

THOMSON REUTERS STREETEVENETS

# EDITED TRANSCRIPT

WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

EVENT DATE/TIME: JANUARY 08, 2020 / 1:30PM GMT

## OVERVIEW:

Co. reported 1Q20 GAAP EPS of \$0.95.



JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

## CORPORATE PARTICIPANTS

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

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

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

**Stefano Pessina** *Walgreens Boots Alliance, Inc. - Executive Vice Chairman & CEO*

## CONFERENCE CALL PARTICIPANTS

**Elizabeth Hammell Anderson** *Evercore ISI Institutional Equities, Research Division - Associate*

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

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

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

**Lisa Christine Gill** *JP Morgan Chase & Co, Research Division - Senior Publishing Analyst*

**Michael Aaron Cherny** *BofA Merrill Lynch, Research Division - Director*

**Robert Patrick Jones** *Goldman Sachs Group Inc., Research Division - VP*

**Soo Romanoff** *Morningstar Inc., Research Division - Equity Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Walgreens Boots Alliance, Inc. First Quarter 2020 Earnings Conference Call. (Operator Instructions)

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

---

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

Good morning, ladies and gentlemen, and welcome to our first quarter earnings call. I am here today with Stefano Pessina, our Executive Vice Chairman and Chief Executive Officer of Walgreens Boots Alliance; James Kehoe, our Global Chief Financial Officer; and Alex Gourlay, Co-Chief Operating Officer of Walgreens Boots Alliance and President of Walgreens.

Before I hand you over to Stefano 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. Except to the extent required by the law, 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 for a discussion of risk factors as they relate to forward-looking statements.

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.

You will find a link to the webcast on our Investor Relations website at [investor.walgreensbootsalliance.com](http://investor.walgreensbootsalliance.com). After the call, this presentation and webcast will be archived on the website for 12 months.



## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

I will now hand you over to Stefano.

### **Stefano Pessina** - *Walgreens Boots Alliance, Inc. - Executive Vice Chairman & CEO*

Thank you, Gerald, and hello, everyone. As you will see from our figures, it has been a slow start to the financial year with a competitive U.S. pharmacy environment and soft trading conditions in the U.K. That said, as you will hear, there are a number of items affecting the year-on-year comparisons. And given the initiatives we have underway, we are maintaining our full year guidance.

In the quarter, we continued to make progress against all 4 of our core strategic priorities. We are making progress in moving our data resources to a new and more flexible cloud-based infrastructure with the significant benefits that brings.

We have also made good progress with the development of new services to build on this new infrastructure to enhance our customer experiences, make our teams more efficient and effective and open new opportunities for our businesses. Clearly, this work on the digitalization of our company must and does closely tie in with our work to modernize our retail offering and the shape and structure of our retail footprint.

At the same time, we are working with partners to redefine the delivery of healthcare in the community and the important role of pharmacy in the immediate and longer-term future. And all of this is, of course, supported and fueled by our Transformational Cost Management Program, which has made substantive progress during the quarter.

Finally, we have also continued to make progress on a number of significant partnerships, both established and new, to enhance our offering and efficiency and to help drive growth in our businesses.

In the quarter, we entered into a procurement joint venture with Kroger, building on the already strong relationship that has been formed between Kroger and Walgreens. And we announced a joint venture with McKesson to bring together our 2 businesses in Germany, improving our reach and scale with a focus on enhancing the efficiency and performance of our combined wholesale operations in the significant German pharmaceutical wholesale market.

I will come back to make a few comments on the future at the end of our presentation. And now I will ask James and Alex to take us through the results in a little more detail. James?

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

Thank you, Stefano, and good morning. Adjusted EPS was \$1.37, 5.7% lower than prior year on a constant currency basis. The year-on-year comparison was impacted by around 5 percentage points of adverse items, including the year-on-year bonus impact.

In Retail Pharmacy USA, strong cost management and improved retail comp sales were offset by lower gross margin. Retail Pharmacy International continued to be negatively impacted by a challenging U.K. market, and we saw continued strong performance from Pharmaceutical Wholesale.

Our Transformational Cost Management Program is very much on track, and we expect to achieve annual cost savings in excess of \$1.8 billion by 2022. Cash generation was very strong in the quarter with free cash flow of \$674 million, \$684 million better than prior year. And finally, we are maintaining our guidance for fiscal year '20 of flat adjusted earnings per share on a constant currency basis with a range of plus or minus 3%.

Looking forward, we see improved core business trends with, however, some noise in the second quarter as we cycle through the timing of reimbursement payments and year-on-year bonus impacts. In total, these result in an expected EPS headwind of around 13%, but both of these items were budgeted in fiscal year '20 and have no impact on full year guidance.

Let's now look in more detail at the results. First quarter sales were up 1.6%, including a currency headwind of 0.7%. On a constant currency basis, sales were up 2.3%. Adjusted operating income declined 15.4% on a constant currency basis, reflecting lower gross margin in the U.S. and a difficult

## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

U.K. market. Adjusted EPS was \$1.37, a constant currency decline of 5.7%. Our share repurchase program contributed 4 percentage points of growth, and an additional 5.7 percentage points came from a favorable tax rate as we benefited from a number of discrete items. The result included adverse items of over 5 percentage points, including the year-on-year bonus impact, mark-to-market adjustments and lapping prior year supplier funding.

GAAP EPS declined 19.8% to \$0.95 and also reflected costs relating to the Rite Aid transaction and the implementation of the Transformational Cost Management Program.

Now let's move to Retail Pharmacy USA. Sales increased 1.6% in the quarter with 2.9% growth in pharmacy, partially offset by lower retail sales. Note that the sales growth includes a negative impact of 50 basis points due to our store optimization programs.

Adjusted gross profit declined 4.9% due to lower pharmacy and retail gross profit. Adjusted SG&A spend decreased 1.6% in the quarter and was 17.6% of sales, an improvement of 0.6 percentage points versus prior year. The decline in SG&A clearly shows our strong execution against our Transformational Cost Management Program with savings more than offsetting incremental investments, the impact of inflation and the year-on-year bonus impact.

Adjusted operating income declined 16.2% as the SG&A savings were not enough to offset the decline in gross profit and the adverse items I mentioned earlier. In total, these adverse items accounted for over 6 percentage points of the decline in operating income.

Now let's look in more detail at pharmacy. Total pharmacy sales increased 2.9% versus prior year, reflecting continued brand inflation and script volume growth. Central specialty sales continued to grow nicely, up 9.3% versus prior year. Comp pharmacy sales were up 2.5%, and comp scripts grew 2.8%. While this was weaker than expected, we have seen improved growth in recent weeks.

Market share for the quarter was 20.9%, down 55 basis points versus prior year, including the impact from our store optimization program. Adjusted gross profit decreased mid-single-digit as the impact of procurement savings and script growth was more than offset by reimbursement pressure.

Turning next to our U.S. retail business. Total retail sales declined 2.2% in the quarter, impacted by store optimization. Comp retail sales declined 0.5% and continued to show an improving trend. Excluding tobacco and e-cigarettes, comp sales were up 0.8%.

As you know, we are exiting the sale of e-cigarettes. While this did not have a significant impact on comps this quarter, it will have a bigger impact from the next quarter onwards. And we continue to anticipate a full year EPS impact of around \$0.06.

We saw a solid comp growth in our core categories with health and wellness up 3.3% and beauty up 2.5%. We estimate a tailwind of around 80 basis points from cough, cold, flu.

Retail adjusted gross profit declined low single digits due to lower sales, including the impact of store optimization programs, higher shrink and the timing of prior year supplier funding. Adjusted gross margin declined slightly. However, excluding the higher shrink and supplier funding timing, underlying category margins were in line with prior year.

Turning next to Retail Pharmacy International, and as usual, I'll talk to constant currency numbers. Sales decreased 2.7%, mainly due to the U.K. and Chile. Boots UK comp pharmacy sales increased 0.9% in the quarter, reflecting relatively higher NHS reimbursement levels and increased sales from services, partly offset by lower script volume. Boots UK comp retail sales declined 2.9% as the U.K. high street continued to be very challenging. However, overall, we held market share.

Adjusted operating income was down 39.1% mainly due to lower U.K. retail sales volume and margin. The results include an adverse impact of 13 percentage points from the year-on-year bonus impact and higher technology investments.

Turning now to the Pharmaceutical Wholesale division, which I'll also discuss in constant currency. The Pharmaceutical Wholesale division delivered another strong quarter with sales up 8.3% led by emerging markets and the U.K.



## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

The change in a customer contract, which I've mentioned before, helped our U.K. performance, contributing 1.4% to the overall sales growth. We have now lapped the impact of this contract change.

Adjusted operating income increased 4.9%, reflecting strong revenue performance and a higher contribution from AmerisourceBergen. The strategic joint venture with McKesson aims to drive sustainable, profitable growth in the largest pharmaceutical drug market in Europe by leveraging scale and improving efficiency. Midterm, we expect the JV to be EPS accretive and to accelerate our Pharmaceutical Wholesale profit growth.

Turning next to cash flow. Operating cash flow was \$1.1 billion, up \$601 million versus prior year. Free cash flow was strong at \$674 million, up \$684 million on prior year.

Our key working capital initiatives are on track. We are removing excess inventory from the system, and we have started to extend payment terms to industry-leading levels. And we have a strong pipeline of initiatives to fuel our cash flow generation over a multiyear period.

Let's turn now to our Transformational Cost Management Program. In October, we raised our annual cost savings target to in excess of \$1.8 billion by fiscal 2022. We now have a very robust pipeline, and our savings initiatives are gaining momentum. This gives us a much higher level of confidence that we can exceed the \$1.8 billion target. Importantly, these savings will allow us to fund the investments needed to create new and innovative business models.

Let me now give you some detail on our activities in the quarter. On smart spend, we are accelerating our energy management efficiency program, and we see opportunities to ramp up our procurement activities in goods not for resale.

The energy management program is interesting. New LED lighting saves money, is environmentally friendly and improves the store experience for consumers. This is a perfect example of save to invest to grow.

On smart organization, we're undertaking an end-to-end process review in Boots UK covering all major business processes with the aim of transforming how we operate, ultimately leading to a lean and effective operating model. We are now actively planning the implementation of global business services, and we have implemented a second wave of headquarter cost reductions in Mexico, Chile and Thailand.

On divisional optimization, we have completed 114 of the 200 Walgreens store closures and 28 of the 200 Boots UK closures. We continue to test new store formats in the U.S., and we're now operating 23 small stores with encouraging results.

On IT, we have started implementation of a new operating model, and our vendor optimization work is progressing well. For example, we recently selected Tata Consulting Services as our new partner to accelerate the work on our critical pharmacy operating system. On digitalization, we have prioritized investments in mass personalization and reinventing the pharmacy prescription journey.

Now I'll hand over to Alex.

---

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

Thank you, James. I'll now update you on some of the actions we've taken in the U.S. during the quarter, starting with our retail offering.

Our strategic partnership with Kroger is progressing well. The initial Kroger Express pilot in Northern Kentucky has been running for just over 1 year and the pilot in Knoxville, Tennessee for 5 months. We've seen very positive results so far with a strong sales lift.

Building on the success of these pilots, we formed a group procurement office, retail procurement alliance with Kroger in December to purchase both of our private label goods. We expect this joint venture to deliver cost savings, encourage sourcing innovation and generate efficiencies across the supply chain.

## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

Our strategy of focusing on the higher-margin health and wellness and beauty categories is delivering benefits, and both delivered solid performances in the quarter. Our flagship No7beauty brand performed well with sales up in the mid-teens, reflecting a nationwide advertising campaign and our new e-commerce site. And we have introduced an enhanced skin care offering in over 900 stores, which we expect to drive future performance.

Moving on to healthcare. We have opened the second of 5 VillageMD primary care locations in Houston. Our wellness partnership with Jenny Craig is progressing well, and we're on track to open approximately 100 locations by the end of January. We're also in the process of converting our optical pilots to the For Eyes brand, which offers improved insurance coverage and stronger consumer brands.

In specialty, I'm delighted to say that all 300 community-based specialty pharmacies have received URAC accreditation, and we continue to believe that a strong community-based presence, alongside our central fill capability, provides the best access for these important medications to our patients and the marketplace.

In partnership with UnitedHealthcare, we continue to create new opportunities for growth in Medicare Advantage. We are very pleased with customer adoption of the new co-branded Medicare Advantage product we started selling from October 15, 2019. And finally, we are also opening 14 UnitedHealthcare patient resource centers, designed to help our customers navigate their insurance and healthcare needs within Walgreens stores.

Turning next to digitalization, our Find Care platform now has 32 healthcare service providers spanning over 46 services. We continue to develop our patient medication adherence programs to deliver better clinical outcomes. Our Save A Trip Refill program now has 3 million patients signed up, an increase of over 25% since last quarter.

Our consumers continue to demand a convenient omnichannel retail shopping experience. I'm pleased to say we had record-breaking sales on walgreens.com on the Black Friday weekend, up over 45% versus the prior year and with particularly strong performance in retail products and photo.

Overall, our omnichannel business continues to grow. Our Walgreens app has now been downloaded 60 million times, up 12% since last year. Around 33% of Walgreens' retail refill scripts eligible for digital refill were entered via digital channel in the quarter, up almost 18% since last year. And we have increased our Balance Reward members to 89.9 million, and Walgreens digitally initiated sales reached over \$3.7 billion in the quarter, up around 9% year-over-year.

Next, I'll update you on initiatives we've undertaken in Retail Pharmacy International, starting with retail. In Boots UK, as you know, we've introduced a beauty reinvention program to 26 of our flagship beauty halls in the second half of last year. I'm pleased to report that we've seen an improved performance in these stores in line with our expectations.

Building on this, we rebalanced the retail space in 200 of our largest stores and have introduced 20 new beauty brands. Since the quarter end, we have signed an exclusive U.K. franchise agreement with Mothercare, a British retailer and brand specializing in products for mothers, babies and children. We will be selling Mothercare-branded goods across U.K. and online.

Moving on to Healthcare. Our purpose-built pharmacy operating system has been rolled out to over 1,400 Boots UK stores, allowing our pharmacists to provide a greater level of customer service, even more efficiency and over time, a wider range of new pharmacy offerings. And we continue to develop new healthcare services with diagnostics, where our pharmacists now have the ability to write prescriptions for certain conditions.

I mentioned last quarter that we are developing new initiatives in digital healthcare with plans for expanding pharmacy services to improve the customer journey and broaden access to healthcare. We launched our online pharmacy in May 2019, which has made solid progress in the market.

We've made further good progress on digitalization. Our online business, boots.com, delivered strong growth with sales up 12% versus prior year in the quarter. We also saw a record-breaking Black Friday weekend with resulting online sales up around 25%.

And finally, we have agreed an exclusive partnership to offer omnichannel photo and personalized gifting services in the U.K. and Ireland.



## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

I'll now hand you back to Stefano for his closing comments.

**Stefano Pessina** - *Walgreens Boots Alliance, Inc. - Executive Vice Chairman & CEO*

Thank you, Alex. As you have heard, this year has opened with a number of challenges. The many changes that are impacting the global healthcare sector are generating some difficult conditions for our businesses. That said, change always brings opportunity. We must act to meet the challenges and ensure we make the most of the opportunities we see.

Seeing these opportunities and mindful of the challenges ahead, we are maintaining our full year guidance for the year. We continuously review our group to ensure we have the right mix of businesses to maximize our performance in a dynamic sector.

Pursuing our strategic priorities is having a real impact in driving our businesses. The changes in our markets are obscuring some of the positive impacts we are having, but these will not be the case forever. I have said before and I will say again, I strongly believe in an expanded role for pharmacy and in our company's ability to play a significant part in shaping how healthcare is delivered in the community going forward. I believe this as much today as I ever have.

I believe we have true financial strength as a business. As we have demonstrated this quarter, we have an extraordinary ability to generate strong and sustainable cash flow. And we have many opportunities to deploy the cash flow to create real value.

I remain convinced that we have in our company and through our partnerships an extraordinary foundation on which to build. The work that we are doing today is creating a strong flexible engine of our growth in our businesses for many years to come.

Thank you. Now we will take your questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from the line of Robert Jones from Goldman Sachs.

**Robert Patrick Jones** - *Goldman Sachs Group Inc., Research Division - VP*

Great. Yes, I know there's a lot of moving pieces, and it's only the first quarter. But if I just take a step back, clearly, EPS was down around 6% in the quarter, below the full fiscal year guidance. It sounds like, James, if I'm hearing you correctly, next quarter given some of the moving pieces, it could see an even steeper decline in EPS. I guess, if we think about the back half, could you maybe just give us the building blocks or the things that you guys have visibility into that gives you confidence that the back half can get you into that flat plus or minus 3% EPS for the year?

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

Yes. That's an expected question, obviously. Let me just give you a little bit of context on the first quarter. However, first, I think the only real surprise we had in the first quarter was on script volume. It did come in weaker than we expected. We were thinking of a number of around 4%, and we came in at 2.8%. That's the piece that -- and I want to be clear, our internal budget was \$1.37, and we came in on our budget. What we had was a favorability on tax offsetting script growth in Q1. So that was the one thing we were disappointed on.

We have a lot of stuff we're very happy about. So free cash flow was off the charts. We beat our internal budget by hundreds of millions, largely driven by programs we're implementing in the U.S. As Stefano said in his comments, the Transformational Cost Management Program, and that's key to the answer to your question, is -- I would classify it right now is well ahead of track, particularly due to actions in the U.S. and the U.K.



## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

And other items I'd highlight that shouldn't be lost on you, we finally -- we have nailed one of the first steps in the Kroger relationship. We think it's extremely positive that we have started up a GPO, and I think it will lead to many good things in the future.

And then finally, a strategic deal in a problematic German wholesale market, which we think will drive tremendous value longer term. So we think there was a lot of good things that happened. Script growth was the one that was more challenging.

Let me give you a perspective looking forward is -- and actually, we're a little bit surprised as well. We're seeing quite strong momentum in the current month of December. So we believe when we call out 5 percentage points of items in the first quarter, we're probably undercalling that. There were clear shifts between call it the Thanksgiving period, Christmas periods, and I don't want to give the precise number, but our script growth is in the solid mid-single-digit growth in the month of December.

So we're clearly feeling that we're not really reading why the shifts were happening that well. We know cough, cold, flu is drive some of the buoyancy in December. So we are seeing signals that while we are counting on to hit our full year guidance, we do need our script growth to be in the 3.5% to 4 kind of percent, maybe 4.5%, depending on the quarter. But right now, in December, we're seeing numbers in excess of that. So script growth is the key one.

The other key one is -- that will drive increasing performance as we exit the year. Obviously, as you take out costs, the cost takeout is over the course of the year. So the savings roughly in the first quarter are around 15%. So of the total goal of -- we haven't given the number. It's a large number. We're less than 15% in Q1. As we exit the year, we'll be at double the run rate of savings.

So overheads will become a very significant -- much more significant driver in the second half. And I do want to point out for that, for a company of our size with the amount of overheads we have, the total overheads were down 1.6% in the quarter.

The context -- and I think it's important to have the context. We did say that the combination of inflation and volume impacts is about \$400 million. You have the bonus year-on-year. That's in the region of \$350 million, \$400 million. And we have incremental investments of \$100 million to \$150 million. So it will give you some indication of the size of the cost management initiative. And I think we'll come back next quarter with probably more visibility on the potential further opportunity on the cost program.

But I'll just finish answering your question. I think if you were to do your model again for the full year, I would -- we will probably have a slight favorability in taxes. So call it somewhat 0.6%, 0.7% on the full year. And we will have more coming from overheads and probably slightly less coming from gross profit because we had a miss in the first quarter on scripts.

So that's why we feel -- it's basically the overheads and some tax opportunity that we feel we can offset the call it the script underdelivery in Q1. Does that cover what you were looking for?

---

**Robert Patrick Jones** - Goldman Sachs Group Inc., Research Division - VP

No. That's tremendously helpful. And I guess just one other probably anticipated question again. Just around the Prime relationship in the wake of the Prime-Express-Cigna announcement. Just wanted to get any update on how you guys are viewing the Prime relationship and the impact to the AllianceRx JV. Just as we think about how that relationship played out for you this past year relative to your expectations for how it would contribute in 2020 would be helpful.

---

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

It's Alex here. Yes, we have recontracted with Prime in a direct relationship. So Prime is now working with Express Scripts as a PBM, working with us in a direct relationship. So we anticipate to hold our market share with Prime and potentially grow as the Prime model will be more competitive in the marketplace.





## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

Our relationship with Prime continues to be a very strong one, and we continue to work very well with independent Blues. So we're happy with the situation.

In terms of the impact. Obviously, we've readjusted the margin a bit, but it really was in the forecast and budget. So we had expected this impact and have planned for it.

On the AllianceRx side, AllianceRx actually is doing okay at the moment. But again, we have a great relationship with Prime. We're speaking to them about how do we adapt to an ever-changing specialty marketplace, which is becoming even more important for both of us. We expect to have conversations next year along these lines to improve that model further. So all this is good from our point of view, and we wish Prime every success with their new model. In the network, we feel very confident that we will benefit from that relationship in the future.

---

### Operator

Your next question comes from the line of Eric Percher from Nephron Research.

---

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

Thanks for the commentary on the cadence with respect to volume and cost. Maybe to hit on one other item, reimbursement and the impact on 1/1/20. I know you gave us a 13% number that I think was reimbursement and bonus. But can you provide a little bit more context on what the outlook is as we move from Q1 into Q2 on 1/1/20?

---

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

Yes, the 13% reference was to Q2. And we're specifically highlighting 2 things in the quarter. And I would say it's like 7% due to reimbursement timing, and the other is -- 6% is due to bonus year-on-year. And the reason we called out the Q2 reimbursement is it really is a timing item. It's a true-up of prior year contracts that occurs typically in the April, May, June time line of the year. And as it happened in the prior year, there was no true-up. So it's not really a reimbursement impact year-on-year in terms of increase in contract prices. It's a contractual true-up of the contract for a prior year. And it's quite a large number because it impacts 7 percentage points.

We didn't actually call out anything on Q1. What we said about Q1 is reimbursement was actually broadly in line with the plans we had put together. Because if you recall, when we gave guidance, we said at the time that I think 58% or 60% of all of our contracts were already defined when we gave guidance. So we have fairly decent line of sight to the full year reimbursement. And we came within \$20 million of the reimbursement estimate for the first quarter.

So we were actually quite pleased with that because it's quite difficult to forecast reimbursement. And we have looked back on some of our prior guidance on the quarters. And the reason for giving something on Q2 just is to highlight this exceptional reimbursement timing true-up.

Right now, as we sit, we have no reason to call any different outlook on reimbursement for the full year. And we should presume that means plus or minus \$15 million.

So it's -- we were pleasantly surprised with the Q1 on that side. And then I reiterate our issue in pharmacy in Q1: nothing to do with procurement, nothing to do with reimbursement. They were actually net, probably slightly positive. It was probably -- it was all script volume. So it was just lighter than we would have planned it to be.



## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

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

That's really helpful. And reimbursement in the U.K., it sounds like NHS funding did improve, but we didn't see it in the revenue line. Was this simply the new contract? Or have you seen any make-whole for the lack of payment last year?

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

Again, there's really 2 stories here. It's Alex here. One is, as you say, there has been a stabilization of payment, which is in the marketplace, can be seen on the NHS side. And secondly, we have taken some actions to reduce loss-making services that we have in the U.K. and to make them more profitable.

As a result of that, we've lost some volume, not as much volume as we had expected, to be honest, but some volume. And we're quite pleased at -- with the retention of our customers with these actions. And that's what's caused a slight further decrease in terms of our revenue in the U.K. It's not reimbursement. It's actually we've taken to reduce loss-making services that we were offering.

**Operator**

Your next question comes from the line of Elizabeth Anderson from Evercore.

**Elizabeth Hammell Anderson** - *Evercore ISI Institutional Equities, Research Division - Associate*

A couple of times, you've mentioned or sort have alluded to potentially a little bit of a changing competitive environment in U.S. pharmacy or perhaps some pressure on -- or versus your expectations in the quarter in terms of script growth. Could you comment more broadly on sort of what you're seeing there and sort of your thoughts on how that's progressing?

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

It's Alex here. Yes, I think as the consolidation in the market has really accelerated, both vertically and horizontally. And as, for example, the Prime-Express deal is a good example of this. The PBMs are working more closely together. That's clearly putting more pressure on the marketplace for better pricing and actually, what we're alluding to.

So we are working hard, as James has said, as we always have done to mitigate that pressure through our cost programs and through driving volume. As James again said very clearly, we were disappointed with the volume growth in Q1. Part of that was timing, as James just said. And part of that is because of the fact that we lost some access to some -- particularly some Medicaid networks during the summer that is rolling into this year. And as we spoke to about -- I think it was the last quarter, we're working -- investigating, obviously, with, Advanced Rx (sic) [RxAdvance] and Centene, the opportunity for us to become more efficient together and offer a new model in the Medicaid business. We recognize that we are under share there, and we have to operate differently in that marketplace.

In Medicare, we continue to do very well with UnitedHealthcare. We're really pleased with the relationship and the new MA plan, as we spoke to in the prepared comments, has done well, and we expect that will come through in the changes in January 1.

Obviously, we're doing less well with the other strong performer, which is Aetna insurance. They've done really well, and we're doing less well with them for maybe obvious reasons. But in the whole, we feel we're going to be there or thereabouts in Medicare.

Then in commercial, I've already said in a reply previously that we're very pleased to have renewed the contract with Prime, which again is a very important book of business for us in the commercial network. So I think that's a picture from our point of view. And I hope that -- I don't know if that helps answer the question, Elizabeth, but that's how we see it. And it all underpins the 3.5% to 4% volume growth that we expect to see in the full year.



## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

### Operator

Your next question comes from the line of Lisa Gill from JPMorgan.

**Lisa Christine Gill** - *JP Morgan Chase & Co, Research Division - Senior Publishing Analyst*

I want to start with just some thoughts around branded inflation as well as generic procurement in the current market. As we think about the gross margins and how this will impact it, I'm just wondering, James, first, can you just talk about what's in your current expectation and guidance?

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

What we saw in -- I'll tell you what we've seen in Q1. We saw branded inflation of around 4%. And we -- most of the market read seem to be that deflation, and this is on a constant-mix basis. So like-for-like SKUS, deflation of around 4%.

We would say that internally...

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

On generics.

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

On generics, sorry, on generics, and maybe I'll ask Alex to weigh in. And then two is, we would be outperforming versus that 4%. We'd probably be in mid- to highish single digit. And we generally are projecting that kind of number going forward somewhere in the mid- to high single-digit deflation mix adjustment, which is it's probably -- quarters will change versus market. But generally, that's what we're seeing in the market, and we're delivering slightly better in terms of cost reduction in the P&L.

I don't know, Alex, do you want to add?

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

Yes. I think that's the answer. That's what we're seeing, and we continue to feel very good about our global operation, and WBAD is delivering just slightly beyond market average reductions in cost of goods. So that's exactly what we're seeing.

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

Yes.

**Lisa Christine Gill** - *JP Morgan Chase & Co, Research Division - Senior Publishing Analyst*

And then, Alex, you talked about a number of healthcare initiatives and updates. Two that you didn't touch on today would be LabCorp and Humana. One, on the LabCorp side, can you just talk about where you are today? Are you on track? On the Humana side, any plans to expand? You did talk about United on the Medicare Advantage side, but I'm curious what you're doing with Humana.



## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

And then just more broadly speaking, the strategic priority for expanding the role of pharmacy. As you know, I'm a big believer in that as well. But with the reimbursement pressure, do you ever see that subsidizing in any way where you can actually get ahead of that, where you can start to change the paradigm? And I know I've asked this for multiple years. But do you finally think that you can start to see that on the horizon as you start to have bigger and bigger relationships, like north of 100 million lives now in the combination of Prime and Express? You think about large relationships like United.

---

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

Yes, Lisa. So I think maybe start with the Humana question. So we've opened up our third partners in primary care. It looks very good, and it's operating really well, and the relationship between the pharmacist and doctor -- doctors is really close. So we continue to feel really good about that very small but important test joint venture.

And of course, we've opened up 2 also with a company called VillageMD, which I'm sure you know down in Houston. There will be 5 in total by the end of February. And again, we are very, very pleased with how that's operating already. We've taken a small stake in that company, VillageMD as well, which we're pleased to. And we see that partnership with a doctor and a pharmacist being fundamental to the future of community healthcare delivery going forward and core to our model, and we're learning lots about how we can do 2 things: take cost out of the system together and get customers to understand -- do their medications better and change their lifestyles. And so it's really interesting work, and it points to maybe your last question. So that one is Humana.

On LabCorp, we're bang on track in terms of number of service centers opened. I think we'll have well over 100 in the ground by the end of this quarter. I think that's really bang on track, and they're performing well. We are seeing NPS scores and the usage of the centers on or above our expectations. So we're very pleased with that program. And we expect to have 600 and maybe more, we don't know yet, in the ground within the 4 years as we promised.

Finally, on role of the pharmacists, we are working really hard to get our new system in. As James spoke to in the prepared remarks, we're going to be accelerating that system from the current pace. That will be fundamental -- be in the cloud. The data will be in the cloud. It will be fundamental to taking the workload out and freeing up our pharmacists to really drive that new future.

We're seeing increased payments from certain insurers and PBMs, particularly in Medicare D, who -- we really like working with United because they are stretching to us in terms of getting the payment, but they're very clear on the goalposts that we have to hit to get the payments. And we've been successful in achieving that.

I do believe that other insurance companies will follow their lead, and the government eventually will also make sure that we have clear KPIs going forward as well. So yes, it's a longer play for sure, but we are really committed to it, and we're making more progress than appears right now in our numbers. And we continue to keep on pushing. This is fundamental to pharmacy and fundamental, we believe, to a more efficient healthcare system in the U.S.

---

**Lisa Christine Gill** - *JP Morgan Chase & Co, Research Division - Senior Publishing Analyst*

And then just want to understand that. So none of that is in your expectation for 2020. So I heard you say longer term a couple of times in this conversation. So should we anticipate that this could potentially impact fiscal 2021 or 2022? How do we just think about it from a timing perspective?

---

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

Yes. We're already earning some money back, as you know, the famous direct and indirect rebates debate you know well. So we are earning more money back than we did previously. And the amount of money available to us is growing, and our ability to get at that the money grows as we get our systems in. And of course, we're also deploying specific outcome pharmacists. I think we have about 150 now in our network, who are specifically



## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

working to achieve these performance outcomes. So I think this will start to affect '21 and '22. It's already given us some relief in '20 as well. There's improved money in our forecast for performance networks.

### Operator

Your next question comes from the line of Soo Romanoff from Morningstar.

### Soo Romanoff - Morningstar Inc., Research Division - Equity Analyst

The background you've given on a lot of the initiatives have been great. Perhaps maybe specialty has become such a big component of your business. I mean, is that mix also impacting the margins as well?

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

Yes. We called that out in the quarter. It's impacted by about 50 basis points because it's growing at high single-digit versus the pharmacy scripts of 2.8%. So it's driving adverse mix of 50 basis points.

### Soo Romanoff - Morningstar Inc., Research Division - Equity Analyst

And I guess, that makes sense. I mean, does the -- do the initiatives that you're kind of putting in place help expand those margins or also provide kind of that long-term wellness and part of the healthcare transformation?

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

Yes, absolutely, Soo. I mean, we strongly believe in having a community presence. And as you know, we have 2 models: We have one, which, of course, to the doctors who are practicing in specialty, for example, oncology. And then we have pharmacies inside of hospitals and so their healthcare systems. We have 300-plus of these, and we've now got URAC accreditation for them all. So every single pharmacy that we now run in the community, which is very unusual, I believe we're the first to achieve this, has got that accreditation. That means that we're more attractive to the manufacturers because they know that we'll take full care of the patient. And more and more patients are living longer with diseases in communities. So we believe the local model will become important to the future of healthcare delivery. And there'll always be a central fill model, I'm sure, but we believe the local model will become more and more important.

Also, we announced our relationship Shields. Shields is a very interesting platform. It's working with healthcare systems, and we have a lot of relationships with healthcare systems, as you know, to make sure that as patients leave hospitals, they maintain themselves on the drugs being dispensed, primarily by the hospital pharmacy. So again, we're investing both in technology with Shields and also Inovalon as well in terms of data and tracking customers and local community pharmacists to make sure pharmacists can actually take care of these customers as they live more often at home. And we're also, of course, working closely with Prime, as we said already, to make sure that we have a really efficient and effective central model.

And most importantly of all, we have outstanding relationships with the manufacturers, really driven both through our relationship with AmerisourceBergen and also the work that Ornella does with her team at the global level to make sure that we have the very best relationships. So whilst these manufacturers are bringing these new and unique products to the market, we feel as a global partner, we can apply our capabilities for them in the U.S. market through that relationship.



## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

### Operator

Your next question comes from the line of Eric Coldwell from Baird.

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

I know it's difficult to parse this out with the store closings in the U.K. as well as the shift to more services from volume perhaps, but could you give us a clear sense on the impact of the NHS reimbursement scheme change either quarter-over-quarter or year-over-year? And then how did that really stack up compared to your expectations? It sounds okay. But I'd like to get a little more detail on that in terms of not only the quarter-over-quarter, but also how that progresses through the next few quarters.

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

Sure. Yes. No, it's Alex here. No, it was exactly as we expected. So the quarter for pharmacy, both in volume, as I said already, was slightly below -- on the market in terms of underlying business, but we gave up some scripts because of some unprofitable services. But in terms of margin, exactly as we had expected, and it's tracking, too, as we expected.

So it's relatively easy to track this because the government have re-signed the 5 -- a 5-year contract with the industry through what's called the PSNC, which represents all pharmacies in the U.K., so one contract. So we can track this quite carefully. It does vary sometimes from quarter-to-quarter, but it's tried up in a way which is transparent. So we feel very confident that we've got a good line of sight to this. We feel very confident that we're working operationally very well in the U.K., and we have an initial piece of work there, which is called pharmacy of the future. And the idea here really is to transform the operating model for pharmacy in the U.K. This will take some time, of course.

We've already mapped that investment. We're investing strongly in our new pharmacy system. We've rolled out to 1,400, which is well over half the busiest states and it's now present in all the countries including Scotland more -- most recently. So again, we're feeling pretty good about the visibility.

We're not feeling as good about the profitability of pharmacy. We believe that needs to improve further, so that we can reinvest back in community pharmacy properly in the years ahead, but we are very committed to getting that operating model understood and changed over time.

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

Yes. If you wanted to characterize the year of -- prior year, it was a tough year for pharmacy, where there were a lot of the onetime impacts coming from NHS funding. And there will be a general, this year, a recovery from that. It was surprising. We were within \$500,000 of the gross profit targets for pharmacy in the U.K. It was bang on target.

We are looking at a fairly sizable improvement in gross profit in the business this year. So Alex mentioned it earlier in his comments. We have some marginal-profitability businesses on the sidelines, and we're aggressively driving the improvement of those. So won't be surprised if you see script volumes and market share going down slightly. We're addressing the profitability of subcategories that we don't think are strategic to the company. And we definitely don't want to be in marginal profitability position. So a bit of a shift in the orientation in the business, slightly more to profitability. So just -- as you're modeling it out, don't get fixated by script declines because the core business is actually quite solid and was solid in the quarter.

Just one point on the U.K., though, as we go through it. We did have a rough quarter in retail, and it really does come down to the market. And our share -- we have share overall. Quite interestingly, though, we've seen in the last couple of weeks, and it's maybe a little bit important as you think through your modeling. We had a rough quarter, now 40% decline. Now there was a lot of onetime items in there. Probably half of that was onetime adverse items just generally. But as you think through this, we saw a very, very strong Christmas period. There's huge phasing on in many of our primary markets. The whole December month started out extremely slow.



## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

The second last week of the month was extremely strong with high single-digit revenue growth. And the last year -- the last week of the year, we again have mid- to high single-digit growth across our key categories. And we're still getting in and dissecting just what happened. But December performance is quite a bit more positive than the quarter we just came out of.

And the double surprise was it was achieved with higher margins than prior year. So we're rebalancing the commercial approach in the U.K., and we're not chasing volume at any cost.

And surprisingly, the -- we're seeing better volumes, and we're seeing better margins. Now it's only 2 weeks, so it's too early to shout success. But we've seen a better performance across December across the entire -- the main 2 markets, actually. And both businesses have done quite well in the Christmas period, very well actually.

---

### Operator

Your next question comes from the line of Kevin Caliendo from UBS.

---

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

You mentioned you had 60% of your PBM contracts set when you gave guidance, and now you've renewed Prime. What remains outstanding? And how much variance is there really at this point? Could there be in reimbursements as we look out over the rest of the year?

---

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

It's Alex here. It's virtually -- I mean, there'll be some small networks, which can change midyear for sure. But the vast majority now is contracted, the vast majority. I can't give you a precise number, but I've always given you an estimate. It would be well over 90 because -- I'll go back. The consolidation of the market is very clear. And yes, so that's where we are.

But -- so we feel we have good line of sight to -- in this fiscal year. And again, we'll start renegotiating the majority of the Med D contracts as we move through the summer months, but that'll be for starting January 1, 2021.

---

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

And the renewal of Prime, that takes you through -- is it more than a 1 year contract? Meaning, like the Express relationship won't have any impact on that at all going forward.

---

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

That's correct, yes. I mean, we don't disclose the length of the contracts, but this is a multiyear deal, typical of a long-gauge commercial contract.

---

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

Got it. And one last one. Have you guys looked at the OECD proposals around multinational corporation tax rules? They're obviously still just proposals, but wondering if they were implemented, would it in any way impact Walgreens or WBAD or anything like that?

## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

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

Yes. We have a, I would say, a quite expert tax group, and they're extremely active. They're all over this. I think you have to wait until dust settles on these things. But we would obviously realign the corporate structure according to new legislation as it comes along. We think that WBAD is in a -- it's in the right location. It delivers attractive tax positions, but it's all vetted and approved by all jurisdictions globally, and it's in line with current policy.

As policies change globally, we'll adapt to the policies and -- but we have an attractive tax rate compared to our peer set by quite a number of percentage points. And we'll maintain that as much as possible. But you can be sure the team is all over this, and we don't see any short-term risk.

---

### Operator

Our last question comes from Michael Cherny from Bank of America.

**Michael Aaron Cherny** - *BofA Merrill Lynch, Research Division - Director*

So I want to tie back, I guess, big picture question. At the beginning, you talked about the broader strategy you're taking. I know you mentioned the role of pharmacy going forward. You've highlighted a number of the various different partnerships. I guess as you think about the next, call it, rest of this fiscal year, 2, 3 years, what are some of the checkpoints you're looking for relative to the partnership model, relative to the strategy, relative to the EBIT contribution from all of these to essentially declare success or if some of them aren't, going to kind of cut bait? And how does that play into the broader thought process around the organization and the role and where you sit in the market on a go-forward basis, given as well that you're also going through a pretty broad restructuring of both the cost base and the store footprint?

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

Thanks, Michael. Yes, it's Alex here. So I think if we start with our 3 priorities and start with the reimagining of the drug store and renewed offerings, we're probably more advanced with the Kroger relationship. And the reason why that's quite important is because it allows us to do 2 things: It allows us to work with them on the convenience model, which is really important to drive footfall into our physical stores and also really important from a consumer point of view. And the redefinition of convenience is such a big change in the marketplace. So we're feeling really good about that.

We -- I said in my prepared remarks, we are seeing substantial sales growth, both in the box itself and also in the categories that we are supporting. We've also launched our own products. I think we've got -- we're going to have them in about just over 15 -- 15, 16, 17 Kroger stores. So therefore, this gives us an opportunity to put our health and beauty composition and private label and own brands into their customers' views as well.

And then lastly, when you put together the 2 customer sets, we serve together around about 20 million customers a day between us. So we have a strong, strong presence in American households and a ability, therefore, to work with them, being the genuine food expert of America and us being very, very competent, we believe, in pharmacy, health and to some extent, beauty categories as it relate to healthcare and wellness. We believe that's going to be a strong opportunity.

The procurement structure allows us to earn money in the short to medium term. And of course, we will be working together on other issues in the supply chain and also on other issues in procurement, we believe as well in the future. So that's one area where I think we have made good progress, both tactically and strategically.

With healthcare, we are well into testing quality brands and quality offers in partnership with others. So the acceleration of our lessons learned in optical is one example of it. We're working with GrandVision, who are renowned as a quality optical retailer with access to insurance and the very best brands. We really are delighted to get more opportunity to put doctors into our stores alongside pharmacists. And we believe that, well, that





## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

will be a longer-term model. We know from experience in Europe that, that model can be really effective in delivering end-to-end primary care in communities.

And last but not least, the Find Care platform that we have built very quietly with an internal team has really grown. And we believe that will be a digital marketplace that will become very important to us and to the market in the future, but will take time to grow.

So that's really where we are in terms of that measure. So we expect some contribution over time in the retail side faster than the contribution maybe in the healthcare side. But the healthcare side will come through the hill of scripts over time and the access to more...

---

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

Maybe one, we didn't get this question, but progress on digitalization in the quarter. We've just launched 2 major initiatives, launched and funded. And I want to -- and I go back to the previous guidance we gave. We've got \$500 million of capital expenditures behind digital and development, plus about \$100 million to \$150 million of expense this year. And we launched 2 big initiatives in the last count. One is on mass personalization, and that's how do you use your marketing dollars more effectively to target a better connection with the consumer. We believe it will significantly underpin, particularly the retail revenue profile for a multiyear period. And these are not small investments. They're in the \$50 million to \$100 million range.

And the second one is the prescription journey, and I use that one very generically, but it's -- again, it's a similar size of investment. And it's on a 2 speed. We're not waiting for the core systems to be upgraded. It's on a parallel process. And this is a 2-ish year journey. And what's it going to do, it's going to connect the consumer much more closely with the prescription, how they want it delivered, how they want to pay for it, the transparency of the cost of it and the options we give consumers and getting closer to consumers.

And the second thing it will do, it will take friction out of the system, which means it will reduce the cost to fill a prescription. So while we're working on initiatives that don't just boost -- take out costs, but they actually boost revenue and the connectivity to patients and consumers longer term. And don't think that will be lost. These investments are large, and they're multiyear, and they will also drive long-term revenue and sustainable growth.

---

**Michael Aaron Cherny** - *BofA Merrill Lynch, Research Division - Director*

And I guess quickly, how do you balance all those investments and long-term initiatives against some of the quarterly volatility and reimbursement risks and the moving pieces on the Transformational Cost Program that you see?

---

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

It's tough.

---

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

Yes, it's not easy. But we have a program management approach. We have a lot of capable people, but it's not easy. It's a -- and every -- but we're paying a lot of attention to the future and to today, as you probably can tell by the comments that James and I have made.

---

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

A lot of these funds go through the Transformational Cost Management Program. And Alex, myself and Ornella and the head of HR sit on the -- we are the 4 people on it. So it's a small team, takes decisions quickly. And frankly, some of these are tough trade-offs. And in some quarters, you theoretically can't afford it, but you have to do it or otherwise, you're going to damage the long-term future of the company.



## JANUARY 08, 2020 / 1:30PM, WBA - Q1 2020 Walgreens Boots Alliance Inc Earnings Call

### **Stefano Pessina** - *Walgreens Boots Alliance, Inc. - Executive Vice Chairman & CEO*

And this is the problem. It's Stefano. We have a strategy. Our strategy is as it has always been a medium, long-term strategy. And we believe in the pharmacy, we believe in the role that the pharmacies will have in future. Of course, the pharmacy will have to be able to satisfy the needs of the patients and the needs of the customers. And we are working in that direction. Not all the pharmacies will survive in the future. Not all the pharmacies will be important in the local economy of the cities or the villages. We try to be a pharmacy that can have a role.

And of course, we have to invest. We have to invest now for the future. If we work just for the next quarter, maybe we will have a little better results, better results. But at the end, we will probably create a problem for the long survival of our stores, of our pharmacies. And now you have to take a decision: either you believe in a strategy, which is focused on the long term or you just try to look at the next quarter and maybe you try to do deals just to, let's say, make easier or less evident the problem that you have. We have decided to work for the long term, and I hope that at the end, we will be right.

### **Operator**

There are no further questions at this time. I turn the call back over to the presenters.

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

Thank you very much, indeed. Thank you. I know that not everyone that wanted to ask a question got to ask a question. But as ever, the IR team are here, and we'll take your calls during the course of the day and tomorrow and the rest of the week. And we look forward to speaking to you all again next quarter. Thank you very much, indeed.

### **Operator**

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

#### **DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.