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Walgreens Boots Alliance, Inc. (WBA)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Rob, and I will be your conference operator today. At this time, I would like to welcome everyone to the Walgreens Boots Alliance Third Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Tiffany Kanaga, Vice President of Global Investor Relations, you may begin your conference.

Tiffany Kanaga

Vice President-Global Investor Relations, Walgreens Boots Alliance, Inc.

Good morning. Thank you for joining us for the Walgreens Boots Alliance Earnings Call for the third quarter of fiscal year 2023. I'm Tiffany Kanaga, Vice President of Global Investor Relations. Joining me on today's call are Roz Brewer, our Chief Executive Officer; James Kehoe, our Chief Financial Officer; and John Driscoll, President of US Healthcare. Rick Gates, Senior Vice President and Chief Pharmacy Officer at Walgreens will participate in Q&A. All references to the COVID-19 headwind on today's call include US vaccines, drive-through tests, and OTC tests.

As always, during the conference call, we anticipate making projections and forward-looking statements based on our current expectations. Our actual results could differ materially due to a number of factors, including those listed on slide 2 and those outlined on our latest Forms 10-K and 10-Q filed with the Securities and Exchange Commission. We undertake no obligation to publicly update any forward-looking statement after this presentation, whether as a result of new information, future events, changes in assumptions or otherwise. You can find our press release and the slides referenced on this call in the Investors section of the Walgreens Boots Alliance website. The slides and the press release also contain further information about the non-GAAP financial measures that we will discuss during this call.

I will now turn the call over to Roz.

Rosalind Brewer

Chief Executive Officer & Director, Walgreens Boots Alliance, Inc.

Thanks, Tiffany, and good morning, everyone. I'd like to start today's call with an acknowledgment that our performance in the third quarter did not meet our overall expectations and we are disappointed to have to change our fiscal 2023 guidance. While we achieved good sales growth and returned to adjusted earnings growth in the quarter, several dynamics created margin pressures that we are factoring into our full year outlook. We have seen changing market trends that have consumers prioritizing value in response to a more uncertain and challenging economic environment. There has been a steeper drop-off in COVID vaccines and testing with the end of the public health emergency. We are also experiencing a slower profit ramp for US Healthcare.

Importantly, we remain committed to our strategy through immediate actions to accelerate our path to profitability and unlock long-term value. I remain confident in the long-term trajectory of our transformation which is underpinned by significant progress against each of our four strategic priorities. We are continuing to transform and align our core business with advancements in our tech-enabled pharmacy operating model. Today, we are announcing a scalable partnership with TelePharm to expand tele-pharmacy services, improve access to care, and provide flexibility for how and when patients engage with our pharmacists. Our model is also supported by our micro-fulfillment centers, covering over 40% of our Walgreens store footprint.

In US Retail, our flat year-to-date comp sales have successfully lapped last year's record 8.8% growth and retail gross margin is up over 100 basis points yet again. We have also made significant progress on building our next growth engine in healthcare, rapidly establishing our portfolio of assets across the care continuum. VillageMD acquired Summit to create a leading independent care delivery platform, and we accelerated the full acquisition of Shields and CareCentrix. This segment has gone from zero sales contribution just two years ago to a run rate of $8 billion in the third quarter of 2023. To fund our transformation and focus the portfolio, we have realized $4.1 billion in proceeds from the sale of ABC shares this fiscal year and also exited our Option Care Health position for $800 million in proceeds.

Finally, we have continued to invest in strategic talent and capabilities, most recently strengthening VillageMD's bench to welcome CFO Rich Rubino. Turning to the third quarter. WBA returned to adjusted EPS growth up nearly 4%. Third quarter sales were solid, growing almost 9% in constant currency. US comp sales were up 7%. Let me call out US Retail digital sales up 19% on top of a 25% gain last year with 3.7 million same-day pickup orders. International was also notable, up 6.9% in the quarter. It is clear that consumers continue to appreciate the value, convenience, and range of services delivered by Walgreens and Boots.

Our increased expense discipline in the quarter only partly offset outsized margin pressure and earnings growth was held back by three external factors. First, we saw lower-than-expected COVID-related demand. We had called out COVID as a wild card heading into the quarter and have unfortunately seen less patient willingness to vaccinate. Walgreens administered 800,000 COVID-19 vaccines in the quarter, down 83% year-on-year, and testing volumes are also down sharply. We are, in turn, taking a prudent step of further reducing our expectations for COVID contributions going forward. We are currently projecting to administer 9 million to 10 million COVID vaccines next year, in line with a typical flu season, and compare to 12.5 million COVID vaccines expected in fiscal 2023.

Second, and similar to other retailers, we've been impacted by the rapid softening of the macro environment and a more cautious and value-driven consumer. Our customer is feeling the strain of higher inflation and interest rates, lower SNAP benefits and tax refunds, and an uncertain economic outlook. They are pulling back on discretionary and seasonal spend and responding strongly to promotional activity. For example, promotional unit growth is running up 10% in the retail channel, including a sharp increase over just a five-week period, while non-promotional units fell 8%. Let me add that we see the retail pricing environment is remaining rational.

We have also seen some pressure on industry script volume excluding COVID which may be related to these broader consumer headwinds. [ph] Day fall (00:07:40)-adjusted market growth excluding immunizations has slowed almost 2 percentage points from February to May. Our core retail pharmacy business is resilient and relatively well-positioned in times of volatile consumer confidence. However, we're not immune to these external pressures and have trimmed our expectations accordingly while, at the same time, ramping up our efforts around cost savings.

Third, we've experienced a drag from a recent weaker respiratory season. We are feeling the effects through our script volume through our front-of-store sales, especially in the higher-margin cough, cold, flu category and in CityMD's traffic trends. These trends are likely to persist into the fourth quarter against last year's category strength. Importantly, we achieved strong quality of earnings considering a 4.7% adverse net impact to adjusted EPS from COVID, the sale of ABC shares, sale and leaseback, incentive accruals, and tax. This strength gives us line of sight to accelerating adjusted operating income growth in the fourth quarter.

Let me turn to our updated guidance. We now expect fiscal 2023 adjusted EPS at $4 to $4.05, reflecting consumer and category trends, lower COVID-19 contribution and a more cautious macroeconomic forward view. This guidance represents core earnings to be flat to up 1%, excluding COVID and currency. We are also providing preliminary fiscal 2024 commentary. Let me be clear, there are some factors impacting us today that are likely to extend into next year, namely, the macroeconomic-driven consumer pressure and COVID headwinds. We are closely watching emerging challenges to consumer spending and sentiment such as the end of fiscal stimulus and the resumption of student loan payment.

There are other factors that are more specific to our business today and should not be annualized into fiscal 2024, such as the weaker respiratory season. Most importantly, we have undertaken several aggressive initiatives to enhance profitability and cash flow into next year, especially in our healthcare business. We expect low- to mid-single digit adjusted operating growth in fiscal 2024 with the US Retail Pharmacy and US Healthcare businesses more than offsetting headwinds from COVID, sale and leaseback and ABC. AOI growth should outpace adjusted EPS due to offsets from higher tax and non-controlling interests. We will provide a more detailed discussion of 2024 guidance when we report fourth quarter and full year 2023 results.

The positive operating growth trends with improving quality of earnings support our continued confidence in building to sustainable, long-term low-teens adjusted EPS growth over time. To drive shareholder value, we are taking the following immediate actions to enhance profitability and accelerate our journey. First, we are raising our Transformational Cost Management Program savings goal to $4.1 billion. This includes $800 million of savings in fiscal 2024. Second, we have implemented capital and project spend reductions, and we've launched a working capital optimization program. Third, we are pursuing portfolio simplification at an even faster pace. Fourth, we are announcing several specific actions to accelerate US Healthcare's path to profitability, focused on VillageMD and Summit Health.

We are also accelerating the synergies between our US Healthcare segment and our core Walgreens business. We have a unique opportunity to improve local healthcare and well-being in this country. The flywheel of Healthcare and Retail Pharmacy working together will deliver more affordable, accessible quality healthcare to our communities and will also deliver sustainable shareholder value. It starts with our trusted brand and pharmacists, national footprint and digital offerings. 58% of Americans are likely to visit their local pharmacy as a first step when faced with a nonemergency medical issues. Add to that, our leading assets across the care continuum, VillageMD, Summit, Shields and CareCentrix and our early work with Health Corners and clinical trial.

We've created a platform at scale that is absolutely proving to help health plans and patients improve outcomes and lower cost. Our teams are expanding partnerships and driving greater market access, which is the next step to getting our wheel to turn. As Healthcare and Retail Pharmacy jointly serve consumers, we will deepen engagement and reinforce our trusted brand. Let's look at a few tangible examples of how we're driving that value through our integrated portfolio. In partnering with VillageMD, our team-based healthcare delivery enhances adherence. We are building digital connections and stand-alone clinics, more than 30 in Arizona and Texas are now supported by Walgreens pharmacies virtually with more coming online in Georgia this summer.

To make the virtual experience seamless, we're piloting a healthcare concierge program to provide extra care coordination. We are also exploring an integrated pharmacist ambulatory care model. The pilot has driven over 40% reduction in hospital readmissions over 30 days and a material A1c reduction in diabetic patients. Remember also that roughly 50% of patients at co-located VillageMD clinics opt to get their prescription filled at Walgreens. VillageMD co-located sites that have been open for over 2 years continue to drive approximately 40 incremental scripts per site per day. CareCentrix and a leading national healthcare services provider are partnering to offer a turnkey durable medical equipment benefit management solution and point-of-care platform for health plans. This should drive medical and administrative savings while improving the overall member experience.

Shields and Walgreens are working together to establish Walgreens as a single contract pharmacy for health systems. Walgreens is also converting existing specialty pharmacy locations to Shields' partners to increase access to specialty drugs and services. Finally, at Walgreens Health, we are exploring new healthcare service lines such as additional diagnostic services and data analytics and insights. We've already seen strong results with our at-home testing programs, such as the one we conducted last fall with Blue Shield of California to boost patient access to colorectal cancer screening. Members due for screening have the opportunity to visit Walgreens Pharmacy locations across the state to pick up an at-home kit.

The test completion rate was 50 percentage points higher when members chose pharmacy pickup compared to those that received the kit in the mail. Based on these successful results, we are launching similar at-home testing programs with other payer partners. In summary, our Healthcare and Retail Pharmacy businesses are working together to improve outcomes and lower costs as only Walgreens can do. I am not satisfied by today's headline guidance revisions. However, I see the enterprise approach coming together to deliver sustainable value to consumers, to our partners, and to shareholders. We have the right strategy. We are driving good progress across each of our strategic priorities, and we are taking appropriate measures to account for the recent macroeconomic challenges and uncertainty.

Through the necessary actions discussed today, we are pushing harder towards profitability with a strong sense of urgency, while continuing to reimagine local healthcare and wellness for all. With that, I'll hand it over to James to provide more color on our results and our outlook.

James Kehoe

Executive Vice President & Global Chief Financial Officer, Walgreens Boots Alliance, Inc.

Thank you, Roz, and good morning. In summary, while we returned to adjusted EPS growth in the third quarter, earnings were below our expectations as we encountered lower COVID contributions, shifting consumer behaviors and a recent slowdown in respiratory incidences. Overall, we delivered 8.9% sales growth on a constant currency basis ahead of our plan, led by our US Pharmacy business, up 10%, our Boots UK retail business, which delivered a solid 13% comp and our scaling Healthcare business, which added $1.4 billion in sales versus the prior year. Adjusted EPS increased 3.6% on a constant currency basis, despite a 19 percentage point headwind due to a lower COVID-19 contribution and 8 percentage points from reduced ownership of AmerisourceBergen.

These were partly offset by favorabilities from sale and leaseback, incentive accruals and tax. All of these items net out to be a 4.7 percentage point headwind to EPS growth and this demonstrates overall good quality of earnings in the quarter. As Roz discussed, we are lowering our fiscal 2023 adjusted EPS guidance to $4 to $4.05. This updated outlook reflects consumer and category trends, a lower contribution from COVID and an overall more cautious forward view, given the continued macroeconomic uncertainty. Later, I will provide more color around the key assumptions underpinning our revised guidance. But first, let's look at the third quarter results in more detail.

Adjusted operating income increased 0.6% on a constant currency basis. This included a 22 percentage point headwind from COVID-19 and a 7% drag from reduced AmerisourceBergen ownership, partly offset by sale and leaseback gains and incentive accruals. All of these items net out to an approximately 6% headwind to AOI growth. GAAP net earnings of $118 million declined $171 million, compared to prior year. The current quarter included a $323 million after-tax impairment charge related to pharmacy licenses in the UK. Adjusted net earnings increased 3.4% on a constant currency basis to $860 million.

Now, let's move to the year-to-date highlights. Year-to-date sales increased 4.8% on a constant currency basis. Adjusted EPS was down 20.7%, reflecting a lower COVID-19 contribution of 20 percentage points and reduced AmerisourceBergen ownership of 3 percentage points. GAAP earnings were a loss of $2.9 billion compared to net earnings of $4.8 billion in 2022, with the current year, including a $5.5 billion after-tax charge for opioid-related claims and lawsuits. Now, let's move to the US Retail Pharmacy segment. Sales increased 4.4% in the quarter with comp sales up 7%. Adjusted gross profit declined 3.2% year-on-year, reflecting a 5 percentage point negative impact from COVID-19. A 5% reduction in SG&A expense more than offset the gross profit decline and led to AOI growth of 8.4% before the inclusion of AmerisourceBergen equity income. The sell-down of our ABC stake led to a slight AOI decline of 0.4%.

Let me now turn to US Pharmacy. Pharmacy sales increased 6.3% and advanced 9.8% on a comparable basis, driven by both script growth and brand inflation. Excluding immunizations, comp scripts grew 2.8%, a slight deceleration from the prior quarter and reflecting broader prescription market trends. As expected, adjusted gross profit declined year-on-year, although excluding COVID, gross profit increased as script growth and lower cost of goods sold more than offset reimbursement pressure. Turning next to our US Retail business. Following several quarters of very good performance, the retail business encountered some headwinds in the third quarter as the consumer navigated through a difficult macroeconomic backdrop. Excluding tobacco, comp sales grew 0.2%, held back by 90 basis points due to holiday seasonal weakness as consumers pulled back on discretionary spending and 80 basis points due to lower sales of COVID-19 OTC test kits.

We saw solid growth in grocery & household, up 4.7%; and beauty, up 3.7%. Cough, cold, flu sales were flat, but slowed significantly in May due to a decline in respiratory incidences. IQVIA FAN data shows flu, cold, and respiratory activity down 8% in the third quarter versus a 15% increase in the second quarter, with May down in the mid-20% range. Following several consecutive quarters of year-on-year margin expansion, retail gross margin came under modest pressure in the third quarter. We've seen similar trends as the broader market with our promotional units up around 7% in the most recent 13-week period. However, on a year-to-date basis, gross margin has increased by more than 100 basis points, driven by effective margin management.

Turning next to the International segment. And as always, I'll talk to constant currency numbers. The International segment continues to perform very well. Sales increased 7% with good growth across all international markets, Boots UK was up 10% and Germany wholesale grew 4%. Adjusted operating income of $208 million increased 21% despite a $40 million year-on-year headwind from sale and leaseback transactions. Let's now look in more detail at Boots UK. Boots UK sales advanced 10%, pharmacy comp sales increased 6%, and comp retail sales grew 13%, and this comes on top of a 24% comp in the same quarter last year. Boots grew market share for the ninth consecutive quarter with gains across all categories.

We successfully launched Future Renew, a range of innovative new skincare with very positive consumer response. This product line was recently launched in Walgreens. Boots.com sales grew 25% year-on-year and have more than doubled versus the equivalent pre-COVID quarter. Over 14% of our UK retail sales now comes from Boots.com. Turning next to US Healthcare. The US Healthcare business continues to rapidly scale with sales reaching $2 billion, more than doubling from the prior year. Pro forma sales growth was 22%. VillageMD sales were $1.5 billion, up 22% on a pro forma basis. Legacy VillageMD growth was driven by expansion of the clinic footprint with an additional 93 clinics opened in the past year and the ongoing maturation of existing clinics.

Summit Health was, however, impacted by a weaker respiratory season that led to fewer CityMD visits and fewer referrals across the Summit Health network. Shields delivered another strong quarter, up 35% and driven by contract wins, including the addition of six new health system partners and further expansion of existing partnerships. CareCentrix sales were approximately $360 million with pro forma sales growth of 15%. Adjusted EBITDA reflects weaker-than-expected results at VillageMD and Summit Health partly offset by continued growth at Shields. CityMD has been impacted by lower visit volume whereas the VillageMD EBITDA loss reflects new clinic expansions. We anticipate improvement in the fourth quarter as we build patient panels and traffic and align the cost profile with sales.

Let's now look at some of the key metrics for the US Healthcare business. VillageMD managed 850,000 value-based lives at quarter end, reflecting year-over-year growth of approximately 27% in the legacy VillageMD business and the addition of 309,000 value-based lives from Summit. Total value-based lives include 179,000 full risk lives. Our clinical trials business continues to expand with eight contracts signed and a robust pipeline. Turning next to cash flow. We generated $1.2 billion of operating cash flow with free cash flow of $116 million. The year-over-year decline reflected lower earnings due to COVID-19, lower contribution from working capital, and increased capital expenditures related to growth initiatives.

Looking ahead, we are reprioritizing capital projects to reduce planned spend and are rolling out a comprehensive set of working capital optimization initiatives to enhance our cash generation. Turning now to guidance. We are updating our full year 2023 adjusted EPS guidance to $4 to $4.05, a constant currency decline of around 20%. Excluding the impact of COVID-19 and forex, core adjusted EPS is flat to up 1%. The EPS contribution from COVID-19 is $0.23 lower than our original assumptions at the start of the year. At the beginning of the fiscal year, we expected 16 million vaccinations. And despite the spring booster recommendation, we have reduced our full year expectations to 12.5 million vaccinations. COVID testing has decelerated at an even faster pace.

Additionally, we have incorporated the impacts of a more cautious consumer outlook, leading to a $0.20 to $0.25 impact as we realign our fourth quarter sales and margin goals to reflect recent trends. Finally, while reducing our ownership stake in AmerisourceBergen has improved our debt position, it has, however, led to a $0.05 headwind. Let me now walk you through our assumptions for each of our business segments. Starting with US Retail Pharmacy, we now project sales of around $110 billion, up low single digits year-on-year. AOI is projected at $3.8 billion to $3.9 billion, a decline of 22% to 24%, reflecting a 23-percentage point headwind from COVID-19 and 3 percentage points from our reduced ownership stake in AmerisourceBergen. Excluding these two impacts, AOI growth is up 2% to 4%.

Turning next to the International segment which is performing well this year. Sales are projected to grow 6% to 8% on a constant currency basis reflecting strong execution, especially in the UK. Adjusted operating income of around $900 million represents constant currency growth of approximately 30%. This performance is towards the top end of our original expectations. Our revised outlook for US Healthcare reflects lower visits at CityMD, the continued ramp-up of new VillageMD sites, and the slower integration of prior acquisitions into Summit's multi-specialty business. We expect sales of $6.3 billion to $6.8 billion, an increase of $4.8 billion versus prior year and growing approximately 25% on a pro forma basis.

We are projecting an adjusted EBITDA loss of $340 million to $380 million, including the factors I mentioned earlier. While the profit performance so far this year has been below plan, rapid correction actions are underway and we expect to drive sequential adjusted EBITDA improvement in the fourth quarter and beyond. Turning now to our corporate assumptions. Our full year tax rate is now expected to be around 12%, and this basically reflects the favorability we have seen so far in fiscal 2023 with some of the benefits reversing in the fourth quarter. More specifically, we expect a fourth quarter tax rate of around 23%.

Full year guidance of $4 to $4.05 implies fourth quarter EPS of approximately $0.70 to $0.75. The result is weighed down by a much higher average tax rate, and the fourth quarter typically is the lowest quarter of the year. As such, it would be incorrect to extrapolate the quarter as a proxy for 2024. First, normalizing for the tax rate would result in an additional $0.08 in the quarter. Second, seasonality impacts all of our businesses. Looking back over the past five years and excluding the impact from COVID-19 and ABC, approximately 20% of our adjusted operating income comes in the fourth quarter. To conclude, adjusting the fourth quarter for tax rate and accounting for seasonality would result in annual adjusted EPS of around $4 per share.

Next, I would like to cover the key factors that will influence 2024 performance. Overall, we expect the long-term tailwinds to outweigh the near-term pressures. Some of the challenges we faced in fiscal 2023 are expected to continue into 2024. We do expect to see some continued weakness in consumer spending together with moderate increases in labor costs. While reimbursement pressure has eased somewhat over the past 18 months, it is not going away and we will continue to identify ways to offset the pressure. In addition, we expect lower sale and leaseback activity in fiscal 2024, and the tax rate will be higher, as we lap a very favorable fiscal 2023 performance and higher statutory tax rates are introduced in both the UK and Switzerland.

However, we have multiple profit drivers and initiatives that will drive sustainable profit growth. Our US Healthcare business will be a significant profit driver, including the first full year of Summit Health and maturing VillageMD clinic profile and strong actions to accelerate their path to profitability. We expect continued script volume growth and strong contribution from front-of-store initiatives, these include own brand penetration gains and the further expansion of our successful category performance improvement program. Lastly, the Transformational Cost Management Program will deliver at least $800 million of savings next year. Next, let's take a deeper look into 2024. We expect fiscal 2024 adjusted operating income to grow low- to mid-single digits, led by the US Healthcare segment and solid execution in US Retail Pharmacy.

We are expecting US Healthcare to be the largest driver of total company AOI growth as the business is rapidly gaining scale, and we will now accelerate the path to profitability. John Driscoll will provide much more color on the immediate actions we are taking to accelerate EBITDA delivery. We expect US Retail Pharmacy AOI to be flat to down slightly due to lower COVID contributions of approximately $290 million and a $260 million step-down in sale and leaseback gains. Absent these items, we anticipate solid core growth, led by Transformational Cost Management Program savings and expanding gross profit. Finally, we expect International AOI to decline year-on-year as we lap sizable real estate gains and lose the relatively small AOI contribution from the sale of our business in Chile. Core profit growth will be flat as the business manages through high levels of cost and labor inflation.

That being said, our International business is well positioned for long-term success with market share gains and an advantaged and growing e-commerce presence. We do expect AOI growth to outpace EPS due to a higher tax rate and non-controlling interest. Next, we'll look at US Pharmacy in more detail. Excluding COVID, we expect to grow pharmacy gross profit. Underpinning the growth is our differentiated tech-enabled operating model which frees up capacity for pharmacists to spend more time on clinical programs and supporting our expanding pharmacy service offerings. We are projecting solid script growth benefiting from improved operating hours, increased access to lives and growth in specialty. We are integrating AllianceRx, community-based specialty pharmacies and Shields under a new go-to-market strategy with a payer-agnostic provider-centric approach.

In addition, we have launched multiple programs across our Pharmacy and US Healthcare business and continue to see engagement from payers and partners for clinical quality initiatives that leverage our integrated assets. Moving now to our US Retail business. Gross profit growth will be driven by low-single digit comp growth and continued margin improvement. We are creating significant value through category performance management where assortment decisions should deliver at least $200 million of savings in fiscal 2024. We are accelerating our own brand penetration through innovation and increased points of distribution and display. Our own brands have margins that are significantly higher than national brands.

We are creating more value for consumers as we scale our e-commerce platform and evolve our store formats, including a new digital-forward store concept and a health and wellness-focused store, with favorable early feedback on both concepts. Let me now hand it over to John to discuss our US Healthcare strategy and profit growth drivers.

John Patrick Driscoll

Executive Vice President & President-U.S. Healthcare, Walgreens Boots Alliance, Inc.

Good morning. As Roz and James outlined, while we're confident in the range and scale of our healthcare business, we are disappointed with the pace of our path to profitability. US Healthcare missed targets due to VillageMD and CityMD underperformance, directly related to reduced COVID, cold and flu season and softer market demand. We're taking immediate actions to drive improved profitability. We anticipate this year will remain a transition year as we take action to deliver value and drive profitability. We're rightsizing our cost structure through optimizing overhead and revenue synergies to better match market demand.

We're raising and accelerating energy capture goals. We believe that we can enhance Village growth and value by focusing on gaining density in existing markets to accelerate VillageMD's path to profitability and supporting the integration of our digital assets with our VillageMD platform. And we continue to enhance our Village management team. We've recruited Rich Rubino, a seasoned healthcare CFO to be the Chief Financial Officer of the combined VillageMD/Summit business. Longer term, we're implementing a high-impact 3-year plan to improve performance through an intense focus on operational excellence and cost optimization.

Achieving our healthcare vision depends on each of our companies, delivering on their respective plans and relentless execution of harvesting growth synergies across the Walgreens portfolio. We're building a differentiated, value-based care delivery model that successfully integrates pharmacy and medical care for a value-based care market that will more than double by 2027. Walgreens has a unique right to win with our reach, consumer engagement and enterprise investments in primary care, specialty and care to the home. We continue to see the enhanced value of our individual healthcare assets connected to our core Walgreens Pharmacy to create value for patients, providers and plans. A great example of that is our quickly scaling clinical trials recruiting business.

Next, let me turn to Summit Health, where we see opportunity to drive meaningful AOI in US Healthcare. While we are obviously disappointed with the pace of unlocking the full value of Summit and CityMD, we expect Summit to contribute materially to profit growth in fiscal year 2024. Leveraging WBA, we will invest in targeted marketing campaigns to increase the patient base at CityMD sites. Our continued focus on operational excellence and cost optimization should continue to improve growth and synergies from prior acquisitions. Finally, we are raising and accelerating the synergy capture goal from $150 million in 2027 to $200 million in calendar year 2026.

Turning to VillageMD. Over the last few months, we've slowed the pace of clinic openings in new markets. As we've studied their performance, we have refocused our growth plans to leverage regional density to support more profitable growth. To achieve our strategic objectives of better engagement and lower cost of care in a more cost-effective manner, we are launching new virtual and asset-light models. We've expanded our marketing efforts to support patient panel growth in our clinics and are working with new leadership to accelerate cost control. We continue to be impressed by the performance of our more mature VillageMD markets risk performance and are focused on continuing to accelerate the conversion of our fee-for-service lives to our proven risk-based model.

VillageMD is a high-quality care delivery model. As James mentioned, most of our newer VillageMD clinics are at an early stage of development. But if we focus on the performance of our more mature Medicare Advantage markets, where we've achieved an appropriate level of market density, including Arizona, Georgia and Houston, VillageMD has demonstrated the ability to bend the cost curve. We will focus on replicating this performance in other markets as we convert fee-for-service volume to our risk-based model, and we will also leverage our integrated care models with pharmacy and our other healthcare assets across the US Healthcare business. As part of our refocused US Healthcare approach, we aligned our go-to-market products for health systems and health plans under one team of seasoned healthcare executives with some encouraging short-term sales results noted on the slide.

In summary, Walgreens remains the independent partner of choice for health plans and health systems through the combination of our legacy pharmacy platform with our portfolio of health assets. Our portfolio consistently delivers better outcomes at lower cost for plans, systems and patients, which we believe is well suited to meet the demands of a healthcare market that is quickly moving from fee-for-service to fee-for-value. While there is clearly work to be done, we now have the leadership, plans and organizational structure in place to rapidly advance our priorities.

Now let me turn it back over to James.

James Kehoe

Executive Vice President & Global Chief Financial Officer, Walgreens Boots Alliance, Inc.

Thanks, John. Capital allocation priorities remain focused on core business investments, debt paydown and our dividend. We will continue to pursue disciplined returns-based organic investment in our core business, and we are simplifying our portfolio to unlock value and provide financial flexibility. We are very committed to maintaining our investment-grade rating and our dividend. Now let's take a quick look at the Transformational Cost Management Program. We are raising the cumulative 2024 savings target to $4.1 billion, and this is the sixth target increase since the program began. With $3.3 billion saved by the end of this year, we are projecting at least $800 million of savings in 2024.

Let me talk to a couple of the cost-saving initiatives. We just completed an organization restructuring, which included transforming our headquarters to better align our resources with our strategic priorities. This led to the elimination of more than 500 roles, representing around 10% of our corporate and US support office workforce. Our pharmacy of the future operating model will drive significant savings. We are optimizing the model through our micro-fulfillment centers, tech-enabled centralization of in-store activities and tele-pharmacy solutions. These initiatives will also elevate the role of the pharmacist and improve patient engagement. Finally, we will continue to optimize our locations and opening hours and expect to close an additional 300 locations in the UK and 150 locations in the US.

As you have seen, we are accelerating our portfolio optimization to further simplify the business. We have fully exited from our Option Care Health position with overall proceeds of $1.2 billion since August 2022. Let me also highlight our recent monetization of our AmerisourceBergen shares using a variable prepaid forward structure. Under the VPF approach, there is no EPS dilution until the contracts mature. We continue to receive dividends and we retain some share price upside. Please note that the remaining stake in AmerisourceBergen is worth approximately $5 billion. With that, let me now pass it back to Roz for her closing comments.

Rosalind Brewer

Chief Executive Officer & Director, Walgreens Boots Alliance, Inc.

Thank you, James. Before we kick off Q&A, let me sum up what you've heard. WBA has the right to win through our differentiated model, and we have the right strategy in place. We are now entering the next phase of our healthcare transformation with aggressive actions in motion to improve profitability. We are addressing current challenges head on and moving at a pace to deliver long-term shareholder value. We have the scale, we have the skill, we have the sense of urgency, and we have the right plans to drive sustainable profit growth ahead.

Now, I'd like to open the line for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Lisa Gill from JPMorgan. Your line is open.

Lisa C. Gill

Analyst, JPMorgan Securities LLC

Q

Thanks very much, and thanks for all the detail. The first area I just want to focus on is around your US Healthcare business. There is substantial growth as we think about going both into the fourth quarter and then into next year. John commented on the miss by both VillageMD and CityMD around performance, but also talked about utilization. And we've heard on the opposite end where managed care is talking about utilization from a negative side, so can you help me to square that, one, when we think about VillageMD and we think about your Medicare Advantage lives and what you're seeing for utilization there. Is that a current headwind?

And then secondly, when you think about things like CityMD that's not seeing respiratory or COVID visits, what do you think are the opportunities there? And is that part of the synergy pull-forward that you're talking about for the $200 million as we think about 2026?

John Patrick Driscoll

Executive Vice President & President-U.S. Healthcare, Walgreens Boots Alliance, Inc.

A

Thanks, Lisa. I think it's – utilization is actually sort of a mixed blessing for us. We're seeing consistently solid performance in terms of bending the cost curve at Village, and I think that positions us better and better as a managed care partner. We were hit with the CityMD utilization. I think that we're at the early stages of harvesting the embedded profitability of Summit and City. And the City hit on utilization in this quarter also hit our lab and ancillary business a bit, but we think that there's an opportunity on both the value-based side to integrate some of the lessons from Village at Summit and City because both of them have very high NPS. They are demonstrating the ability to reduce cost over time. And as we get at some of the cost synergies, I think you're going to see a significant improvement.

I mean, we are expecting a quarter-over-quarter improvement in Healthcare EBITDA of 70% looking at Q4. So, I think we've got opportunities on the cost side but also on the value side to optimize our model.

Operator: Your next question comes from the line of George Hill from Deutsche Bank. Your line is open.

George Hill
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Good morning, guys, and thanks for taking the question. James, I guess a couple targeted at you. With OCF running below the dividend through three quarters, and there's lots of moving pieces but OP now expected to grow meaningfully next year. We know there's the cash from ABC. I guess, so can you talk about, A, how the company is thinking about the dividend? And B, as it relates to Rx reimbursement pressure, I guess, can you talk about what the early expectations are for calendar 2024? And are we expecting kind of the leg down in pharmacy reimbursement pressure to look like prior years? Thank you.

James Kehoe
Executive Vice President & Global Chief Financial Officer, Walgreens Boots Alliance, Inc.

A

Okay. Let me cover dividend first. And just I want to emphasize in 2024, we are giving commentary that operating income will grow low to mid-single-digit. We clearly have a lot of work to do on cash flow, and first one is EBITDA, so we see strong growth next year. And the second one is we're building out incremental working capital programs and we're significantly curtailing our capital expenditures. I want to make it crystal clear; we're absolutely committed to the dividend, absolutely committed both to the dividend and to our investment-grade rating. And I would point out, we did highlight specifically in the prepared comments that our stake in ABC is still worth $5 billion. So, while we're going through the short-term transformation, we do have plenty of firepower going forward.

Bear in mind, as you look at our numbers on cash flow, we're investing approximately $1 billion of free cash flow in Healthcare this year. And as we move forward into the future and it starts breaking even on an EBITDA basis, that $1 billion quickly becomes a cash flow generation tool. But we are getting into incremental and much more aggressive actions on capital and working capital in the short-term. Your second question then was on calendar 2024 – oh, the reimbursement, okay, sorry about that. Reimbursement, looking back over the last 18 months, the environment has been much more positive. I would say that we did comment, and we've actually [ph] commented (00:55:00) similar to that, we said that this year, the current fiscal year is an 85%, so a 15% step-down on the previous year, so that is the net reimbursement pressure on the P&L has improved.

We actually don't want to give too much comments on future negotiations, but we see much more productive discussions with payers and providers in general because we're bringing more value to the table. Our ability to do medical adherence and other such activities and improve outcomes for payers has improved significantly over the last two years and it's starting to be more recognized in productive discussions. Maybe I'll ask Rick Gates, our Head of Pharmacy, to make some comments, further comments.

Rick Gates
Senior Vice President & Chief Pharmacy Officer, Walgreens Boots Alliance, Inc.

A

Yeah. Obviously, we're in the middle of negotiations so we can't comment a lot going into 2024 at this moment through Medicare Part D and through commercial contracts which are going on currently and into Q4. But just to re-emphasize what James was saying, we're generally in line with expectations on reimbursement this year. We are benefiting from conversations across US Healthcare and Pharmacy as they're looking at us as a holistic solution within the healthcare ecosystem. And we're continuously working on offsets for reimbursement pressure that we're seeing through improved procurement, increased prescriptions, obviously our important ancillary services but then also reducing cost to fill.

And I just want to re-emphasize the other point that James said is that we're over-performing or performing better in pay-for-performance-based contracts which are obviously part of the reimbursement we get back as well. So I can't comment on 2024, but we are in line with expectations for 2023 at this moment.

Operator: And your next question comes from the line of Ann Hynes from Mizuho Securities. Your line is open.

Ann Hynes
Analyst, Mizuho Securities USA LLC

Q

Great. Thanks. Good morning. So given Healthcare is the main driver of growth next year, what do you think is the biggest risk embedded within that guidance? And then secondly, you commented in your prepared remarks that scripts were lower than expectations. Can you decipher what is driven by maybe market weakness versus market share weakness versus maybe pharmacy hours now coming back to what were in your expectations? Thanks.

Rosalind Brewer
Chief Executive Officer & Director, Walgreens Boots Alliance, Inc.

A

Ann, thanks for that question. I'm going to ask John to hit the first piece on Healthcare and then Rick and I will talk to you about the scripts business.

John Patrick Driscoll
Executive Vice President & President-U.S. Healthcare, Walgreens Boots Alliance, Inc.

A

Yeah. Ann, I am really encouraged by the core growth across the portfolio. We've laid out exactly where the challenge is which is in cost and profit opportunity, and we are laser-focused on executing to unlocking that value. So look for us, as I mentioned in the earlier answer, to continue to unlock the embedded profitability of that part of the business. We see positive signs from all of the buyers. It's our responsibility to grow but also to grow and focus on profitable growth, and we will continue to kind of dig in there. And I'm confident that you will see consistent improved performance on that over time.

Rosalind Brewer
Chief Executive Officer & Director, Walgreens Boots Alliance, Inc.

A

And let me start off first just giving you a little bit of detail on where we are in our store performance. So at the end of the quarter, we had 1,600 locations on reduced operating hours. And we've recently optimized those hours in about 500 stores, bringing our current stores on reduced operating hours to roughly 1,100. We're continuing to see improvements in pharmacy staffing, resulting in almost 1,100 new pharmacists hired in the quarter. And then to the extent that the incremental pharmacists are hired in our most challenged markets, we've been returning stores to their regular full operating hours. One of the things that we're seeing is that the initial incentives work. We're at the point now where we're seeing the limitation of available pharmacists. And so Rick, can you go into a little bit more detail on the actual script improvement?

Rick Gates
Senior Vice President & Chief Pharmacy Officer, Walgreens Boots Alliance, Inc.

A

Yeah. And I think, Ann, you're trying to get at the 3% growth that we're talking about through fiscal year 2023. I think we've always walked through there's kind of four key drivers to that script count growth for us. One is market growth, and I think what we've seen in Q3 is that we've seen a slowing of [ph] aggregate market (00:59:29) growth from Q2 to Q3 which is impacting obviously a big part of our underlying performances there. Roz talked about store hours returning to normal hours which are lagging a little bit the pace that we had set given what Roz had talked through, but we are seeing some positives as well. The market access that we've contracted coming into this year is flowing through in a very positive way.

We continue to have good conversations heading into next year. The adherence and care programs we are seeing year-over-year growth. They are – stagnate a little bit given some of the store hour operation impacts, but we are seeing positive growth year-over-year when you look at access and adherence as well. So, although 3% is down from where we earlier guided to, I think the two things that are most impacting it are market growth, which has slowed quarter-over-quarter and the store hours returning to normal.

James Kehoe
Executive Vice President & Global Chief Financial Officer, Walgreens Boots Alliance, Inc.

A

And then maybe I could add. We actually believe there will be significant core growth in the US business next year as well because we'll be absorbing a year-on-year non-operating headwind from lower sale and leaseback. And then in addition, we mentioned the $290 million headwind on COVID. And maybe go back to the tailwinds and headwinds chart. We have a couple of items. You mentioned correctly, US Healthcare. There's a couple more. Transformational Cost Management Program is at least $800 million of savings, and we've basically identified those savings already. Two, on the front-of-store business, we have $200 million on – of CPI, and that's essentially more cost optimization and margin improvement. And then we have synergies in the US Healthcare business, so our cost optimization and savings next year as well in excess of $1 billion. So it's much more controllable and already defined.

Now, some of that will be eaten up by wages and inflation plus reimbursement pressure, but we're well advanced on controllable savings of over $1 billion, and a lot of that is in the US business. We basically gave some examples of the cost reduction, just the headquarter restructuring. This was done on the corporate head office and it was done on the US support office. And those 500 reductions were done in the space of about four months, and the savings are in excess of $100 million. So we're moving at pace to address the challenges and really going after the cost envelope.

Operator: Your next question comes from the line of Michael Cherny from Bank of America. Your line is open.

Michael Cherny
Analyst, BofA Securities, Inc.

Q

Good morning and thank you for taking my questions. So, maybe, James, to stay on that thread, I understand the increase in cost savings targets, that's something I know that the company has been really focused on. When you look at that, you look at still what you have from the sale-leaseback contribution and ABC contribution. What does that mean for what the core underlying earnings of this business should be? And how does that factor into where underlying growth should continue versus your previously assumed multiyear targets. I know we're not getting into more specific guidance on 2024, but you do have the long-term targets already out there. So how does what you're doing now and especially how the core is growing factor into achieving those previously reported targets?

James Kehoe
Executive Vice President & Global Chief Financial Officer, Walgreens Boots Alliance, Inc.

A

Yeah. Maybe I'll take it from another direction. And if we look forward to the fourth quarter, we've got a bunch of headwinds in the fourth quarter, and you could actually call out COVID, which is probably 20 points of a headwind and sale and leaseback another 20. So the guide we're basically giving is a slight decline in EPS, but the core growth is more like 30%, 40% growth in the fourth quarter. So we're seeing that the flywheel is working. We've had some pressure on margins in the short term in retail, but the flywheel is starting to perform. Then the second data point is we give – as we discuss low- to mid-single digit operating income growth over the entire course of next year, absorbing sale and leaseback and absorbing COVID and any other headwinds that are on the horizon.

So if you subtract out those two, the low- to mid-single digit is more like a low-teens growth in adjusted operating income, so we see the flywheel coming back and coming back quickly. If you project that forward, you're right, the sale and leaseback gains run out in 2024, so it is the last year. But by then, the improved profit prospects on the Healthcare business, plus the flywheel working in the US business more consistently should get us to those previous targets of low-single digit. Now we're not guiding to that. We're not confirming guidance, but we see that the core earnings power is successively improving every quarter. And I think people will be very positively surprised by the quality of earnings, particularly in the fourth quarter of this year, and then going into next year.

Operator: And your next question comes from the line of Lucas Romanski from TD Cowen. Your line is open.

Lucas Romanski
Analyst, TD Cowen

Q

Hi. This is Lucas on for Charles. I wanted to ask about the US Healthcare business and your appetite for taking on risk there. Last October, you talked about adding health plan partnerships and how the platform where it enable you to take on risk eventually. Now you have four health plan partnerships and you've been able to show the ability to lower MLR from high-80s to low – mid-70s in some regions. What are you guys seeing in terms of appetite from health plans in the market now that you have the bulk of your healthcare delivery assets in place? And then two, how are you thinking about increasing your exposure to risk over time and if you see that as a path to driving earnings growth for the US Healthcare segment moving forward?

John Patrick Driscoll
Executive Vice President & President-U.S. Healthcare, Walgreens Boots Alliance, Inc.

A

Lucas, thanks for the question. It's John. We are seeing a remarkably robust appetite for risk of two different sorts. One is the per member per month capitated risk in your – on the MA population, but whether it is performance risk on closing gaps in care or performance opportunities to earn and enhance the delivery of our specialty pharmacy business with the Shields. There is a consistent interest in products and services that in total, lower the cost of care and improve outcomes. And we are very encouraged by the demand across every constituency for every product we've got, whether it's Health Corners, VillageMD, CityMD or Shields or CareCentrix, that the opportunity – that the track record of performance around delivering on lower cost of care while keeping up a high NPS on the part of patients and providers.

And delivering those results will allow us to honestly deliver a portfolio of risk-based and performance-based products that I think are going to be – are going to build on our notion of being the independent partner of choice for health plans and health systems. So, I think you'll see more and more news about that and that's part of unlocking the embedded profitability of the assets we own.

Operator: And your next question comes from the line of A.J. Rice from Credit Suisse. Your line is open.

A.J. Rice
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi, everybody. Thanks. Maybe quickly, I know it's been missed a couple of times the goal for working capital optimization. Can you maybe expand a little bit more on what you think over time, the incremental cash flow opportunity might be there? And then as you talk about prioritizing debt paydown, what is – can you give us any updated thoughts on how far you need to – you feel like you need to go on debt paydown, maybe a leverage target? Any comments on either of those?

James Kehoe
Executive Vice President & Global Chief Financial Officer, Walgreens Boots Alliance, Inc.

A

Yeah. I think on working capital, if you look back over, I'd say, a five-year period, we've probably reduced working capital by $2.5 billion. It's not as if we haven't done it, but we're sitting on fairly high levels of inventory. We run a front-of-store above 90 days, which is on the high side. And the second part on pharmacy, we're above 30 days, and both of those for me personally are quite high. We've put in place big initiatives to address those. One is the micro-fulfillment centers, which effectively will take a fair amount of inventory out of the 8,800 stores as we centralize into less than 20 centers. When we put together the program that was identified at almost $1 billion of working capital opportunity, we've probably captured 40% of that.

And I just want to emphasize, this is a multiyear program we're running, but it's hundreds and hundreds of millions every year on working capital optimization driven by micro-fulfillment centers. We have new forecasting systems going in. We're putting in a new inventory management system and perpetual inventory for pharmacy for the first time, and that's rolling out even as we speak. So we have huge initiatives rolling out that will really drive benefits next year. On debt, we're targeting investment-grade rating. We're not within our metrics right now. The target with Moody's is – I think it's [ph] 4.75x (01:09:30). And we have work to do to both improve our operating cash flow, which we just talked about. And then secondly, targeted paydown of debt to get within the metrics. And we expect to do so -- confidently expect to do so during the course of fiscal 2024.

Operator: Your next question comes from the line of Elizabeth Anderson from Evercore ISI. Your line is open.

Elizabeth Anderson
Analyst, Evercore ISI

Q

Hi, guys. Thanks so much for the question. I was wondering if you could talk through how you're thinking about the potential impact of 340B maybe both on the core US Pharmacy business and sort of what the potential impact could be there. But then also, if you could really talk about how you're thinking about the potential opportunity in fiscal 2024 from Shields in that business? Thanks.

Rick Gates
Senior Vice President & Chief Pharmacy Officer, Walgreens Boots Alliance, Inc.

A

Yeah. This is Rick, and I'll start and see if John wants to join me here. But, as you look at 340B, we are very comfortable with our prior guidance and do expect 340B to actually be a slight up in production year-over-year in fiscal 2023. Current assumptions still taking into account latest manufacturer actions and restrictions. I think there's three things to think about as we look at Q4 is that we do know obviously and have line of sight since October and the continued developments and restrictions and litigation that can negatively impact the business itself. However, we are working with covered entities who are starting to share data back in a more proactive way, which is opening up their impact to continue to get 340B value back to the covered entities.

And third, we continue to work very proactively in the marketplace with covered entities that are still very active and signed up for us a contract pharmacy. So we do think that we can offset some of the headwinds as we're looking at it, but do still see a good line of sight into what we projected for this year, which is a slight growth. And John, I don't know if you want to add...

John Patrick Driscoll
Executive Vice President & President-U.S. Healthcare, Walgreens Boots Alliance, Inc.

A

I think that Shields is actually – turns out to be in an advantaged position because it's not in the contract pharmacy business. It's really a specialty pharmacy services business for hospital-based 340B related specialty pharmacies. And we continue to see strong demand and the sustainability of those contracts. And so we're highly confident that Shields is actually in a great position because of the just core growth of specialty pharmacy drugs and the need for hospitals to partner with a services platform that delivers a best-in-class adherence and integrates really well with hospitals that are needing to manage those high need chronic patients.

Operator: And your final question comes from the line of Eric Percher from Nephron Research. Your line is open.

Eric Percher
Analyst, Nephron Research LLC

Q

Thank you. It's been difficult to piece together the US Healthcare ramp from what was a $350 million loss to significant profit next year. Now looking at $600 million to $650 million, can you tell us net of the actions you're taking, how does fiscal year 2024 look relative to the outlook six months ago when you closed? And then any insight on the contributions which businesses and how they're coming together for the fiscal year 2024 outlook?

James Kehoe
Executive Vice President & Global Chief Financial Officer, Walgreens Boots Alliance, Inc.

A

Yeah. Eric, the base year – so what we're looking at here is the base year has come in about $300 million light versus the original expectations at nine months ago, and we've talked extensively about Summit and some slowness at building patient panels at Village, and we have a series of actions to go address that. I think the best way you could model this out is – versus the original goals – the year-on-year change, we believe, is absolutely intact. So you might want to think of it this way; we're probably 6 to 12 months behind. But it will be – in 2024, it's unlikely we'll recover the $300 million loss on the base year, but the build year-on-year is intact and probably we would do slightly more. John, is that a fair way to look at it?

John Patrick Driscoll
Executive Vice President & President-U.S. Healthcare, Walgreens Boots Alliance, Inc.

A

I think that's the right way to look at it. I think, Eric, you should expect that we will – we laid out that Q4 target of a 70% improvement over Q3. We're not prepared right now to give extensive 2024 guidance and I think we'll probably be loath to give sub-segment/segment guidance because I think that would even be more confusing. But we are seeing, as I said, the revenue ramp and the demand in each of our markets for each of our companies. And we have taken and are taking swift action to unlock the embedded profitability and a lot of that is line of sight. So, on cost synergies, integration opportunities with solid demand. So, I think you'll – we'll be comfortable giving you more guidance, I think, in Q4, but we see incremental improvement month-over-month in each of these categories towards those targets.

James Kehoe
Executive Vice President & Global Chief Financial Officer, Walgreens Boots Alliance, Inc.

A

Yeah. And just to reemphasize that, Eric, I think when John says the 70%, that means you take the EBITDA loss in Q3, multiply it by 30%, and that's – we will deliver – so we're getting very close to EBITDA breakeven in the fourth quarter, and we have decent line of sight to positive EBITDA for the segment in the first half of next year.

Operator: And we have reached the end of our question-and-answer session. I will now turn the call back over to Roz Brewer for some final closing remarks.

Rosalind Brewer

Chief Executive Officer & Director, Walgreens Boots Alliance, Inc.

Listen, thank you for your questions this morning on the next phase of our healthcare transformation, the evolution of our pharmacy retail business and also our capital allocation priorities. I hope you heard from us, we have a strong commitment to move swiftly to address our challenges head on and better executing on our priorities and moving at a faster pace to deliver the value to our employees, our shareholders and our local communities; that's important to us. The next phase of our healthcare transformation requires aggressive actions. And these actions are already in motion and they're focused on improving our profitability against our quality assets. And I want to reinforce that, that we're really committed, we feel good and strong about our investments we've made so far.

So we're focused on turning the inherent growth of our assets into profitable growth, where we have embedded profitability in our portfolio already. So we have the scale and the skills and the next phase for us is to operate with urgency with the right plans and drive the growth ahead. So thank you for your time today.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.