COVID-19, including, lower foot traffic, significantly lower flu incidents, down an estimated 40%; and a reduction in new to therapy prescriptions.

Despite a benefit from COVID-19 immunizations and testing, overall the negative revenue impact was approximately 400 basis points in the quarter. Adjusted gross profit declined 3.2%, with lower pharmacy reimbursement, script volume and retail volume, partly offset by procurement savings and higher retail gross margin.

Adjusted SG&A spend increased 2.1% in the quarter to 17.1% of sales, 0.3 percentage points higher than last year. The increase was mainly due to higher investments in strategic initiatives, including approximately $80 million to prepare and roll out COVID-19 vaccinations. Adjusted operating income declined 18.2%. Excluding COVID-19 impacts, AOI increased low single digit.

Now, let's look in more detail at U.S. Pharmacy. Total pharmacy sales increased 3% versus prior year with brand inflation partly offset by store optimization programs and the leap year. Comparable pharmacy sales were up 4.5%, while comp scripts declined 1.1%. An exceptionally weak flu season, combined with lower doctor visits, negatively impacted script growth by around 480 basis points. Day fall within the quarter also negatively impacted comp scripts by around 100 basis points, but this impact will wash out by the end of year. These factors were only partly offset by over 4 million COVID-19 vaccinations, which boosted script growth by around 140 basis points.

Market share for the quarter was 20.9%, down 30 basis points versus prior year, including the impact of our store optimization programs. Adjusted gross profit, which included some favorable phasing and lapping of one-time items from last year, decreased low single digit, as procurement savings were more than offset by reimbursement pressure and lower scripts.

Turning next to our U.S. retail business. Total retail sales declined 6.6% in the quarter, impacted by our store optimization programs and the leap year. Comp retail sales decreased 3.5%, and excluding tobacco and e-cigarettes, comps were down 2.7%. The exceptionally low level of flu incidences led to significant declines in cough, cold, flu products, and this negatively impacted retail comps by 350 basis points. Excluding cough, cold, flu, our health and wellness business did well, with sales up 9%. However, beauty declined 8.8%, reflecting a category that is heavily impacted by COVID-19 and non-comparable promotional activity.

Digitally initiated sales grew 78% in the quarter to $370 million. Gross profit declined mid-single digit, with lower sales only partly offset by an increase in gross margin of 60 basis points, driven by reduced seasonal clearance costs and promotional optimization.

Turning next to the International segment and, as usual, I'll talk to constant currency numbers. Our International segment continued to be heavily impacted by COVID-19, with higher incidence rates and additional lockdowns across a number of geographies. Despite this, we are very encouraged that the business outperformed expectations, due to focused execution, notably in Boots, U.K., Ireland and Opticians and strong growth across all of our e-commerce businesses.

Sales increased 23.9% in the quarter, including a 34 percentage point contribution from the formation of our wholesale joint venture in Germany. Excluding this benefit, sales were down 9.9%, with declines in Boots U.K., partially offset by growth in our existing Germany business, Latin America and Boots Ireland.

Gross profit declined 13.4%, due almost entirely to the decline in Boots U.K. retail sales. Cost management was very effective in the quarter, with SG&A reduced 9.6% year-on-year. This led to an adjusted operating profit of $146 million in the quarter, down 31.8% versus prior year.

It is worth noting that the German wholesale JV is only modestly profit accretive and will have a dilutive impact on the absolute margin of the segment. We anticipate ongoing AOI margin dilution in the region of 2.5 percentage points, as Germany wholesale as a percentage of total segment sales increases from approximately 35% prior to the JV formation to just above 50% post-formation.

Let's now look in more detail at Boots U.K. Comparable pharmacy sales increased 3.2%. Lower scripts reflected reduced doctor visits as well as subdued prescription demand, but this was more than offset by favorable phasing of NHS funding and stronger demand for services.

Comparable retail sales declined 17.9%, as footfall remained well below last year. This was particularly evident in major high street and travel locations, where our flagship health and beauty stores, and convenience retail stores, were down around 70%, levels not seen since last May. Overall, Boots U.K. retail store transactions were down around 50% year-on-year, compensated in part by an average basket size that was around 30% bigger than last year.

Boots.com delivered yet another exceptional performance, with sales growth of 105%, as we continued to build out and strengthen our omnichannel offering. During the full lockdowns in January and February, Boots.com sales growth was closer to 180%.

The U.K. is one of the fastest immunizers in the world, and the government has already defined a path to a complete reopening of the country. This will lead to improved market conditions as we exit the year.

Turning next to cash flow. Free cash flow was strong, with $1.9 billion delivered in the first half of the year, up $85 million year-on-year, and despite lapping a strong prior year cash flow performance. We remain very focused on working capital improvement initiatives, and continue to remove excess inventory and extend payment terms to more optimal levels.

Turning now to full year guidance. Based on the first half results, and the outlook for the balance of the year, we are raising our adjusted EPS guidance to mid to high singledigit growth in constant currencies. At a macro level, the improved profit outlook reflects 2 key factors. Firstly, we delivered stronger than expected first half performance, and successfully managed through a much tougher COVID-19 environment than we expected when we announced our original guidance. Secondly, while the situation remains fluid given the ongoing COVID-19 dynamics, we remain committed to delivering strong EPS growth in the second half of the year.

As we look at the full year headwinds, we are managing through an exceptionally weak cough, cold, flu season and persistent lockdowns, and we will see some continuation into the third quarter. We are also increasing our investments across omnichannel, COVID-19 vaccinations and our health care technology start-up. However, these will be more than offset by favorable International performance, strong cost management, better than expected pharmacy margins, a favorable tax rate and, importantly, the accelerating rollout of COVID-19 vaccinations in the U.S.

Our forecast is predicated on administering around 26 million to 34 million vaccinations this fiscal year, and that of course is very dependent upon the availability of supply. The forecast includes a benefit from the new $40 vaccination rate. However, it is not yet clear if the rate will be applied by all payers. In summary, we are raising our full year guidance to reflect strong first half performance and improved visibility around second half EPS growth drivers, but please recognize that there will be ongoing volatility associated with COVID-19 and the vaccine rollout.

Let me now cover our key WBA initiatives. First, a few updates on our recent M&A activity. Since our last call and announced in January, we took a majority stake in iA, an innovative pharmacy automation company that will underpin our future pharmacy operations. The Alliance Healthcare transaction continues to be on track to close this fiscal year. Also, within the quarter, we trimmed our ownership of Option Care Health, resulting in approximately $230 million of cash proceeds.

Further, we are making good progress on establishing our tech-enabled healthcare start-up. Product development and engineering is well underway, and we have also started development of the physical channel. We recently completed a minority investment in VIM, the digital provider of healthcare scheduling and gaps in care management, and we will incorporate their advanced scheduling capabilities in our overall technology platform. In summary, we are on track, moving at pace and very focused on ensuring a successful launch.

Our transformational cost management program is also very much on plan. Our savings goal of in excess of $2 billion, included around $80 million of savings from the Alliance Healthcare business we divested. However, we are not reducing the long-term goal to exclude the divested businesses, as we have other cost saving opportunities to offset the lost Alliance Healthcare contribution.

Now, let's turn to the International initiatives. As I said last quarter, one of our top priorities is to turnaround Boots U.K. and return it to profitable growth. The strength of the Boots brand is a central pillar supporting our recovery. Boots' reputation, as measured by YouGov, is now at a five year high. The dual focus on cost efficiencies and investing in our future continues at pace. Our store-based online fulfillment model is proving to be an effective way of ensuring we can flex our distribution capacity to meet online demand. In fact, December was our largest ever online month. And with second quarter sales growth of 105%, Boots.com represented 26% of our total U.K. retail sales.

February saw the launch of Boots Online Health Hub, conveniently connecting customers to all Boots existing health care services, as well as an increasing range of local doctors, therapists and dermatologists. Leveraging Walgreens successful Find Care platform, the hub's aim is to help people in the U.K. find accessible and affordable healthcare services, where and when they need them.

In-store investments continue at pace, and are targeted at enhancing the customer experience as foot traffic returns to the high street. During the quarter, we rolled out new Number 7 counters and fixtures in more than 100 additional stores, largely completing our planned U.K. rollout, and taking the total to over 750 stores. Building on our success in previous quarters, we have added new on-trend beauty brands, and we are attracting new customers to Boots, building on our growing reputation for stocking cult brands that were once only available from specialist beauty sites.

We continue to play a key role in the community, with 25 major COVID-19 vaccination hubs now operated by Boots U.K. And we have now completed over 2.6 million COVID tests for the NHS. The formation of the wholesale JV in Germany is proceeding according to plan. Combined annual revenues will exceed $9 billion, and we expect to unlock improved profitability over the coming years. Finally, our joint venture in China continues to grow nicely, adding 350 stores since the beginning of the fiscal year and taking the total to almost 7,900 locations.

Now let me hand it over to Alex to speak to the U.S. initiatives.

Alexander W. Gourlay - *Walgreens Boots Alliance, Inc. - Co-COO*

Thank you, James. We've had another busy quarter, as we continue to execute against our strategic priorities of modernizing our pharmacy business, transforming our retail operations and developing our digital capabilities.

In responding to COVID-19, we have accelerated the evolution of our operations across the United States, and Walgreens continues to play a key role on the front lines of the pandemic. I would personally like to thank each and every one of our associates, who have supported our patients and customers in an extremely challenging environment.

One thing has become crystal clear during the past year of the pandemic. The importance of the pharmacy providing healthcare in the local community, both in physical locations and through our digital platforms, is greater than ever, and reinforces our belief in the strategic significance of the role of the pharmacist, and of the Walgreens network.

Working with federal and state governments, we have accelerated our role in the fight against the pandemic. We've rapidly mobilized our operations to play our part in the nationwide rollout of the COVID vaccine program. By quarter end, our teams had administered approximately 4.1 million vaccines, to patients in long-term care facilities, at mass vaccination sites, and in Walgreens pharmacies. And importantly, we've partnered with local officials to bring vaccine administration directly into local communities, and to the most vulnerable populations.

In March, we administered another 4 million vaccines, taking the total to over 8 million to date. At the time of our last earnings call, we had over 30,000 qualified healthcare associates ready to deploy to the vaccination program. This number is now over 59,000, with capacity to administer vaccines at 8,000 locations across 49 states, in D.C., and Puerto Rico. We're also partnering with Uber to address the problem of equitable access to vaccines amongst vulnerable communities, ensuring that many more Americans are able to visit a vaccination location.

We have also worked to improve accessibility to appointments and scheduling. Earlier this month, we introduced COVID vaccination booking on the myWalgreens app, and we're partnering with Nuance to offer voice recognition as [an additional] (corrected by company after the call) method of accessing appointments.

We've undertaken more than 5 million COVID tests since the pandemic began last year, and today we offer testing in 5,000 locations. We're working with partners to expand our testing solutions, and we have launched a new business-to-business service called 'Test & Protect', allowing employers to provide testing and vaccination services to their employees. Improving the efficiency of our pharmacists is our top priority, both to manage costs, but more importantly, to free up pharmacists' time, to provide valuable integrated healthcare services to our customers in the local community.

As James mentioned, earlier this year, we announced a majority stake investment in iA, a company which brings automated pharmacy solutions and enhanced workflow capabilities to the Walgreens network. Together, we are establishing our first local automated pharmacy micro-fulfillment center in Phoenix in April. This center prepares maintenance medications for qualifying patients in the area, which are then delivered to their local Walgreens pharmacy or to home, depending on the patient's preferred route. We are now building out a second market, in Dallas, which we will start operating in the summer.

As we create a more efficient pharmacy operation, in part due to the iA-enabled automated local hub-and-spoke model, we have exciting plans to enable our pharmacists to play a key part in more integrated care models. We are on track to open the next 40 Village Medical at Walgreens locations by the end of the summer, and we now have 14 locations up and running in Houston and Phoenix.

As I have said many times, by coordinating our pharmacists with primary care doctors, we create a more integrated and engaging patient experience, and we believe will help to lower the cost of care. Our VillageMD relationships go beyond our physical locations, by also providing an integration of telehealth offerings.

Further, on the digital healthcare front, our Find Care platform continues to grow, accelerated by the pandemic. Find Care connects patients to telehealth providers, local health care services, benefits enrollment and health care educational tools. We are building our user base and increasing the number of providers accessible on the platform. The Find Care app has now reached a wide audience, and is gaining traction. Visitor traffic online and on the app was just below 70 million in the quarter.

While much of this traffic was driven by COVID vaccination and testing inquiries, non-COVID related visits increased by 92% versus the prior quarter. We now have more than 45 providers on the platform, delivering over 65 services, in 50 states, treating over 120 conditions.

Turning next to retail transformation. As you know, we launched our new loyalty program, myWalgreens, last November, providing all members with new loyalty benefits, personalized products and services. Membership has grown from 40 million to approximately 56 million to date, which is a 41% increase versus the prior quarter. In the last month, mobile app usage was up 37% versus prior year. And, most importantly, the app is resonating with our most valuable customers. Last month, myWalgreens Net Promoter Score was 41% higher than the score for Balance Rewards, our previous loyalty program.

We're continuing to engage with our customers through our mass personalization strategy, which boosted retail sales by 30 basis points in the quarter, building on the 100 basis point lift in the second quarter of last year. As the pandemic progresses, we're really focused on giving our customers access to retail products when and where they want them, through our combination of physical stores and digital platforms, with customers having a choice of store, home delivery, curbside or drive-thru pickup. These enhanced retail pick-up options are contributing to strong digital growth.

Since last November's launch, over 4 million pick-up orders have been completed to date, driving an increase of 78% in digitally initiated retail sales in the quarter. We now have one of the most convenient, and quickest, omnichannel retail options available in the U.S., with pickup orders completed in just 23 minutes on average, from placing the order to having the product in your hand.

We've also continued to expand our same-day last mile delivery capabilities by adding Instacart as a nationwide partner, in addition to the existing partnerships with Postmates and DoorDash. As we continue to redefine our core omnichannel convenience offerings, we are leveraging the data we generate from it to determine which additional products and services our customers want, and identify new business models and alternative income streams.

A great example of this is the development of our financial services offering, which will be available later this summer. And yesterday, we announced an agreement with InComm Payments, a leading global payments technology company, to provide convenient and accessible financial services options for our customers. Together, we will launch a new bank account with a Mastercard debit card, that will serve Walgreens shoppers both in-store and online, and allow them to earn myWalgreens cash rewards on all purchases.

Overall, we are really pleased with the progress we've made on our pharmacy, retail and digital priorities in the quarter. But I assure you, this is just the beginning. Our assets are uniquely positioned in the local community, and with our ever-growing list of capabilities, we have the opportunity to expand and deepen our relationships with patients and customers.

I will now hand you back to Roz.

Rosalind Gates Brewer - *Walgreens Boots Alliance, Inc. - CEO & Director*

Thank you, Alex. As you've heard, a lot has been accomplished this quarter, and while operationally, our performance has been impacted by COVID-19, overall we've had a good financial quarter. And as a result, we've raised our full year EPS guidance, however acknowledging that there is still work to be done to stabilize the base business.

And on that note, I want to take this moment to thank Stefano Pessina for everything that he has done to bring WBA to the point where it is today, with a foundation for future growth. I'm looking forward to working with this team, and the entire Board, as we capitalize on the incredible opportunities in front of us.

Again, you don't have to look any further than our response to the pandemic to understand what this company is truly capable of in the future. As just one example of that, we've already administered 8 million vaccinations in the U.S. in a few short months, many of them to essential workers such as healthcare professionals and teachers, as well as underserved and minority communities. And we're poised to deliver millions more vaccinations in the days ahead. Another opportunity that we have is how we apply the funds from the sale of our Alliance Healthcare assets, which will allow us to reinvest in healthcare and further focus on our core businesses.

I intend to move swiftly and decisively to lead WBA forward. And in order to do that, I've begun a detailed review of our long-range business plans across the company, as well as how we make investments and allocate capital. I'm taking a close look at where we should reinvest in our business and how we drive financial returns. As you know, we also have a broad range of valuable equity investments across distribution, healthcare and pharmacy, and I'm reviewing each of those to ensure they provide strategic benefit in addition to financial return.

Having been on board for only two and a half weeks, it's simply too early for me to discuss anything further at this point. But I do look forward to sharing my further perspectives once I've had more time to study the company from the inside. I plan to meet with many of our shareholders in due time, and to communicate with you regularly and with transparency. There will be much more to discuss in later calls and meetings, but for now, I am energized to begin planning for the future, and am very excited about the opportunities ahead.

So with that, I will turn it over to the operator, and open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Kevin Caliendo with UBS.

Kevin Caliendo - *UBS Investment Bank, Research Division - Equity Research Analyst of Healthcare IT and Distribution*

First, Roz, congratulations in the new role, and best of luck going forward. I really wanted to focus on the second half guidance. We're all trying to figure out sort of what is the jump-off point for fiscal '22. And your vaccine number, the guidance in terms of the number of vaccines, would imply a pretty big benefit given the $40 reimbursement rate. Yet, the second half guidance number was a little bit softer than I think where we are and where The Street was, and we didn't really have that baked in. Are there any additional costs in the second half that we're pulling forward? If you can maybe give us some explanation to that, or anything else that might be onetime-ish in the second half of the year. And then how to think about what the jump-off point would be for fiscal '22 as we think about trying to grow and model beyond this fiscal year?

James Kehoe - *Walgreens Boots Alliance, Inc. - Executive VP & Global CFO*

Yes. Hi, Kevin. James here. I'm not sure why you believe the second half is softer because we've given a range today of 4% to 9%. That's mid to high. And at 4%, that would be 26% growth; and at 9%, it would be 39% growth. So that's the first point.

Two is, when we originally gave guidance at the start of the year, we said that we expected the second half to grow at 30% to 40%. So actually, we see our current guidance as being solidly within the guidance we gave more than 6 months ago, despite -- and I really want to add this one. Because you asked what's the onetime in the second half, overall -- and you talk about the vaccine opportunity, the $30 million, compared to our original guidance, and this is 6 months ago and compared to 3 months ago, COVID is actually negative. So you -- we put in the positive of vaccinations. But cough, cold, flu and a series of full lockdowns in the U.K. and tight restrictions in the U.S. have all completely offset the vaccine opportunity.

So actually, if we look at it compared to the original guidance, over net, after the benefit of vaccinations is about $0.13 negative. And some of that will continue into the third quarter. So if you look at the dynamics going forward, third quarter, the first one is we're still in a lockdown in the U.K. and retail will reopen -- I think it's April 13. All the rest of the U.K. will be back for business sometime mid-June. So you can effectively say that half of the third quarter is significantly impacted in the U.K.

Look at the U.S. market itself right now. Cases are at the same level as they were last May, 65,000 per -- and while they've come down, we're still somewhat concerned in that some of the negative impacts will continue into Q3. So our view is we've done exactly what we said we would do in the second half, and we're absorbing on a full year basis about $0.13 negative. So I actually would say that the call-up to mid- to high single-digit is actually a stronger call-up than the market would have been expecting.

But the key negative in the second half is just continued negative COVID, cough, cold, flu probably into mid-April and then a lockdown in the U.K. in mid-April. Beyond that, we start coming back really strongly. So we're lapping a negative prior year. And we have the majority of the vaccination upside falls in the second half. So our most recent results in Q2, we had a $10 million benefit on vaccination not rounding. So I hope I've answered your question on this one.

Operator

Next question comes from Steven Valiquette with Barclays.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

Let me offer my congrats to Roz as well. James, in your comments, I guess this question kind of built on the first one a little bit, but you mentioned several factors leading to the increased EPS growth guidance for overall fiscal '21. And some of it into the first half of the year, some of it into the second half. But really from the overall list of upside drivers, it would be difficult to rank order or everything. But is there any additional color you can provide on which single factor you think is driving the greatest amount of EPS upside for the overall company in fiscal '21 versus your original expectations?

James Kehoe - *Walgreens Boots Alliance, Inc. - Executive VP & Global CFO*

Yes, it's a great question, and I'll start off with just repeating what I said last time. COVID, year-on-year, net of the vaccination opportunity, is actually a negative. So where we saw them -- the 2 single biggest items, I think I would call out, firstly, the U.K. And I would call it out in terms of the ability to ramp up and defend our position, particularly in beauty through our e-commerce assets in the U.K. So we've consistently delivered record months. The first -- this quarter was up 105%. But the last 2 months of the quarter were up 180% year-on-year. So net, we're winning in beauty, in the market in the U.K. and the competition has fallen off completely.

The second thing in the U.K. is overhead control and the mitigation of COVID impacts. So I'll call out just the number I gave on the call, overheads are down 9% in the quarter in the International segment But that includes the incorporation of the German joint venture. If you take out the, call it, M&A impact, overheads in the segment were down 15% year-on-year. That is just dramatic, and it's way ahead of what we thought the team could achieve when we started out. So I think they've massively overachieved on overheads. And then I think it is the e-commerce assets. And finally, Ireland and Opticians businesses are outperforming as well. So it's quite a collection of outperformance in the U.K. segment, if you like.

The second one is the U.S. segment. The big standout there are margins in [January]. We've had a fairly dramatic impact from cough, cold, flu, and many of our competitors have spoken about the same. So flu incidences are down by 40%, which is a massive number, and that bleeds straight into the seasonal scripts, down 400 basis points because of that and on the front of store, 350 basis points. But overall, if you peel away the margins year-on-year, the U.S. segment has outperformed our expectations. So in the quarter, margins were down year-on-year in the U.S. by 75 basis points. That's much better than the historical performance.

Retail margins were up 60 basis points, and that's been pretty consistent every quarter. And second one is pharmacy margins came in better than we expected, largely due to savings out of the procurement organization on generics but also reflecting some accelerating deflation of generics in the market. So we were very happy with margins in general in the U.S. business, and that's where we saw the biggest area of outperformance.

When you get to vaccinations, it makes the P&L, as we look forward, quite murky. But as you build your models, vaccinations will probably be -- will be profit-accretive. So we should have favorable margin outlook for the rest of the year across the U.S. business as well?. So we're feeling good about margins in the U.S. That was outperforming. And in the U.K. segment on e-commerce on overheads. They're the 3 big factors.

Operator

The next question comes from Ann Hynes with Mizuho Securities.

Ann Kathleen Hynes - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Congratulations, Roz. So I have a question on the vaccine. I know this week, there has been some discussions from the Biden administration that they want to push more of the vaccine administration to retail settings. And I don't really think you changed your vaccine assumption in your guidance. So if this were the case and retail settings got more allocation from the federal government, what do you think Walgreens' ultimate capacity could be for vaccine administration and maybe talk about any incremental costs if that were to happen?

Alexander W. Gourlay - *Walgreens Boots Alliance, Inc. - Co-COO*

Ann, it's Alex here. Yes, we were encouraged by that announcement. And the reason for it is really clear. We're getting the vaccine in people's arms across all pharmacies faster than other settings. And I think that we will highlight, again, the power of the pharmacy network and the power of the pharmacist, particularly in this pandemic, I think, as many said -- Roz said in her closing and opening comments.

What you have to remember is that it means more pharmacies will be involved, first of all, would be an increased number of pharmacies involved, including more of our pharmacies, for sure. And secondly, the vaccine is coming a lot faster than our original plans as well. So we've given a range, I think in James' prepared remarks, we said between 24 -- between 26 million and 34 million shots, and that's our range. And of course, depending on what we see really in the weeks ahead, we'll be able to give a better internal guidance in terms of what we're seeing. First one of the key reasons for the range we've given is because of that factor.

So again, that's where we are. We're ready. We are ready with -- our people are ready. Our network's ready. Our schedule is ready, and we're busy. We're very proud of what we're doing here, and we continue also to follow the very important administration guidance about getting the vaccine to the underserved communities and the vulnerable communities as well, which, again, we're doing with over and many other initiatives. So I think we are ready to maximize the opportunity and really get these shots in people's arms as fast as we possibly can.

James Kehoe - *Walgreens Boots Alliance, Inc. - Executive VP & Global CFO*

Yes. And the forecast is predicated on around 30 million vaccinations. And the reason we've given a relatively wide range is the availability can swing on the downside and on the upside. And simplistically, we have to form an assumption. But the 30 million is higher than what we were thinking 3 months ago. So it has gone up probably from 25 million to 30 million. But at the same time, the U.K. has gone into 2 additional months of lockdown, and cough, cold, flu has continued to be worse than we expected. So we're fairly comfortable with the 30 million, but obviously, it's entirely dependent on the supply we receive. We're ready to receive it, but all indications are we get there, but there's always some risk and volatility.

Alexander W. Gourlay - *Walgreens Boots Alliance, Inc. - Co-COO*

And maybe just one additional comment, which I think picks up on the first question from Kevin, which is that we're not guaranteed $40 yet for every vaccine. Obviously, the Medicare price is being set, and we're now working with our commercial partners to make sure that we understand what they are going to pay. And we're very hopeful that we'll get to that number for every vaccine, but that's not yet been fully confirmed either.

Operator

Next question comes from Eric Coldwell with Baird.

Eric White Coldwell - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Roz, we realize it's very much too early for you to provide any specifics on numbers. Our question is more philosophical in nature. I'm interested in your position on things like wages for low-skilled positions as many employers are proactively moving towards a $15 minimum wage. The country appears headed in that direction. Also, your position on items like tobacco, which Walgreens has been deemphasizing for years but hasn't fully exited. I guess, in general, it's sort of an ESG topic on the importance of those kinds of initiatives to become a more ESG-centric company.

Rosalind Gates Brewer - *Walgreens Boots Alliance, Inc. - CEO & Director*

Eric, thanks for the question. And one of the things that I've been pleasantly surprised about is the work that's happening inside the company on the ESG initiatives. Particularly, let me talk a little bit about wage because there is a pathway here in terms of getting there over a period of time. In those states where it has been federally regulated, we have matched those numbers. We'll continue to do that. And then over a period of time, we'll apply wages across the U.S.

The second question you asked was around tobacco and what's my early read on tobacco. This company is committed to health and wellness. And I think everything we've learned from the pandemic, that's going to be even more of a priority. We'll continue to look at tobacco, but that's one of those issues that's really too early for me to really opine upon, but we'll continue to look at things like that.

Operator

Next question comes from Charles Rhyee with Cowen.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

And congratulations as well, Roz. Maybe a question for you. Obviously, you haven't been here that long, but digital seems to be a major focus for you. It seemed like that was a major focus for you at Starbucks. What do you think that can be for Walgreens in the future here? And what do you think that might mean in terms of the digital focus as well as what that might result in for maybe a change in the physical store footprint for the company?

Rosalind Gates Brewer - *Walgreens Boots Alliance, Inc. - CEO & Director*

Yes. Thanks for that question. I'm excited about the opportunity for the digital platform here at WBA. It was one of the pleasant surprises I received as I dug into some of the numbers to learn that we had over 100 million loyalty members at this time. And the initial investments from this year that we've made will also enable us to accelerate in that area. I'm excited. It will be one of my priorities. As I look at the second half and going into FY '22, I think there's a lot of opportunity that we could see in this space just to monetize.

First of all, increase traffic in our stores as we execute vaccines, and then how we personalize what we're learning about our customers and new customers that are coming into the store. And then I actually -- the 9,000 stores that we have really gives us a great -- and I'm talking in the U.S. area right now, gives us an opportunity to have a very strong omnichannel.

Also, some of the work that we're doing around first-party data set is really encouraging. I mean, I think we all know that if you can target and measure that standpoint, you can see anywhere from 50% to 2x better than using third-party data. So there's just some really early signs here that there is more potential in this space. And I think as we look forward, mass personalization is a growth opportunity for us, and I'm excited about it.

Charles Rhyee - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

If I could get a follow-up, anything from Starbucks that you've learned that you think is really applicable here?

Rosalind Gates Brewer - *Walgreens Boots Alliance, Inc. - CEO & Director*

Sure. One of the things that I've learned is that a digital platform can stand-alone. You have to have a human connection as well. And so as I visited stores, I'm really impressed in terms of what our pharmacists can deliver in terms of creating really deep personal relationships with the customer base. I'm encouraged by the demeanor of our employees in front of store. So I think we've got a great opportunity here, just as Starbucks did, to combine a human connection with a digital connection.

Operator

Next question comes from Eric Percher with Nephron Research.

Eric R. Percher - *Nephron Research LLC - Research Analyst*

A question for James on capital deployment. So as we progress through the year, we've now moved the sold operations to discontinued ops. But I recall that part of the initial discussion was that you will focus on offsetting dilution with the $6 billion, putting some of that to work. So I'd love to hear your perspective on debt reduction or share repurchase and how that may play in as we get to the end of the year and the sale is completed.

James Kehoe - *Walgreens Boots Alliance, Inc. - Executive VP & Global CFO*

Yes. I think what we've said already is we are required to use about $2.5 billion of the $6 billion to pay down debt, and that's basically to keep the credit metrics where they need to be because we want to retain BBB.

What we have said is that we're not going to pursue share buybacks in the short term. So the concentration will be on building out in health care opportunities, and that could be around pharmacy. The recent examples have been the acceleration of VillageMD. The second one has been in iA. And that's kind of interesting because it's in the sweet space of the automation of the pharmacy and driving maintenance scripts into micro fulfillment centers over time. And this will free up the pharmacists to work on higher-value activities within the stores and drive better health care outcomes and increase our relevance overall in the market.

So that's the piece that's not exclusively on new health care. It's also on how do you turn the pharmacy business into the most efficient operator in the U.S. and that's our goal, and free up pharmacists' time to work on health outcomes.

And then the second part is how do we build out a different, more -- and very innovative technology-based consumer-centric health care business, and that's what we will be coming back with later this year, displaying and showcasing what's developed to date, what has been piloted to date and effectively launch the entity.

And that I think will be very exciting. It's premature to get into much of that. But we did say in the comments that we have a tech platform in deep development right now. We also are forming a team. We're also setting KPIs longer term for the business. A lot of stuff to get done, but it's very, very exciting. And I think as Roz comes on board and gets comfortable with it, we'll bring the -- we'll launch this more extensively.

And so I would expect that of the remaining $3.5 billion, it's mostly acquisitions. Then if we don't come across attractive targets, we would consider, maybe in a year's time, would we deploy some to share repurchases? Don't know yet.

Operator

Next question comes from Ricky Goldwasser with Morgan Stanley.

Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

Yes. And Roz, congratulations. I'm very excited and happy to see at another female CEO join the health care group, so welcome. My question goes back to your comments around sort of the brick-and-mortar strategy and sort of that combination of the human factor with digital. The physical footprint has been top of mind for investors, especially when we think about sort of the new change or how consumers are accessing health care post the pandemic. So any early thought or is one of the things that you're looking at -- are you also looking at sort of what is the ideal number of brick-and-mortar stores versus digital store fronts? Or do you think that sort of that 9,000 footprint is the right footprint, the right base and then build the digital strategy around it?

Rosalind Gates Brewer - *Walgreens Boots Alliance, Inc. - CEO & Director*

So I'm going to turn this question over to Alex. But before that, I would just remind the group that it's a combination of both. And when I look at the 9,100 stores in the U.S., they're in some of the most significant zip codes that they can be in, right? It's a wide distribution, and that I think is attractive. Now do we have too many? Or could we create more? This will come together in a broader strategy. But Alex, why don't you take it and talk a little bit about store positions in the U.S.?

Alexander W. Gourlay - *Walgreens Boots Alliance, Inc. - Co-COO*

Sure. Thanks, Roz. And hi, Ricky. Yes, I think as I said before, at the moment, we're comfortable with the number of stores we have in the U.S. And what we're doing is redesigning what they actually do in the communities they serve. And I think the pandemic has -- to your point, has really helped illustrate the point of how important they are. Who would have thought that we'll be doing testing in now 5,000 locations in Walgreens? So who would have thought that the number of vaccinations we're doing across America is so big. And these are just 2 examples of many other things that we now do with the service inside the company. The FedEx example from a couple of years ago was doing extremely well with pickup and also, we've got financial services coming in quite a different way through myWalgreens.

So we continue to be very confident about the footprint we have, we have the best [corners]. We continue to understand how to provide different services, products and services from them. I think as Roz said so clearly, they are local. They are very human in the service communities in a very specific health care way. And our job over the period ahead is to use the data of analytics and the new IT platform we are putting in place to provide even better solutions and services, particularly in health and wellness and also in terms of pick-up positions. So again, more to come in the space, but we continue to be confident in our footprint across America.

James Kehoe - *Walgreens Boots Alliance, Inc. - Executive VP & Global CFO*

Yes. And just one thing to add, we have a fair amount of flexibility in how we manage the footprint because, as we've said before, we have about 2,900 stores coming off-lease in the next 5 years. So our issue is not necessarily footprint but is sometimes we're overpaying for the locations compared to -- value in the market. And we will aggressively tackle that as part of the transformational cost management program. As each lease comes up, we will be entering into negotiations as to whether these are the right locations and the most cost-effective ones. But the good news now is we're coming into a phase for 400 to 500 stores turn over every year on a natural basis, giving us an opportunity to resize the cost structure of the store as opposed to change the store itself.

Operator

Next question comes from George Hill with Deutsche Bank.

George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

First, let me echo the welcome aboard for you, Roz. And then I'll -- these are short. I'm going to load them up. It's kind of a couple of short questions that are all largely housekeeping. So James, on the 26 million to 34 million vaccinations, is that inoculations or injections? So I'm trying to figure if that's the 1-shot or the 2-shot count? And then following that, is there anything we could call out from March quarter results to increase the confidence in the guidance raise? Or should we really think of it as all just the ramp-up of the vaccine and the increase in the reimbursement rate?

James Kehoe - *Walgreens Boots Alliance, Inc. - Executive VP & Global CFO*

No, it's shots, it's 30 million shots. And then I'm not sure I got the last piece of your question. Maybe could you give it to me again?

George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

Sure. I'm sorry. And that was just -- is there anything that you saw in the March -- or in the month of March or kind of what I would call quarter-to-date for fiscal third quarter that causes the company to -- increases the confidence in the guidance raise? Or is it really just largely the vaccine and the increase in the economics from the vaccine? I'm just wondering if there's anything else going on that you guys would call out.

James Kehoe - *Walgreens Boots Alliance, Inc. - Executive VP & Global CFO*

No. I don't think March necessarily impacts it. It's still the same factor, as we said before. We're calling up the full year guidance on the basis of the beat in the first half and better visibility in the second half, a lot of it coming from the U.K. but also pharmacy margins and retail margins in the U.S. That's the main reason for the beat.

I think what we're seeing in March is, as we said, cough, cold, flu continues, the U.K. is in lock down. We are seeing -- and maybe Alex can add in here. We are seeing some more buoyant foot traffic numbers coming down in the last 2 weeks. But it's extremely hard to read March because last year was all over the place. Each day was very, very different. So we've got to be careful on how we interpret it. But nothing we see in March gives us any call whatsoever for concern on the guidance we're giving today.

Alexander W. Gourlay - *Walgreens Boots Alliance, Inc. - Co-COO*

Yes, George, I think we're seeing a return to beauty, which is as expected, not beyond what we expected. And other categories -- photographic also doing better as well, as people think about travel. So these are coming back in line to what we had expected, not beyond. It's still encouraging to see that given the impact we had when the pandemic started early days in 2020, but nothing beyond that. Yes, yes.

Operator

Next question comes from Glen Santangelo with Guggenheim.

Glen Joseph Santangelo - *Guggenheim Securities, LLC, Research Division - Analyst*

Roz, I appreciate that you've only been on board for a couple of weeks, but maybe I could ask you a high-level question. Putting all the near-term transient headwinds and tailwinds aside for a second, longer-term investors, they seem to be very focused on the competitive landscape in the pharmacy business, consistent reimbursement pressure, the threat of e-commerce on both the pharmacy side and the front end. And sort of given your background, I think you maybe have a unique perspective. And so I'd be kind of curious to get your thoughts on how you view the competitive landscape and how that may evolve over the coming years in the role of Walgreens within that competitive landscape.

Rosalind Gates Brewer - *Walgreens Boots Alliance, Inc. - CEO & Director*

Yes. That's a very good question, Glen. I appreciate it. And it's one of the things that I am sort of poking my nose into as well, to understand what is our best viable position and how do we remain competitive and ahead. And I am encouraged, though, by the early investments in this year that the company has made, seeing that we have investments in areas like iA to really work with our pharmacists to get them to have an easier job every day. It's those kinds of investments that give me encouragement.

Secondly, the work that we're doing with VillageMD to diversify who we are as not only a retail company or a pharmacy company but to look at health care overall, this is a complex marketplace. I think we're all clear about that. But defining our key differentiator is the work that we have ahead of us. But these early innings that we're in right now, I'm highly encouraged by. And so I think there is a way for WBA to diversify itself. It has great beginnings, good bones to it, really good partnerships, and I'm encouraged that we'll define that position.

And really, as James said, we'll come back to you to talk about this tech-enabled platform that the company has been embarking upon. Many of you might know it as Horizon 3. And so we are looking at those things that can differentiate us, and we'll come back to you on that.

Operator

Next question comes from Brian Tanquilut with Jefferies.

Brian Gil Tanquilut - *Jefferies LLC, Research Division - Senior Equity/Stock Analyst*

And Roz, congratulations again. I guess my question is for Alex. So you called out market share losses as a headwind for the quarter. And I think Roz mentioned the focus is on stabilizing the base business. So what are you guys thinking in terms of strategies, near-term initiatives to arrest that? And then I guess my follow-up is just on pricing. You called out pricing pressure as well. And if I recall last quarter, we were kind of under the impression that pricing was starting to stabilize on the pharmacy side. So has it reemerged this quarter? And how should we be thinking about that going forward?

Alexander W. Gourlay - *Walgreens Boots Alliance, Inc. - Co-COO*

Thanks, Brian. On the pharmacy market share, first of all, the trend is pretty consistent through the pandemic. What made the 30 basis points a little bit stronger than the previous quarter? I think the previous quarter was 20. It was -- it really was, we think a couple of weeks of really bad weather. We have a lot of stores in Texas, I mean, what were closed for all or part of that last 2 weeks. And we're comfortable with what we're seeing in March.

So we think that we are at steady state with the retail pharmacy. [Med DCs] was solid as expected. We've lost a bit more in Medicaid, but we knew that was coming as one of our key competitors to go on as that continues to move volume, volume into managed Medicaid. So I think in commercial, we're growing, as we expected. So we're pretty solid there in terms of trends.

And pricing, we'll know more as we get into the Medicare season, which is just about to start for 2022. And of course, we don't disclose where the commercial contracts are, but you know that we'll see more of that as the year progresses. So there's nothing new to speak about in pricing.

On the retail side, we're feeling good, to be honest. I think James has said this, Roz said this, we've made good progress with myWalgreens, which is really the way of giving more value to the fund and customer and tying them into the whole Walgreens experience. The NPS score is significantly higher, as I said, than the old program. We just started, to be honest, to use first-party data, as Roz also said. So I think we've got -- we're really feeling very good about the work we've done in the last period to really create more retention for our front-end customers.

But this is a changing marketplace. We've got to win back customers from the grocers. The online marketplace continues to grow independently. So our omnichannel strategy is going to be really important to here as well and with the early innings of that, and we're going to keep on pushing very hard here and accelerate the change.

Gerald Gradwell - *Walgreens Boots Alliance, Inc. - SVP of IR*

Thank you. That's what we have time for, I'm afraid today. Thank you all for your questions. For those that we didn't get to, I'm sorry, we will reach out to you after the call. .

I would just reiterate the point that Roz made in her comments. We have had a lot of requests to speak to her. She's very aware of those. But she does need to take some time to understand the business and get her feet under the desk before she can do that. After that, she has assured me she is committed to get out and see as many of you as she can.

So we look forward to that, and we'll speak to you again in 3 months' time. Thank you very much indeed.

Operator

This concludes today's conference call. You may now disconnect.