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EDITED TRANSCRIPT

WBA.OQ - Q4 2021 Walgreens Boots Alliance Inc Earnings Call and Investor Day

EVENT DATE/TIME: OCTOBER 14, 2021 / 12:30PM GMT

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PRESENTATION

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Hello, everyone, and welcome to our virtual investor conference. I'm Jonathan Spitzer, Vice President of Investor Relations at Walgreens Boots Alliance.

Before we start, I'd like to quickly run through the customary regulatory and safe harbor statements before I hand it over to Roz. Certain statements and projections of future results made in this presentation constitute as forward-looking statements that are based on our current market, competitive and regulatory expectations and are subject to the risks and uncertainties that could cause actual results to vary materially. We undertake no obligation to update publicly any forward-looking statement after this presentation, whether a result of new information, future events, changes in assumptions or otherwise. Please see our latest forms 10-K and 10-Q for a discussion of risk factors as it relates to forward-looking statements.

During the course of today's events, in our remarks and in the related presentation, we will use certain non-GAAP financial measures. We refer you to the appendices in the presentation materials available on our Investor Relations website for reconciliations, where applicable, 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. After the event, the presentation and webcast will be archived on the website for 12 months.

In addition to our earnings announcement this morning, we'll be issuing a Form 8-K that contains forward-looking guidance and other relevant information provided during today's event. Please be aware that we may, during this presentation and answers to questions, make references to the information contained in the Form 8-K. The Form 8-K, along with the earnings announcement and the presentation materials from this event, are available on our website.

With that, I'll now hand it over to Roz. Roz?

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

Thank you, Jay. Hello, everyone, and thank you for joining us today. It's really great to be with you. I have to say, I'm definitely looking forward to sharing what we have in store for you in the next 2.5 hours. As you know, I recently passed my first 6 months at WBA. And I'm even more excited about this company's potential than when I first joined.

I took this job based on some deeply personal reasons. At the time, I was really enjoying selling coffee out in Seattle. So it was a big decision to leave that gig. But honestly, like many of us during the pandemic, I was thinking a lot about how I could contribute even more to the world. So when I was approached about the CEO role at WBA, I thought, here's a chance to join the company right in the center of fighting COVID-19 and bringing hope and a helping hand to do so in many different communities.

I also saw how we can make meaningful progress on addressing some of the social determinants that lead to disparities in health among different racial and socioeconomic groups, resulting in food deserts and care gaps. And frankly, now that I'm at WBA, there's so much more promise ahead than I could have ever anticipated.

The pandemic definitely gave WBA a chance to step up like never before, and we delivered in so many ways. But we're absolutely just getting started in terms of how we can mobilize to solve big, complex problems. And we definitely believe that this momentum will accelerate our path to sustainable, profitable growth moving forward.

So during my entire life, I've been an avid learner. Some of you may remember that my undergraduate degree is in Chemistry. And I've applied what I've studied then throughout my entire career. That discipline is about hands-on investigation and rigorous research. So it will come as no surprise that since I've been at WBA, I've been taking a deep dive to really understand the business and speaking with our leaders and team members in all corners of the company as well as many outside experts.

I conducted listening sessions and spent time in our stores, vaccine clinics and back-office operations. I've identified many gifts that were waiting for me when I arrived, based on some strong work that had already been done. And I've pinpointed where we've taken some wrong turns and haven't executed as well as we could have.

I've also been very glad to see the many new ways we can capitalize on our core strengths. I believe we have some tremendous underlying momentum within this business. And the pandemic has further proven the importance of pharmacies and local communities around the world.

I promised to you that after an extensive study, I wouldn't waste any time getting back to you about my assessment and where we're heading next. During this time, we'll clearly articulate the direction of our company. And we'll provide what we hope leaves you feeling a greater sense of understanding in terms of our strategic direction. We'll share our learnings, present our opportunities and lay out our path forward.

So let me start by saying that we just announced positive fourth quarter results this morning. We exceeded expectations across all of our business segments, reflecting strong operational performance and surpassing our vaccination goals. James will be going into much greater detail with you on that soon, including our guidance for this year.

So hopefully, you see these earnings as an indication among many others today of a renewed, revitalized and reenergized company. Also, I'm very excited to share some important strategic investments later in today's session. We'll tell you more throughout the course of our time together this morning.

Today, I'm going to make good on my commitment to you. And we're going to take you on a journey that includes 3 things: transparency, accountability and an extremely well-thought-out strategy. But let me be clear, this isn't our everyday Walgreens strategy. Instead, it's about acceleration, execution, accountability and long-term growth.

Strategy is also about mobilizing across the organization, uniting behind values-based culture, enabling strong alignment, leveraging momentum and having clarity on the end game. And it's also not just what you plan to do, but it's also what you plan not to do. We will make trade-offs and eliminate some work to focus on what matters most. And we're going to hit on these same points again and again and again to hammer home just how much we've internalized this into our mindset.

So on that note, here's our agenda for today. First, I'll go into detail on our strategic priorities, with a particular emphasis on the role we believe we are rightfully positioned to play within the health care ecosystem. Our CFO, James Kehoe, and President of Walgreens, John Standley, will join me during these portions of the meeting. James will discuss the financials, both the numbers reported today and also our immediate and long-term growth model and fiscal year '22 guidance.

Finally, we will end with a Q&A session where we will look forward to engaging directly with you on our strategy and performance. And again, we hope this will signal the change to come, more of an ongoing dialogue with our investor community and more visibility into what we're doing and how we're performing against our most important KPIs.

So to lead us more into that discussion, I thought I'd share a brief video highlighting who we are.

(presentation)

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

That, of course, was just a brief snapshot of WBA and the vital work we do. With that in mind, I want to tell you a little bit about what we've been working on and why I am so optimistic about the opportunities ahead. These opportunities have everything to do with what you see on the screen right now.

As we move forward, we plan to be customer-centric with a relentless focus on what they need and what they want; hyper-localized, knowing that the best health care is deeply rooted in local communities; improving outcomes since we're absolutely convinced we can further improve the health of our patients; scale and momentum, which we've seen most prominently during our response to the pandemic; lowering the cost of health care, since there are enormous inefficiencies in the health care system today; delightful customer experiences so that our brands exceed expectations and leave lasting positive impressions; transformational partnerships, which will allow us to achieve the quality and speed we want; and pharmacy, pharmacy at the center, since this has always been and will continue to be our foundation and our key differentiator.

These themes will appear throughout the presentation today. And we hope that you will see how these strategies interconnect and how we intend to leverage our strengths to build our future.

As I mentioned, I came to this role with a very open mind about what the company needed and what it needed for me. Of course, based on my direct experience as a customer, a patient, a parent and a caregiver, I already had a view. And the reactions of others when they heard I was joining the company gave me an additional insight into the deep emotional connections our brands have.

What has impressed me most are the genuine areas of strengths we have. Anyone who has had recent experience with our services will understand. They will understand it when I say that our greatest strengths are our people and our presence in local communities across the world. We have deep relationships with our customers and patients, including chronic patients, who are most in need and struggle managing the complexity of their conditions. And we are often the first place people turn for their well-being.

So the scale, the reach, the ambition of this company is extraordinary. And the skills, the experience and the commitment of our people is even more extraordinary. I think it's fair to say, I have never seen anything like it. These are truly powerful brands that resonate around the world.

But to survive and thrive, we need to be able to show we are more and more relevant. And we must be able to deliver what our customers and our patients need, how and when they need it.

The company is making significant progress in this respect. We have already achieved a lot recently, which is both driving change internally and being recognized externally. But we have a lot more work to do.

We also, of course, have a phenomenal history in legacy. That gives us a strong foundation on which to build and rebuild. And our expertise sits squarely in one of the most important and expanding industries out there right now. But I also can't deny that we face stiff challenges.

We operate in a highly competitive arena. And the scale of our markets and nature of our business means it's very cost sensitive. And we continue to need to manage margin pressure in our core pharmacy business. In many areas, we have little room for error as we're dealing with people's health and, in many cases, their very lives. We are operating in markets that can and do change rapidly through regulation, innovation or just simply necessity. And we need to be on top of our game to meet those challenges and deliver on the opportunities they bring.

On balance, however, I see more opportunity for us than headwinds. And we have tremendous momentum and future potential. I hope that by the end of our event today, you understand why and see how we're pursuing a strategy to deliver our very best.

So as I mentioned before, nothing demonstrates us at our peak performance more than our response to the pandemic. As you know, we've played a key role in testing and vaccine administration, both across the U.S. and around the world. We acted swiftly to ensure those programs reach every part of our communities. We reached out into the most remote, underserved and reluctant communities to administer vaccinations, to educate and to support.

We changed our pharmacy and retail model to offer new services, new ways to access advice, medicines and provisions safely and conveniently. We worked tirelessly as not just a service provider or a retailer but as an advocate, a comforter, an adviser, a friend to those who needed us. We rerouted our resources, financial, technological and people to the things that matter most. And we did this all the way from the White House in Capitol Hill right to long-term care homes, schools and community centers.

As you can see here, the statistics of what we've delivered are truly impressive. They show how quickly and effectively we can act when we need to. And they demonstrate how we deliver expanded health care services into the very heart of the community. This was a great lesson for us. Historically, we would have had the tendency to move a little slowly. We've proven that our pace can change and can be rapid. And much of this infrastructure, momentum and mindset will be preserved in our new operating model.

We should not forget that it's the size and underlying strength of our business that allowed us a very short notice to deploy the training, supplies and some $500 million in funding to support our people in the field in fulfilling their mission. I could spend hours with stories of great work of our team. But let me just give you a quick window onto that world.

(presentation)

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

A key element of our response to the pandemic was to respond rapidly to changing customer behavior driven by the restrictions that COVID protections placed on people. One key enabler here was the deployment of a personalization engine at the heart of an entire ecosystem. It was designed to deliver an elevated customer experience, revolutionize our customer interactions, drive improved pharmacy outcomes, deploy our vast resources more effectively and integrate our omni-channel retail experience.

At the same time, this ecosystem rapidly builds on our existing data resources and customer understanding to help drive further growth across the business. We've made tremendous progress scaling our technological and customer assets. And we've announced previously, we have partnered with the absolute best technology innovators across the industry to accelerate our ambitions.

The early impact of this work has been seen throughout the year. But in recent quarters, we really began to see the flywheel effect kick in as the number of people using our customer engagement platform became significant. This cycle of delivering growth from insight-driven personalization in turn provides even more insight, forming a core element of our customer-focused future strategy.

In the U.S. alone, we have one of the largest and farthest reaching physical networks in the country with a huge body of highly trained and capable staff. Our team includes over 26,000 licensed pharmacists with regular and frequent interactions with some of the highest cost and highest dependency patients in the country. We have relationships with all the main payers across all the areas of pharmacy, and we operate on most of the best corners of America.

We also have over a century of experience as a credible independent expert when it comes to health and well-being products, services and advice. Our neutrality in the broader health care ecosystem is a tremendous asset, and it's one we intend to deploy going forward.

In the past few years, we've invested to develop our capabilities in health care services, both within the company and through strategic investments. This allows us to offer a range of services in a variety of ways that simply could not be provided through the pharmacy alone.

Now of course, it's important to ensure that our offering and strategy are relevant and move with the needs of the market. So the skills and experience we need to drive the company must also change over time. We're working hard to complement the huge range of experience and expertise we have in our management and our executive team by infusing new talent, new skills and fresh ideas. And I guess I'm a prime example of that. And this combination of existing and new will form a key part of the real magic that will deliver the transformation of our business and our business model.

Additionally, we have a strong understanding of our customers, the challenges they face and the hopes, the fears, the passions and the problems and those problems that influence their health care and lifestyle decisions. In fact, I'm confident that this is the secret sauce which will allow us to elevate all of our other strengths and assets to the next level of delivery and operational excellence.

It's the deep relationships that we have with our patients, whether they're looking for help in managing complex and awful debilitating health conditions or seeking advice and resources to help them effectively manage their well-being or trying to balance their own health with those they love and care for. These people turn to us week after week, year after year. And we know that we can profoundly change their lives for the better by integrating their care, improving health outcomes, providing lower cost than the existing health system. We're uniquely positioned to play a larger role in the health care ecosystem, something I'll talk to you about a little bit later this morning.

So to summarize what we've covered so far. As we head into our new fiscal year, we're going to focus on cultivating our strengths, sharpening our execution and investing in our future. And of course, today, our aim is to give you a view of how we see our business developing and growing this year.

But we'll also go well beyond that with our long-term growth algorithm, which James will cover more with you later. And how we're going to get there has everything to do with the purpose and vision that unite us, which we're going to speak a little bit more about now and then go into our strategic ambitions, fiscal year '21 earnings, fiscal year '22 guidance and future growth.

I believe this will be the first time we've given this level of insight into our longer-term thinking. But I believe it reflects the extraordinary level of detail we've gone into with our review, with our planning and our analysis and the confidence we have in the strategy we're pursuing. It also shows our ability to transform this business and deliver sustainable growth.

We have an overall plan that will deliver sustained growth and profit based on robust, prudent and, perhaps most importantly, integrated health care, pharmacy and retail strategies. We've been actively working on our new health care initiative. And we are well on our way to delivering on our ambitions for this new business area.

We are actively putting in place the capabilities we need to deliver on our new operating model and to drive growth in our business. We are committed to enhancing communication and transparency to all our stakeholders, including you, our investors, and the financial community overall. And all of this will be delivered through a revitalized strategy, underpinned by an intensified focus on outstanding execution to drive strong growth and economic returns.

So let's turn now to talk briefly about the work we've done on the culture at our company. And what do I mean by that? Basically, I mean how does it feel to work here? How do we interact with each other and with our stakeholders? And what are the principles that unite us and inform our actions? I am a firm believer that every truly great company understands that culture needs to be at the center of their success.

The legendary management consultant Peter Drucker once famously said, "Culture eats strategy for breakfast." And what he means by this is you can have the best-laid plans in the world. But if you can't retain and recruit high-caliber talent and if they're not motivated to work hard and together as a team towards shared goals, you'll never accomplish much. Years ago, company culture was once sometimes viewed as a light and fluffy stuff. But when done right, we know now that it can drive so much more than that.

Strong cultures drive performance. Performance, since companies that are united by purpose, have been proven to outperform the general market 15:1. And with recruitment, with 52% of job candidates saying that they will only accept a job offer if they know and agree with the company's purpose, vision and values. Employee satisfaction, because 9 out of 10 people are willing to trade a percentage of their lifetime earnings for greater meaning at work. Customer retention, which is proven by the fact that 87% of consumers would purchase a product based on values and because the company advocated for an issue they cared about.

With this in mind, one of my first goals when I joined WBA was ensuring that we are known among the world's best companies for our culture. So in the last 6 months, we brought in some leading experts in this field to assess where we are today and where we need to be. We implemented initiatives where we listen closely to team members at all levels and in all corners of the company, all around the world.

As a result, we evolved and updated our company's purpose, vision and values to be our guiding light as we move forward and to influence our decisions, both big and small. As you see here, our new purpose statement: more joyful lives through better health. We're referring here to physical, mental and emotional health. And that can come in the form of a life-saving vaccination or can just be as simple as providing a great shade of lipstick that lifts someone's spirit.

Our purpose is our why, our enduring reason for being and the difference we want to make in the world. Next, our vision, and that is to be the leading part and well-being for all. This is the what, a company-wide aspiration over the long term that is measurable, unifying and delivers on our purpose.

Our vision is designed to be built on our core strengths as a company and expand on what we can offer our patients and customers in the future. And when we say all here, that means across every neighborhood among every community. As you can see, we looked at this statement word by word to make sure this is something simple, tangible and, most importantly, relevant, relevant for our colleagues every day. It allows them to measure their work against an overarching company target. And of course, our purpose and vision are also the foundation that we've built our core strategy on.

We distilled our strategy into 4 priorities, all of which work together toward 1 central aim to deliver advantaged growth in community health care while transforming our core business. We have defined the 4 strategic priorities, as you can see here.

First, we will transform and align the core businesses. John Standley is going to take you through this in detail. And while our international leaders Seb James and Annie Murphy will be joining us remotely for the Q&A, in the interest of time, I've asked John to talk you through the transformation work in the international businesses as well as his own business areas.

James will then give an update on the transformational cost management program as part of this element of the strategy. We've seen tremendous success and momentum within that program, and it will be critical as we continue to fund our journey.

The second strategic pillar is our ambition to build a range of consumer-centric health care solutions, which will form the engine for our next phase of growth. I'm excited to take you through our plans, including some of the latest news on investments, partnerships and the work we've done internally to build out our health care strategy.

We'll also cover the evolution of the business model of these services and how we will see them developing in the coming months and years. We have a strong view on how our assets can help connect this ecosystem together, creating a unique position for Walgreens and helping to demystify health care for consumers.

Next, given the amount we have to do and the need to focus our resources, our third strategic priority is to refocus our portfolio of business interest. This will help us optimize the use of our resources, most notably, our management and executive time and our financial assets. It's absolutely critical that our portfolio of assets strongly connect back to our overall strategy.

I spoke with you earlier about focus. Focusing how and where we spend our time and resources is a critical enabler of our strategy. James is going to take us through the work already underway on this. We've made some tremendous progress already, but more work remains.

I've already touched on our final core strategic priority to build a high-performance culture and a winning diverse team within the company. I'm very excited to share with you several key hires that I believe will help us build upon our momentum and accelerate our growth ambitions.

So let's ask John now to take us through the first strategic priority to transform and align the core businesses. John?

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

Thank you, Roz. I'm really excited about the new direction of the company and the strong pivot into health care. The strategic investments we are making will enable Walgreens' retail pharmacy business to create coordinated care models that will help our customers and patients successfully manage their chronic disease and realize better health outcomes and ultimately make Walgreens a more valued member of the health care ecosystem.

The strong pivot into health care, combined with the investments and improvements that we are making in the core business, will not only allow Walgreens to capture more share of the close to $1 trillion in the integrated pharmacy-led health and well-being market but also grow our presence in the $1 trillion health care services market. And Walgreens is well positioned to do this with our national network of approximately 9,000 convenient locations, our 26,000 pharmacists and our 54,000 pharmacy technicians, combined with the transformation of our core business to better help chronic patients successfully manage their conditions.

Chronic patients make up 60% of the adult U.S. population but incur 90% of U.S. health care costs. And we have more access to those patients than any other provider in the care continuum. When we attract new chronic patients, they become our best patients. Today, we care for 35 million chronic patients, contributing 84% of our revenues. And there's much more we can do to help these patients have better outcomes.

To complete our transformation, we're focusing in 4 key areas: building the pharmacy of the future to support and enable our health strategy, reimagining retail through expanded health and wellness offerings and mass personalization, accelerating our brands and digital offerings and expanding our transformational cost management program.

As we think about how we will build the pharmacy of the future to enable our health care strategy, our pharmacists and technicians are foundational to everything we do. They've always played an important role in the communities we serve. But the trust and relationships our pharmacists and technicians have with their patients have deepened over the last 18 months as they have delivered critical medications and vital vaccines and testing during the pandemic.

And looking forward, the investments we are making in central fill, digital capabilities and new roles will allow our pharmacy teams to have an even bigger impact on the communities we serve. To deliver the pharmacy of the future, we're working in 4 key areas: reducing the time required and cost to fill prescriptions, reinventing the omni-channel experience, accelerating growth and expanding our care model to provide additional clinical services.

To free up capacity, reduce both our cost to fill existing prescriptions and our incremental cost to fill new prescriptions and also reduce inventory, we are building a nationwide network of micro fulfillment sites using cutting-edge automation technology from iA, a company we recently made a majority investment in, that will leverage our existing AmerisourceBergen distribution network to efficiently fill prescriptions and quickly get them to our pharmacies.

Today, we have 2 micro fulfillment centers that are operational, serving over 1,000 pharmacies in the Phoenix and Dallas areas. We'll have an additional 9 centers to go live by the end of fiscal year '22, bringing the number of pharmacies served to around 3,900. And by 2024, we will have 22 facilities serving over 8,500 pharmacies. And we expect to achieve a $1.1 billion working capital reduction by 2025. In addition to our investment in the micro fulfillment sites, we are also expanding our centralized services capabilities to free up even more time for our pharmacy teams.

Further, we are building a new pharmacy dispensing platform that will make it easier for our pharmacists to fill prescriptions, manage inventory and provide additional clinical interactions. Components of the new dispensing platform have already begun rolling out to stores with additional components being released in phases through fiscal '24. These investments are critical because they provide us the capacity and clinical tools we need to grow our prescription business as well as provide additional health care services.

I have a short video that shows how the impressive new micro fulfillment sites operate, and we'll let you hear from the team bringing this to life.

(presentation)

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

Other key components of the pharmacy of the future are our health system collaborations and specialty pharmacy. Specialty pharmacy is the fastest-growing segment of pharmacy from a cost perspective and now makes up more than 50% of the total U.S. pharmacy spend. 75% of all specialty pharmacy prescriptions originate in health systems, which is why our majority investments in Shields makes so much sense. Shields extends Walgreens' leadership position as a specialty pharmacy integrator to complement our existing on-site, community and central fill assets and will create ongoing synergies.

We have a long history of working with health systems, with 175 Walgreens pharmacies on-site at health systems and 211 health system clinics on-site at Walgreens. In addition, as value-based care plays a bigger role in health system economics, we have the opportunity to help them reduce costs and drive better outcomes through collaborative care models. As we think about the renewed role and relevance of community pharmacy, we see great opportunity to expand the scope of practice of our pharmacists to deliver additional services and grow revenues.

COVID-19 sparked care site migration from primary care physicians, hospitals and even workplaces to pharmacies. We've administered more than 40 million COVID vaccines to date and have achieved 21% share of all COVID vaccinations administered in the fourth quarter. And we believe the transition of services from traditional health care settings will continue beyond the pandemic. 61% of health care leaders expect care delivery in nonclinical settings to accelerate post-COVID, and 60% of patients receiving care in hospitals would be willing to receive care in a lower acuity setting.

While virtual care is expected to play a continued role, in particular to review test results and for follow-ups, there's still a preference for first interactions and initial diagnoses to be in person. For Walgreens, in the short term, we're focused on maximizing the administration of COVID-19 vaccinations and testing while retaining new patients and, longer term, will leverage their preference for in-person interactions with our deepened relationships and national footprint to accelerate our transition to becoming a broader care provider.

And although we are in early days, we continue to gain traction, expanding the role of pharmacists to deliver pharmacy and health care services. For example, we are serving as a trusted provider of COVID-19 rapid testing, administering over 16 million tests to date. And we will leverage testing technology innovations to introduce new points of care diagnostics, including RSV, pneumonia, strep and STIs. Additionally, we know that closing care gaps for chronic conditions will drive better outcomes, and we're already piloting this in several markets.

In Idaho, we're partnering with Cambia to identify high-cholesterol patients with care gaps, providing them with liver function test kits, and our pharmacists can prescribe statins based on the lab results. We have A1C pilots in 4 states, where we're partnering with 3 payers to provide HBA1c care gap closures for high-risk diabetic patients.

We've launched pilots in 2 states to reach HIV PrEP patients as only 18% of the 1 million patients who are eligible are on therapy, and 13% of the 1 million people living with HIV are unaware. So we have HIV testing pilots in 2 states, and we estimate this could grow to $26 million in revenue by fiscal year '24. And we're also conducting hep C testing in some states.

Although many of the health care services we provide today are reimbursed based on fee-for-service, we believe that growing outcomes-based health care models will allow us to participate more broadly in the value-based care marketplace. A Lancet study from October of 2020 estimated that approximately $730 billion of health care spend is attributed to modifiable risk factors such as BMI, blood pressure, A1C, diet and smoking, and is concentrated in several key conditions led by diabetes and cardiovascular disease. Further, medication nonadherence is estimated to cost the health care system between $100 billion and $290 billion per year according to NACDS.

We know collaboration is key to addressing adherence and improving outcomes. So we're executing at-scale programs in P4P contracts with payers and increasing performance year-over-year. And we've developed a collaborative care practice agreement with VillageMD that allows our pharmacists to complete bridge refills, formulary interchange and prior authorizations. And we're providing clinical consultations to VillageMD patients. You'll hear more about our VillageMD partnership from Roz shortly.

Shifting to our second priority, to support transforming the core, I'd like to talk about how we're reimagining retail through our health and wellness leadership and mass personalization. Key to enabling this reimagination is the recent launch of the myWalgreens program, which established a powerful customer engagement platform to provide better insights to meet the needs of our customers.

Given the opportunity to expand our relationships with our existing and chronic patients and attract new ones, there's meaningful headroom to grow our business. We're well positioned to capture this opportunity. And we know what we need to do to win, including better understanding our customers to provide personalized health and wellness recommendations; ensuring our pharmacists and technicians are available to provide expert health advice, both online and in-store; and gearing our loyalty program rewards towards better health among top chronic customers.

We launched our myWalgreens program in the midst of the pandemic. Since then, we have enrolled more than 85 million members, increased the program NPS by 20 points, delivered more than $1 billion in attributable revenue and increased our marketing effectiveness. More importantly, we can now connect directly with customers, including nearly 53 million e-mails, nearly double from a year ago.

We believe the key to growth is personalized offers and advice. And when we say personalized, we mean not only to what you buy but to who you are and your specific needs, providing reliable, clinically appropriate information. That's why we're modernizing the retail health experience and developing an industry-leading omni-channel personalization engine built on cloud technology with world-class partners.

Let me show you a short video that illustrates how our mass personalization approach is driving engagement.

(presentation)

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

Our success with mass personalization has created an opportunity to expand alternative profit businesses, including media advertising and financial services. Last December, we introduced Walgreens Advertising Group to capitalize on the retail media category, which is projected to grow to $100 billion industry. Not surprisingly, digital is driving the growth, and 70% of all U.S. media is expected to be digital by 2023. With the capabilities we are building, we believe this will be a significant opportunity for us.

We launched Walgreens Advertising Group in December 2020 and to date have executed more than 900 campaigns and activated with over 200 brands. More recently, in August, we launched the industry's first credit card that rewards customers for healthy choices. We're targeting to reach well over 1 million active credit cards.

The third theme I want to discuss related to transforming the core is accelerating our product brands and digital offerings. The key initiatives driving this area of our transformation are: building on our leading own brands innovation through stronger brand development; expanding our omni-channel offering to meet the needs of our customers where, when and how they want to shop; and dramatically expanding the best health and wellness assortment and offering easy, better-for-you product options; and making health and well-being products more affordable through both pricing and value.

Walgreens' own brand ambition is to reach $4.7 billion in revenue and 18% penetration by the end of fiscal 2022. We have plans for rapid innovation and continued growth to reach our longer-term goal of 22% penetration by 2024. We'll also reimagine our retail offer with better-for-you products, including in underserved areas, and we're already seeing a strong customer response in our pilots. And we'll complement these offerings with our differentiated expertise, personalized support and integrated experience.

Our digital transformation was accelerated by COVID-19 as we continue to invest in omni-channel capabilities that delivered what customers needed. Last November, we launched curbside pickup in as little as 30 minutes nationwide and have completed more than 10 million same-day pickups. In spring, we expanded to nationwide same-day home delivery across multiple marketplace platforms, bringing our total same-day home delivery and pickup transactions to more than 23 million. The combination of these expanded digital offerings, combined with our e-commerce ship-to-home offering, grew our e-commerce revenue by over 100% in the fourth quarter of fiscal 2021.

So how will we fund all of this transformation while investing in growth? It will require comprehensive retail management. So we'll do that by optimizing existing investments to improve value perception amongst our best customers. We are shifting investments from mass promotions to mass personalization. In the midst of the pandemic, we transitioned away from 18 million weekly print circulars to a digital circular that, this month, will be fully personalized to each individual customer.

In addition, as I mentioned earlier, the new myWalgreens credit card provides the opportunity for customers to earn even more value. And we are looking at further evolving our loyalty program to reach our best customers. We'll also review product assortment, own brand positioning and customer preference to both better meet customer needs and improve cost-of-goods efficiency. We'll also continue to leverage purchasing groups to create additional customer value.

At the same time we're transforming our digital platforms and product offerings, we are modernizing our store experience through our format strategy, store technology and strategic partnerships. Walgreens historically operated mostly cookie-cutter stores with similar offerings across the country. We are reinventing our customer offer and developing a portfolio and multi-format approach to our assets.

We are going to expand our store program this year and transform our prototypical store of 12,000 to 14,000 square feet with multiple customer propositions, including the introduction and development of a new core health and well-being retail products offering, featuring better-for-you products; extending our retail health presence with over 160 VillageMD locations by the end of 2022, providing patients an integrated primary care and pharmacy experience; and continued addition of LabCorp locations for a total of 375.

In addition, we will have opened nearly 100 small-format stores by the end of 2022. We will wrap our physical store reinventions with digital capabilities and modern technologies to reimagine the customer experience. This will include the previously discussed digital innovation to help customers live healthier lives with personalized recommendations and advice and omni-channel fulfillment options.

In summary, we have a great opportunity to grow our business by transforming the core to enable our health care strategy. We are building the pharmacy of the future, reimagining retail through expanded health and wellness offerings and mass personalization and accelerating our brands and digital offerings. We are committed to being transparent regarding our progress towards this future, and James will cover the financial goals later today.

In addition, we've established key KPIs to measure progress against important areas of our strategy, including our TCM cost savings, own brands penetration and alternative profit income. Our goals are to achieve the following for these KPIs by 2024: an additional $1 billion in cost savings through our TCM program, 22% own brand penetration and $300 million of alternative profit income.

Now let me take a couple of minutes to give you an update on Boots U.K.

(presentation)

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

Boots continues to accelerate its omni-channel transformation to grow its portfolio. They have the #1 health and beauty website in the U.K. and have seen 3x growth. Online sales is approximately 20% of Boots' total retail sales, and AOI has grown 2x over fiscal year '20.

Boots is also transforming health care through testing, vaccinations and digital services. To date, Boots has delivered more than 3.7 million COVID-19 tests and more than 800,000 first and second COVID-19 vaccinations since January 2021. Now Boots will support the NHS to deliver COVID-19 booster vaccinations in 55 of its stores in England. During their COVID-19 booster vaccination appointments at Boots, patients will also be offered a free NHS flu jab, wherever possible, if they are eligible and subject to supply in store.

And Boots continues to grow its telehealth offerings, now with more than 100 health care and pharmacy services available to patients, including online doctor services for 45 health care conditions from skin conditions to sexual health and family planning, alongside weight loss support, diabetes testing and menopause treatments. The Boots Online Doctor services can provide quick access to advice and prescription-only medicine without having to see a GP, through online consultations that can take as little as 5 minutes to complete.

Boots is also investing on the retail side of the business by strengthening its beauty offering. More than 40% of beauty products in the U.K. are purchased at Boots, making it the #1 beauty destination in the U.K. And to continue that momentum, Boots has introduced more than 60 new beauty brands in the last 18 months, including Anastasia Beauty Beverly Hills (sic) [Anastasia Beverly Hills], UOMA Beauty and BITE Beauty.

Boots is also investing to enhance the in-store experience with more than 100 stores completed as part of a multi-format store strategy that aims to provide customers with greater access to the world's leading beauty brands. Additionally, over 100 new beauty specialist roles will be added as part of this next phase in the beauty reinvention project.

There are now over 700 Boots beauty specialists across the U.K., and their role is to provide personalized, brand-neutral beauty and skin care advice to customers for free in stores. They are fully trained by Boots, including in empathy training, a unique program based on brain science and human emotions, which allows them to further understand customers' needs. An additional 830 Boots MacMillan beauty advisers can provide support to customers going through cancer treatment with free face-to-face beauty advice.

Boots is one of several proof points of WBA's leadership in the beauty space. And we are continuing to grow our beauty brands portfolio in the U.S., the U.K. and internationally. In the U.S., No7 beauty company currently delivers sales of around $235 million, with the U.S. being one of the largest growth markets, expected to grow more than $200 million over the next 3 years. In the U.K., our beauty brand sales are $450 million today, and we recently launched a direct-to-consumer offering to reach even more customers. In China, we're in the market with Soap & Glory, and we'll launch No7 there in 2023.

Now let me bring up James Kehoe, our Chief Financial Officer, to talk about our transformational cost management program. James?

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

Thank you, John. I am delighted to report that our transformational cost management program has delivered very strong results. We have already achieved cumulative cost savings of over $2 billion, and this is 1 year ahead of our original goal. As a result, we are expanding the TCM program and raising the savings goal to $3.3 billion by 2024.

Let me give you a little bit of history. We originally announced the program in December 2018 with a savings goal of $1 billion. And the savings were intended to offset inflation and volume impacts and to fuel long-term growth investments.

We have consistently delivered strong results, raising the goal for targeted savings a number of times, with the most recent target being in excess of $2 billion of cost savings by fiscal '22. As you can see, we have already delivered savings of $2.1 billion, with around $800 million of savings in the most recent fiscal year.

Over the period, SG&A efficiency has improved by approximately 190 basis points to 17.7% of sales. We are now expanding the program and targeting cumulative savings of over $3.3 billion by fiscal year '24. We have a number of in-flight initiatives that are showing strong momentum. And we have built out a comprehensive funnel of new and innovative initiatives. We have also updated our projected implementation costs to a range of $3.6 billion to $3.9 billion.

Here, you can see the broad scope of initiatives that we are driving across the business. I won't drain this slide, but I will highlight one example just to give you a sense for the evolution. We have made good progress in establishing global business services in more traditional areas such as IT, finance and HR. And in all cases, we are delivering both cost savings and capability advancements.

We are now expanding the business services concept across a wider scope of our business. We are reinventing how we operate, and this will make us more effective and efficient as we build out more advanced capabilities and technology.

In summary, we are raising our cost savings goal to $3.3 billion by 2024. And we have identified a comprehensive set of initiatives to deliver or exceed this goal.

And with that, let me pass you back to Roz.

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

Thank you, James, and congratulations to you and your team on delivering such strong results on the Transformational Cost Management program.

Now as I promised earlier, I'm going to cover in more depth our next growth engine and our future as a health care company. But before I go into all those details, I want to share a personal story with you about the last months of my mom's life, to provide just a little bit of context.

So this was 10 years ago. She had been diagnosed with several serious health issues, including diabetes, cardiovascular disease, high blood pressure and, as a result, kidney failure. While it was awful seeing her suffer from all those ailments, she was relieved to have good health insurance after 30 years of working in the auto industry.

And we were fortunate to have a large family around her with the resources and the expertise to provide a high level of care. In fact, I'm very proud to say that my sister is a pharmacist. And she's married to a doctor of internal medicine.

But even in our situation, we found the experience of caring for our mom to be incredibly confusing and unwieldy and burdensome. We had to navigate across several health systems and different doctors' offices, including a nephrologist, endocrinologist and a cardiologist. And my brother had to take time off work every other day for several hours to take her to her dialysis.

Even worse, the bills from all these visits kept coming in, sometimes several months after the original appointments. And it was very hard to keep track of what checks needed to be signed and when. This was a time when our family should have been able to focus mainly on just enjoying our remaining moments. But instead, we were distracted with many unnecessary tasks and details.

And I know this story is one that several of you can relate to as well. And many families and patients find themselves in far worse situations than this. But I just wanted to mention this experience because what I'm about to discuss with you is deeply personal to me. And I want to help our patients avoid similar scenarios in the future. So the question is how does our company plan to do that.

As I mentioned earlier, we have momentum in -- and proof that we can execute at pace. And we have demonstrated that we can provide impactful results at scale. The pandemic further affirmed that the timing is right for this new phase of our company, that consumers are embracing retail pharmacy to manage their health care more than ever and that we're building on this renewed focus on health and well-being as we expand Walgreens' presence in health care.

We have also decided the time is right to accelerate our ambitions through some strategic investments. And I will share more with you on that in a few minutes.

Living through this pandemic has taught us many lessons and has shown us more than ever that health care is inherently local. The needs of communities are diverse. And Walgreens has a deep understanding of the neighborhoods and communities we're in, each and every one of those corners and intersections on streets across America.

Consumers are searching for ways to fit managing their health into their lives and are thinking about their health and well-being holistically. Walgreens is well positioned to meet them where they are, be it through our stores or digital channels.

As health care is local, our scale and reach are critical to engage consumers. And with our diverse assets, we can provide services tailored to the community. We have 9,000 of the best locations in the U.S., which gives us the big strategic advantage as we accelerate our journey.

So with all that said, I'm incredibly excited to announce today the launch of Walgreens Health. This is a new segment within our business that will focus on bringing together our health care ambitions, empowering up our new and existing assets to support the journey. Walgreens Health allows our patients to view us as a friend in health care. And we want to demystify health care for them.

Like I talked about with my mom, it doesn't matter where you come from or what resources you have at your disposal. Health care is complex. So we plan to bring equitable, personalized, whole person health care to local communities across America. We will relentlessly deliver healthier outcomes, focusing on people's holistic well-being by integrating world-class technology and an unbeatable national footprint across the connected community of payers and providers.

We are creating a unified open and connected health experience that gives people anytime, anywhere control over the personalized care they need, wherever and however it's best for them, in store, at home, online and via mobile app. Creating better outcomes for consumers and partners is critical to us. And we can do that through our ability to maximize Walgreens' diverse assets. This is where we get our leg up. This is where we accelerate. This is how we differentiate.

As we apply our lessons learned and core principles, we realize that our health care strategy must be both consumer- and partner-centric, and payers, providers and patients are all part of this equation. It will be important to create value for both our consumers as well as our partners. We will engage consumers in their health care and leverage people and technology to address complex and chronic conditions like the ones I described earlier that my mother suffered from. And we can offer aligned payment models, which you'll remember was also an issue in my mother's case, and that can lead to better health outcomes and lower costs.

First and foremost, we will focus on the consumer or patient by creating delightful and personalized experiences. Walgreens has trusted consumer relationships and a unique ability to engage them in meaningful and personal ways. Payers and providers seek a strategic partner, a partner that can engage consumers and help them improve health outcomes and lower total cost of care with the variety of services we can offer physically, digitally and in the home.

Walgreens Health is a nationally scaled, locally delivered business with a diversified multi-asset strategy. We will maximize all the strengths and assets that Walgreens has from our trusted consumer relationships, our community presence, our care teams, our deep partnerships with payers and providers across the country.

Today, many patients and their caregivers are overwhelmed as they try to manage across different health conditions, providers, appointments, bills and medications. Our new Walgreens Health greatly simplifies and improves that experience.

We have established a tech-enabled care model, powered by a health care platform that is omni-channel and personalized for the consumers we serve. This platform will create a pragmatic and innovative experience for consumers across their journey and then knit together the products and services from Walgreens Health and our partners.

For example, imagine the day when we could offer services across the care continuum, including finding the right doctor, scheduling appointments, managing chronic conditions, obtaining insurance records, viewing health records, accessing wellness services, setting up health devices, providing nutritional and preventative information and much more. Ultimately, our goal is to move towards value-based care and directly impacting cost and outcomes.

To achieve our ambitious goal of redefining the health care experience across this country, we will strive to manage the total health of populations through value-based arrangements. Our go-to-market strategy starts with leveraging our strengths and delivering at the local level and addressing gaps in care through our core assets. This is a means to both directly engage consumers as well as create immediate value for our payer partners.

Over time, we will then look to bring the tools and services to enable our provider partners to more effectively manage populations longitudinally and engage their patients outside the doctor's office. And as we enter into value-based and risk arrangements, we will look to bring owned and partner care delivery assets so that we can manage to clinical outcomes and take delegated risk on populations.

As I mentioned earlier, I spent a great deal of time working with our team to identify our best opportunities for the future. And as a result, today, I'm extremely excited to share a couple of strategic investments with you.

To show our commitment and our conviction to accelerating our strategy, we are pleased to announce that we have made strategic investments in VillageMD and CareCentrix, taking a majority ownership position with them. These assets accelerate our capabilities in the market, our impact on the care journey and our ability to manage rising costs in high-risk patients who drive an outsized proportion of the spend. These are the same patients who frequently visit our stores and meet with our pharmacists. And we are uniquely positioned to engage and impact their care across the continuum.

For us to better care for them beyond the pharmacy, our ability to deliver care through owned and partner assets is critical. We know we need to bring forward capabilities in the primary care and post-acute care spaces of their care journey. Not only does VillageMD and CareCentrix complement our expertise in retail and specialty pharmacy, but they build upon our portfolio of assets across our newly launched Walgreens Health Corners.

Now I want to share a few more details about the exciting work of both of these companies. I spoke with you a moment ago about the consumer journey through health care. CareCentrix is focused on that final stage in the journey, post acute. Basically when the patient goes home, this is the point in the journey where many folks feel abandoned or lost. I certainly know we did when I was taking care of my mother.

CareCentrix makes it easier for both caregivers and patients to understand their options and connect with the expertise they need, which lowers readmissions significantly, resulting in lower total cost of care. Our stake in CareCentrix really helps us as we strive to play a role across the care continuum.

While we already have a fantastic partnership with VillageMD, our ownership stake gives us a greater opportunity to expand and accelerate while further coordinating our assets to drive better outcomes. We already know how to work with VillageMD. We know how to scale their model. We built co-located clinics at many Walgreens locations and have continued to learn while we did. And there are great opportunities to bring the physician and pharmacist together to improve overall care.

One thing that is very important about VillageMD and a primary reason we started this partnership to begin with is that they are focused on all patient populations: Medicare, Medicare Advantage, Medicaid, commercial and the uninsured. This was a really important aspect for us since it allows us to serve patients across their life journeys. For most people, your primary care doctor stays with you throughout your life. And we think VillageMD's model really supports this vision.

I'm also very excited to share that this expanded partnership will increase the number of co-located clinics that we had originally planned, going from 600 to over 1,000. And lastly, this model is focused on value-based care, which completely aligns with the strategy for Walgreens Health that I shared with you a couple of slides ago.

I'd like to take a moment to share a video of how Walgreens and VillageMD partnership is working today. This is just the beginning, but I hope you'll share my excitement about our potential here.

(presentation)

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

Now I'd like to share more about the organic work we've been doing beyond CareCentrix and VillageMD. Over the past year, we have developed and are bringing to market a new offering, the Walgreens Health Corner, which includes both digital and physical channels.

The digital channel of the Walgreens Health Corner will empower our customers to feel more in control of their health by connecting their daily health to the accessible and high-quality services they need, whenever and wherever. The physical channel of the Walgreens Health Corner takes the digital experience to the next level by bringing to consumers in-person expertise and care from someone they trust in their community.

We have started our development in the digital channel of the Walgreens Health Corner in 2 key areas. The first area is the consumer and caregiver app, which, one, allows consumers to access the programs and services that they need digitally. Secondly, it drives engagement through simple nudges and friendly reminders to help them take the right actions to better manage their health and follow what their doctors are recommending. Thirdly, it makes caregiving less hard and emotionally taxing by enabling caregivers to manage the tasks, medications and appointments of their loved ones. It also will provide caregivers with access to support resources for themselves to help them better manage their own needs.

The second area is the health marketplace, which will curate personalized programs and services that are most relevant to a consumer and covered by their insurance. Also, it integrates back to the provider to help them select the right programs at the point of care and to connect back to the physical channel of the Walgreens Health Corner by bringing forward guidance, coaching and chronic condition support.

Leveraging the community presence of Walgreens stores, we have already delivered into market and operationalized Walgreens Health Corners. They are in 40 locations open today. They are working, and our health plan partners love them. They provide a differentiated experience to deliver individual clinical and nonclinical services.

The physical channel of the Walgreens Health corners are comprised of a welcoming physical space in our stores with a private health room; a technology bar that provides access to devices and technologies, such as lifestyle products and remote patient monitoring devices that help consumers manage their health and chronic conditions; and the health advisers, who are licensed clinicians, pharmacists or nurses, who are available to deliver health care services, provide advice and guidance and build a local trusted relationship.

So just to clarify the difference between what we've discussed earlier, the Walgreens Health corners are staffed by clinicians such as pharmacists and nurses, while VillageMD clinics are even broader services and are physician-led.

Next, I want to talk a bit about the strategic contracts we have in place with innovative payers across the industry, which provide Walgreens Health with access to over 2 million lives. We started with Clover Health earlier this year as our first partner in these services and are actively serving their members. In fact, as part of this program, we already have health corners in place today serving their patient populations. And we recently announced a strategic partnership with Blue Shield of California with a plan to launch new products and services to their members in the coming months.

The potential of partnerships like these are vast. And we continue to talk with many other plans across the country that are interested in a relationship with Walgreens Health. So this is just the beginning.

To bring to life the Walgreens Health corners, I'd like to share with you a short video featuring Clover members using our services, our health adviser team and our Clover and Blue Shield of California partners.

(presentation)

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

We already have 2 million lives in our ecosystem today through our existing partnerships. We expect that to scale quickly with over 10 million by fiscal year '25. 1 million of those will be in risk and that number doesn't include the VillageMD ambitions. And to expand our access to lives, it will be important to continue building a strong ecosystem of partners. Clover and Blue Shield are just the beginning. We are already engaged with other interested partners and expect to be well over 10 million by 2025. As we scale our access to lives and partnerships, we will continue to build out our very successful health corners. We will have over 100 by the end of this fiscal year and expect to reach 3,000 plus at scale.

Lastly, and as I mentioned earlier, our expanded partnership with VillageMD will allow us to scale the number of co-located clinics to more than 1,000 units by 2027. This will give us unprecedented reach and scale. We know that this is just the beginning, and we'll continue to share even more key metrics with you as this business gets closer to reaching scale. You have our commitment to an open dialogue as we continue to build this new healthcare segment.

So to sum this all up, the launch of Walgreens Health is a big bold move for WBA. It represents our commitment to care for communities across the country and builds off our core assets and long-established consumer relationships. We have already made major strides by making 2 new majority investments and care delivery with VillageMD and CareCentrix, launching and operationalizing Walgreens Health Corners, both physically and digitally, signing strategic contracts with 2 partners, providing access to over 1.8 million lives and putting in place an aggressive growth plan that will be executed through a balance of organic and inorganic activities.

We look forward to taking you along on this journey as we continue to rapidly grow this business. And with that, I'm now going to turn it over to James, who is going to cover a key part, I know you've all been waiting for. He's going to speak about how we're going to focus our portfolio and connect our investments and capital to our strategy. James?

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

Thanks, Roz. Our third strategic priority is to refocus the portfolio and optimize capital allocation. Ultimately, we aim to maximize long-term shareholder returns. We have refined our capital allocation principles and approach with a much sharper focus on both the U.S. and healthcare markets. Our portfolio transformation started earlier this year with the successful divestiture of our Alliance Healthcare business for $6.5 billion, achieving an attractive 12x EBITDA multiple.

Our focus has now shifted to 2 key areas. Firstly, we are optimizing our portfolio of equity investments. One recent example was a decision to increase our stake in Shields Health to 71%. Secondly, acquisitions must be aligned with strategy and prioritize our health care ambitions. You heard earlier from Roz that we are announcing 2 investments today. We have acquired an initial 55% stake in CareCentrix, and we have taken a majority stake in VillageMD. Both of these investments are targeting sweet spots in care delivery and value-based care and are fully aligned with strategy.

As we look at our capital allocation priorities, we expect to see a healthy balance of organic investments and strategic M&A. We remain committed to a growing dividend and returning excess cash to shareholders. And finally, we are very focused on optimizing our attractive portfolio of equity investments. We will assess M&A with an operational and financial lens. While we continue to seek attractive returns, ultimately, we will prioritize quality healthcare assets that accelerate growth and enhance capabilities or talent. Nothing new on our leverage goals. We will continue to target solid investment-grade, however, we may temporarily flex upwards for the right strategic acquisition.

Looking forward, there is a clear opportunity to optimize our equity investments. We have already assessed each investment in terms of strategic fit, synergy with WBA and potential for future financial returns. Obviously, we cannot share our conclusions, but our first actions do show a tendency to take majority positions when we are convinced that the investments are aligned with strategy and offer attractive long-term financial returns.

In the case of Shields, we took an initial 25% stake in July 2019 for an investment of $165 million. We have now invested a further $970 million to increase our stake to 71% with a future path to full ownership via a put/call structure. The acquisition of an initial 55% stake in CareCentrix and the $5.2 billion investment in VillageMD are key steps in bringing to life our healthcare ambitions. Looking forward, we do expect to make further changes to the equity investment portfolio, and we will communicate each strategic move as we get closer.

Let me now provide a little more information on the VillageMD and CareCentrix transactions. As Roz highlighted earlier, VillageMD is an incredible opportunity. It is a leading value-based primary care provider with 230 clinics in 15 markets. It operates in a vast market with a unique operating model, and it is poised for explosive growth as it builds out 1,000 VillageMD at Walgreens Clinics over the next 6 years. WBA is investing $5.2 billion to raise its stake in VillageMD to 63%.

Fiscal year '22 revenue is estimated to be around $1.3 billion to $1.5 billion, depending upon the transaction closing date. We expect the transaction to be dilutive with an impact of $0.08 to $0.15 depending upon closing date and the pace of their investments. Finally, we expect VillageMD will proceed with their IPO later in calendar '22, with WBA remaining the majority shareholder.

CareCentrix is an industry leader in the post-acute and home care sector, providing care coordination and outsourced benefit management services. The U.S. post-acute care market represents approximately $75 billion in healthcare spend annually and is considered one of the fastest-growing segments in healthcare. The $330 million investment is for an initial 55% stake with an option to acquire the remaining equity interest in the future. Fiscal year '22 revenue is estimated to be around $1.2 billion to $1.4 billion, and we expect the transaction to be slightly EPS dilutive in fiscal '22 and accretive thereafter.

My final slide brings it all home. This lays out the tremendous value of our equity investments. We estimate a valuation range of around $21 billion, the majority of which are healthcare investments. The investments range from majority stakes in VillageMD, Shields, CareCentrix and iA, to minority positions, such as our 28.5% shareholding in AmerisourceBergen and our 21% shareholding in Option Care. In total, this attractive healthcare portfolio is valued at around $20 billion. Given the large value of our equity investments and the launch of a new fast-growing Walgreens Health segment, moving forward, it will be increasingly important for the market to value WBA as the sum of the parts. Given the upfront healthcare investments, it may also be more appropriate to use revenue multiples to value the Walgreens Health segment.

And on that very positive note, let me hand it over to Roz for our fourth and final priority.

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

Thank you, James. And now I'm going to add a little bit more detail on our final core strategic priority, to build a high-performance culture and a winning diverse team within the company. You recall that earlier I discussed how our purpose and our vision are going to unite and propel us forward. And underpinning our purpose and vision are also our 4 core values, which we finally refer to as the 4Cs. They are: courageous, connected, committed and curious.

Courageous is about challenging the status quo, addressing conflict directly and driving informed risk taking. Connected is about reflecting the communities that we serve, understanding the needs of others and innovating together. Committed is leading with integrity, building on our legacy and striving boldly towards the future. And lastly, Curious. Curious is continuously learning and adapting following the science and the data and creating paths where none existed. You will be hearing a lot more about how we're carrying out our purpose, our vision and our values to deliver even better and more meaningful results in the future.

But of course, one key way we're going to supercharge our culture is with strong leadership, which is why I'm thrilled to share more about some of our most recent hires who reflect our future growth. We've added new talent and expertise across retail, healthcare, customer experience and HR in addition to our core business of pharmacy and health care. These new leaders bring a collective set of experiences across the healthcare and retail industries from organizations with strong customer-centric mindsets. This will be instrumental as we further innovate across every consumer touch point and work to define the future of health and well-being in the communities we serve. I'm very happy to welcome to the company, Holly May, Global Chief Human Resources Officer for WBA; Anita Allemand, Chief Transformation and Integration Officer for WBA; Danielle Gray, our Global Chief Legal Officer for WBA; and Tracey Brown, President of Retail Products, Chief Customer Officer for Walgreens; and Jeff Gruener, Chief Financial Officer for Walgreens. So welcome to all of our new hires.

At this point, I'd like to turn it back over to James, and he will take us through our fourth quarter earnings and fiscal year '21 financial highlights.

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

Thank you, Roz. Before getting into our long-term growth model and guidance, let me first give you some color on the fourth quarter and full year results. In summary, we had an excellent quarter. Adjusted EPS was $1.17, well ahead of expectations and up 28.1% versus prior year on a constant currency basis. Full year adjusted EPS was $4.91, an increase of 13.7% in constant currency. Overall, this result exceeded the guidance we provided at our third quarter earnings call, driven by higher COVID-19 vaccinations, strong U.S. retail performance and good execution across most markets.

We administered 34.6 million COVID-19 vaccinations in fiscal year '21. 6.6 million doses higher than the guidance we provided at our third quarter conference call. Demand for vaccinations accelerated as the delta variant cases spiked, and we executed strongly, achieving a fourth quarter market share of around 21%. Free cash flow increased to $4.2 billion. And following the completion of the Alliance Healthcare divestiture, we de-levered the balance sheet by $6.5 billion compared to last year. Strong execution was fundamental to the quarter. In the U.S., comp scripts grew 8.8%, including a 485 basis points uplift from COVID-19 vaccines. Underlying scripts grew 4%, driven by seasonal scripts. U.S. retail comps grew 6.2% with broad-based growth across most categories, fueled by our omnichannel and mass personalization initiatives.

The U.K. recovery is very much on track. COVID-19 restrictions were lifted in the middle of July, and we drove strong market share gains, especially in beauty, which grew sales by 24.8%.

Now let's look at the fourth quarter and full year financial metrics. Fourth quarter sales advanced 11.8% on a constant currency basis, reflecting strong growth from both the international and U.S. segments. Adjusted operating income increased 22.1% on a constant currency basis, driven by strong gross profit growth, and this led to adjusted EPS growth of 28.1% in the quarter.

In summary, EPS growth was of high quality. Full year sales increased 7.5% on a constant currency basis. Adjusted operating income increased 7.7% on a constant currency basis, again reflecting strong adjusted gross profit growth across both segments and savings from our transformational cost management program. Fiscal year total EPS was $5.31, a constant currency increase of 11% over prior year, despite the divestment of our Alliance Healthcare business on June 1 and the loss of 3 months of profit contribution. On a continuing basis, adjusted EPS was $4.91, a constant currency increase of 13.7%. As a reminder, our EPS guidance at the start of the year was low single digit. Lastly, on a continuing basis, GAAP EPS increased by $2.10 to $2.30 and this also reflects a prior year impairment charge of $2 billion and investment gains this year related to our holding in Option Care Health.

Now let's briefly look at segment financial performance in the fourth quarter. U.S. sales advanced 6.6% in the quarter, with comp sales increasing 8.1%, driven by 8.8% growth in comp scripts and 6.2% in comparable retail sales. U.S. adjusted gross profit increased 13.7% due to strong sales growth, improved pharmacy margins due to favorable mix and retail volume and margin growth. Adjusted operating income increased 16.4% as the strong gross profit more than compensated for costs related to the COVID-19 vaccination program and higher growth investments.

Turning to the International segment. And as always, I'll talk to constant currency numbers. Sales increased 52.6% in the quarter, including higher sales from the formation of our wholesale joint venture in Germany. Excluding this tailwind, sales were up 9.3%, reflecting ongoing recovery and strong execution in the U.K. market. Comparable retail sales increased 15% in the U.K., driven by a recovery of footfall, strong commercial execution and a successful marketing campaign. Adjusted operating income was $140 million in the quarter, up $129 million versus prior year, reflecting 32.7% growth in adjusted gross profit.

Let me now turn to our long-term growth algorithm. Before starting, please note that all references to EPS refer to adjusted EPS and all growth rates are on a constant currency basis. Our long-term growth will be highly influenced by the pace of healthcare investments. And over the long-term horizon, we see a clear path to a growth model that aims for EPS growth of 11% to 13%.

Starting in fiscal '22, we will ramp up healthcare investments to build out our long-term growth engine. And over the next 3 years, we expect EPS growth of around 4% with growth accelerating each year as the healthcare investments generate increasing returns. EPS will be in flat '22, rising to mid-single digit in '23 and accelerating further to mid- to high-single digit in '24. Beyond '24, the long-term growth algorithm calls for EPS growth in the low teens as the faster growing and higher-margin health care business hit scale.

Let me first bring you through some of the key assumptions. We do expect a gradual increase in our tax rate, and this is largely due to adverse mix due to a growing proportion of higher tax rate U.S. income. Please note that we have not considered any impacts from the current legislative proposals. While share repurchases are not a priority in the initial years, our long-term growth algorithm does assume sizable capacity for repurchase activity. As you have heard earlier, we have very good visibility into cost savings over the coming years.

Turning now to the International segment. We expect international AOI growth of more than 50% in fiscal '22, with a 3-year compound annual growth rate of 25% to 30%. This will be driven by mid-single-digit sales growth with fiscal '22 especially strong at 8% to 10% sales growth. Longer term, the growth algorithm assumes sales growth of 3% to 4% and mid-single-digit AOI growth. In the U.S., the long-term growth model is based on sales growth of 3.5% to 4%, with pharmacy growth of around 4.5% and front-of-store growth around 2%.

Gross margins will trend slightly lower with continued pressure from pharmacy reimbursement, only partly offset by continued gross margin gains from U.S. retail and the gross margin accretion coming from new businesses. SG&A growth will trend below inflation and well below sales growth as we continue to prioritize cost optimization and reinvention. Overall, this growth model leads to AOI growth of around 3%. Fiscal '22 will be an outlier, as the U.S. business will face some unique headwinds in the short term, including lower vaccinations, minimum wage and a loss of contracts in our AllianceRx specialty business.

Fiscal '22 sales will decline by around 8%, with 7 percentage points due to AllianceRx and 60 basis points due to lower vaccinations and testing. This leads to an AOI outlook of flat to slightly down for 2022. However, we do anticipate a return to revenue and AOI growth in the following fiscal year.

Let me now turn to Walgreens Health. We see considerable sales potential, and we expect this segment to post strong sales growth over the short, medium and long term. In 2022, we expect sales of around $3 billion, mostly from our recent M&A activity, and we expect the acquisitions to grow very quickly and achieve sales of around $10 billion by fiscal '25. Roz has already provided insights to our healthcare goals and objectives, and our organic developments are moving ahead at pace.

We expect the organic revenue opportunity to build over time to at least $3.5 billion, although it will take time to achieve scale as we build out our offering and partner with more and more payers and providers. Beyond '24, the long-term growth model assumes sales growth in the high teens. The margin structure will be attractive and higher than our current business, but it will take time to achieve optimal scale. Most of you will have a good understanding of the potential long-term margin levels for businesses such as VillageMD, Shields and CareCentrix. Over time, our Walgreens Health organic developments will trend to margins of over 25%.

The next 3 years will be an investment mode, and this will drive significant revenue growth as the segment grows quickly. We are providing specific AOI investment projections for the Walgreens Health organic development. In fiscal '22, we anticipate an AOI loss of over $200 million, rising to around $300 million in '23, before falling back to around $170 million in 2024 as investments subside and sales expand.

In terms of EPS accretion, Shields is immediately accretive to the tune of around $0.03 in fiscal year '22. CareCentrix is neutral to slightly negative in fiscal '22 and EPS accretive from '23 onwards. VillageMD will continue to be an investment mode for the foreseeable future with more than 800 clinics targeted by 2025. We anticipate fiscal '22 dilution of $0.08 to $0.15 depending upon the closing time line and the pace of investments. Beyond '24, the new healthcare segment should generate material sales and AOI and contribute around 7 percentage points of EPS growth. These assumptions underpin our long-term growth algorithm.

So let me now summarize. Post 2024, the EPS growth potential is solidly in a range of 11% to 13%. The base business will contribute around 3%. The Healthcare segment contribute 7 percentage points of growth and share repurchases contribute around 3%. In the near term, we anticipate EPS growth of around 4%, principally coming from the base business with the Healthcare segment contributing 0.5%.

Turning now to our specific guidance for fiscal year 2022. As I laid out earlier, we expect flat EPS with the base business growth of 4%, offsetting a 4 percentage point headwind from the newly established healthcare segment. The base business growth of 4% includes headwinds of 8 percentage points, mainly from lower COVID-19 vaccinations and higher core investments. These are offset by strong growth from international, higher ABC earnings and moderate growth in the U.S.

The AOI impact of our organic health care business is projected to be a loss of $200 million in fiscal '22, reducing EPS growth by 3 percentage points. And our health care M&A will lead to EPS dilution of $0.05 to $0.10 entirely due to VillageMD. Revenue is projected at $3 billion to $3.2 billion, but this does depend upon closing timing for the 3 transactions.

Turning now to phasing. We are projecting a strong start to the year due to higher vaccinations in the first half of the year and a weak prior year flu season. Overall, we expect first half EPS growth of 15% to 18%. In the second half of the year, we will be facing tough prior year comps due to COVID-19 vaccinations and higher healthcare investments. This leads to a second half EPS decline of 14% to 17%. Beyond fiscal '22, we project accelerating growth. EPS will grow mid-single digit in 2023 and mid- to high-single-digit in 2024. Beyond 2024, EPS growth will accelerate again to 11% to 13% growth, largely driven by our new Walgreens Health segment.

With that, let me now pass it back to Roz for her closing comments.

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

Thank you, James. So in conclusion of our prepared comments and presentations, you've heard a lot today and about how we're leading off of our momentum with a thoughtful long-term strategic plan that pivots our business deeper into health care. And James has outlined for us how that strategy impacts our expectations for earnings. Even factoring in the investments we are making in the coming months to develop our new business area, we believe we will see reasonable growth in earnings in the short term, but it will be mitigated to some degree in the immediate term, given the extraordinary comparable performance from such a strong year in 2021, and the need to make some strategic investments to accelerate our strategy for the longer term.

Looking forward, however, as the cost of investments give way to the returns we will get in the years to come, and as our health care businesses grow to a degree of scale, we believe this will lead to a healthy and sustainable double-digit EPS growth. But I want to make it clear, again, that we are not asking you to just take our word for what we are doing, you can see that the work that is already underway with our partnerships with companies like Blue Shield of California and Clover, and of course, through our investments in VillageMD and CareCentrix and Shields to help us accelerate our plans. This work we are doing to create a differentiated consumer-centric health care business is basically the key to unlock material, enhanced, long-term growth for the business while securing the future of the core business.

In my opening comments today, I told you what we aim for you to take away from our event, and so I want to go back to that. We've outlined today a plan to drive sustainable growth in our business, pivoting our focus much more towards health care and delivering a strategy that brings together a truly integrated, new and revitalized initiative in health care and pharmacy and retail. Our plans in health care will be symbiotic with our pharmacy and retail businesses, building on their strengths and giving us new and a differentiated engine for growth. We're moving at pace, building out what we need to internally and complementing it with investments to bring the initiatives, additional skills and resources and to accelerate our development of this new segment to our business.

We are acting quickly to build out the assets and capabilities we need to ensure success in this area and to form a platform for the new operating model. We've also developed a financial algorithm, which reflects this change in focus and business mix. We're committed to offer enhanced communication and transparency as a management team and as a business to all of our stakeholders. And we want to bring everyone along with us for this exciting journey.

Finally, but perhaps most importantly, I want to mention once again our revitalized strategy with this increased emphasis on health care. This strategy will go hand-in-hand with an intensified focus on execution, operational excellence and customer experience, and it will deliver growth. It will drive operational financial performance, and it will result in strong returns going forward in the short, medium and long term.

So in closing, I'm going to end in a rather unique way. Instead of saying we're wrapping up, I'm going to say, we're just starting, and we're bringing you along with this to a new beginning. Welcome to a new era for WBA, a new day, a new path forward, and now we'll take a quick break. Thank you.

(Break)

QUESTIONS AND ANSWERS

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Welcome back. I'm excited now to open up to Q&A. (Operator Instructions) With that, our first question comes from Lisa Gill of JPMorgan. Lisa?

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst*

Great. Thanks very much, Jay, and good morning. Roz, I very much look forward to finally meeting you in person in January, but let me just start with a question around your portfolio. We look at the companies that you've made investments in. Those are companies that we actually know pretty well and are very impressive companies. So my first question would be, why not buy them outright rather than just make the investment? And we think about making an investment where you have a majority holdership, how much of the strategic vision can you help to craft? How do we think about the locations that you'll pick together? And then just lastly, going to James' comment around optimizing equity investments, how do I think about your ABC investment going forward?

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

So Lisa, I look forward to seeing you, too, in January. So let me first -- I'm going to start this off and then I'm going to pass it over to James. So I think it's important to think about what we announced today around Walgreens Health. This is about a health care ecosystem, and it's customer-focused with tech enablement right in the center. And then when you think about the continuum of care and the investments that we've made, you can see that we're bringing those investments forward for a couple of reasons. First of all, it allows us to accelerate, and that is important to us. It also really concentrates on when we start with well-being all the way to post acute care, you can see how each one of these investments play a role.

The other thing I would mention to you is that we've already got a little bit of momentum in the business right now. You saw our fourth quarter results. And then I would tell you that some of the relationships we have, we know them very well. So it gives us that little bit of an edge in a way to really get this new opportunity moving forward. The other thing to think about is that think about FY '22 being our year of investment. And beyond that, you've seen the numbers where we see growth coming beyond those years. So this is a year of investment, and then being very, very focused about where we will invest and what makes sense to go towards the strategic intention that we have, right?

So we've been very deliberate about that, Lisa. And so when you talk about is, should it be partial investment, full stake. We're just being very strategic about that, and we're looking very, very, very detailed in terms of what's going to get us to that next level. I'm going to turn it over to James, so he can address your question on ABC and any other financial questions.

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

Hi, Lisa. So first of all, I would say, we haven't changed the M&A strategy quite a bit, because you will well know, many of our positions were minority positions. So the first statement, I would say, because -- what we would make is, we're making majority -- taking majority stakes. The reason being, and you asked why not a full acquisition. I'd point out, first, Shields and CareCentrix, both have a path to 100%. And in fact, in both cases, there's an obligation for us to go to 100%. So the majorities are just -- we have a rationale here. We believe we want fast-paced, agile and motivated teams focused on the business to build at. And we believe if we try as a company to manage each of these companies directly, we won't do them justice. So we want skin in the game. So we want management teams that are fully incented.

The last one, the one on VillageMD is a little bit more particular, given the tremendous opportunity we see there. We see it going through 800 clinics in the next 4 or 5 years and well beyond that in the long term. They will need considerable access to capital. And in this transaction, we're putting in capital for the first 5-plus years, but we believe a publicly listed entity will have more access to capital and a more motivated and a very focused team. And it will be the primary vehicle we will have for taking -- for primary care physicians in value-based care. So it's our primary vehicle. We haven't really taken any position on whether we ever move to full ownership, but we did make a statement in the presentation. We do see them on a path to an IPO during the course of 2022, probably sometime later in the year.

You asked about locations. We think we will build out the -- by far, the best primary care physician network in the U.S. We now have a commitment for 1,000, and these are fully fledged. These are not health corners. These are fully fledged, value-based care. They're not mini clinics. They're not nurse-enabled clinics. They are primary care physicians, and they will be across the entire portfolio of healthcare.

And then finally you asked about ABC. We don't comment on the portfolio. What we will comment on it is, there is tremendous value in the -- we call them now equity interest. We estimate about $20 billion. And some of these investments are more or less liquid. What our commitment is, we're looking at the fit to the strategy. We're looking at the synergy with the base business, and we're looking at long-term financial returns. And we've made the first 3 statements, if you like -- well, two, Shields, we've taken up to 71%. We love the asset. It has a fabulous growth trajectory. And then VillageMD, same thing, we think it is an innovative model, unique management team, highly qualified. And they're really going to drive a large business going forward.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Perfect. So our next question is going to come from Rivka Goldwasser of Morgan Stanley.

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

And thank you for all the details. So health care is clearly going to be a component of long-term growth goal investment, yet the leadership Roz, you and Jeff come from a retail consumer background. So one, who will lead will bring health? And second of all, maybe you can talk about the process of setting guidance and how involved was Jeff in the process?

And then I do want to kind of like just bring another question, because I do think it into sort of the health care focus. I mean, over the last 18 months, we are seeing a growing adoption of digital consumption of health care services, including pharmacy. So what are the key variables that you're considering when you make decisions about your retail footprint in the U.S. versus sort of kind of like more of a digital strategy or a combo?

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

Sure. Thank you, Ricky, for that question. So let me first start off with who will lead and how are we thinking about our new segment, Walgreens Health. And you've seen that we have added new executives to the company. If you dig a little deeper in their background, you will see that they have -- we're trending a little bit more towards health care experience. We will take advantage of our internal talent and external talent to identify the new leader from Walgreens Health. So that is yet to come. When you think about my background in retail pharmacy, having run stores for Walmart and running the Sam's Clubs business that had pharmacies attached to them, it does give me a little bit of insight in terms of how we run the day-to-day.

But your question around our retail footprint and the work that we want to do in WBA Health, they're interconnected. This venture that we are going into is about local health care. And we have 9,100 units across the U.S., and they're closely aligned to some of the most critical ZIP codes across the United States. When you look at VillageMD and the clinics that we plan to add, it's interesting to note that 50% of those will be aligned in medically underserved areas, where we already currently have stores.

So our current store footprint is critical. And not only is the store footprint critical, but we already have the digital and physical assets, learning, knowing our customer, those who will take advantage of WBA Health or Walgreens Health, our new business venture, they're already our customers. And so the customer relationships we have from our retail footing that we currently have, our physical assets that we have, our digital build is really in the center of what's in the plans for Walgreens Health.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Our next question comes from the line of Michael Cherny with Bank of America.

Michael Aaron Cherny - *BofA Securities, Research Division - Director*

Great. Thanks so much for all the color. Maybe just quickly, a question for James, a text book question. Will you be reporting out Walgreens Health as a segment starting in the next fiscal quarter? And then along the lines of product strategy, a lot of commentary today around building, growing and expanding. One of the things you didn't address as much outside of the short part of the updated transformational cost component is the future of the current store base as you have it. And in the past, I know management has talked about the potential for closing stores, co-locating, whatever it may be. How do you factor in, in terms of that long-term growth algorithm, what the store base is expected to look like over the next 3, 5, 7 years?

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

Yes. I'll take the first part and then maybe I'll pass it on to John for some comments on the store base. Yes, we will set up a new segment starting first quarter. So that will be the first time we will issue it. We won't really have to restate the past, because it didn't exist in the past. And the 3 recent acquisitions will be in the segment plus the organic health care development. So that's why we gave guidance for both separately.

And then TCM, we are really happy with the program. I'll just cover that for a second. We saved $800 million just in the past fiscal year, and we're looking for probably $500 million to $600 million in the one we're going into now. I know there was some doubts out in the investor market as to what is the funnel longer-term on cost reduction. We don't see it going down, and we see continued opportunity to optimize costs in the business over time. And one element of the guidance that's been completely factored into the guidance we provided this morning, we actually went out because -- and this is interesting. Actually, I just want to make the point, I came from a pharmaceutical company. And pharma companies do 10-year and 15-year models.

So actually, we started modeling out our Healthcare business on a 10-year horizon. So there is a big shift even within the company on how we think about financial forecasting because, in many cases, a 3-year plan horizon doesn't even begin to show the returns in a health care investment. So with that, I'll pass it over to John.

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

Thank you, James. So just real quick, Roz mentioned it during her talk. The relevance of our physical network, I think, has really stood out here through the pandemic, through our vaccine and testing efforts. And so I think our footprint is really a key part of who we are, our national network of convenient and community-based care locations. And so as we think about the strategy going forward, those locations are really critical to where we're going and what we can do with them. VillageMD is a great example, getting those into 800 locations. What we're talking about with Health Corners and Walgreens Health is another great example. So we see a lot of potential in the network we have.

As part of TCM, of course, we're always looking to make the store base as efficient as we can.

And we have opportunities, too, I think, to grow in smaller formats, which we've tried here. We'll have 100 of those by the end of the fiscal year, and those have done extremely well. So I think the store network will continue to play a critical role in the strategy as we go forward.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Perfect. So next question is coming from Steve Valiquette of Barclays.

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

So it's shown in the slide deck that the level of COVID vaccines and testing combined will likely be about 4% dilutive to the EPS growth in fiscal '22 versus fiscal '21. So I was just curious to hear more about the variables within that. Should we expect that the margins on the 25 million doses for next year would be about the same as 34.6 million? And also you previously increased the staffing levels to administrate the vaccines, do you have the ability to flesh that down? Or do you have to sort of maintain those same levels? Just curious to hear more about the components of that 4% dilution.

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

So I'm going to ask John to talk about some of the administration, things that we've done in the stores to get vaccines and testing to our customers.

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

Yes. I mean we have -- I think we've done an amazing job. I think it's not just about probably the 25 million that we're going to do this year, the 25 million vaccines for fiscal year '22. But also about the opportunity in these businesses to really grow over time. So not just with vaccines, but also with testing.

And I talked a little bit about in my talk how I think testing can really open some new doors for us and closing gaps in care and providing test and treat in certain markets. So I think we're starting to see our business really kind of evolve here. And I think vaccine testing are 2 great ways that that's going to happen.

As we think about the business model, we do have the opportunity to efficiently manage labor as volume changes, but we also see opportunity to invest in some of these other areas as well to continue to try and grow the business also. So I think that's how we're kind of thinking about it. In terms of margin, we'll be negotiating on vaccine reimbursement and other reimbursements throughout the year. So we'll just have to see how that kind of plays out.

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

Yes. As we look at this, we exited the year really, really strongly. We achieved a total share of vaccines of 21%, which is extremely strong. And we see September have closed very, very strongly on vaccines and it continued into October. So while the 25 million doses looks quite meaty as a goal, we've had a very, very strong start to the year.

And as John said, we actually year-on-year -- the actual overheads due to COVID will be actually going down -- sorry, COVID vaccine administration will actually be decreasing.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Our next question is going to be coming from the line of Elizabeth Anderson of Evercore ISI.

Elizabeth Hammell Anderson - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Could you talk a little bit more about the opportunities from the new segment to positively drive operating income of the core pharmacy business? And how much you have of that perhaps embedded in your expectations over next few years?

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

Sure. I'm going to turn that question over to James to cover a little bit about our numbers going forward.

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

Yes. First of all, I think as you look at the segment itself, the one thing I'd point out to is explosive revenue growth, the way I described it. The first year will be $3 billion, and we expect by '25 to be in or around $10 billion. So first of all, that's the core part of it. At the same time, the health tech consumer-centric central vehicle, that will start growing revenue over that period of time.

And there's a fair element of mix between the segments. We've got -- the inorganic development would probably 25% plus margins, think of it more as a tech margins. Then you've got VillageMD, I think you can figure that out by yourself and CareCentrix. They're all slightly higher than the core company.

The one part we haven't really contemplated in the guidance for the U.S. businesses, we've assumed continued pressure from reimbursement. We're being quite realistic that gross margin over time will be slightly down because of reimbursement. The opportunity we haven't considered is there is mutual synergy in both directions between the core Walgreens pharmacy and the actual health segment itself.

As we become more and more relevant in health care, there will be a favorable reflection back on pharmacy. And over time, the discussion theoretically now with the PBM should theoretically become a discussion with the payers because as we try to drive more and more value in the system, once it becomes recognized through health outcomes, we have a different seat at the table. However, that's really, really difficult to quantify.

We've plotted forward reasonable amounts of pharmacy reimbursement. We haven't counted on this improved relationship, which we think in a logical health care system focused on the patients, should occur. But right now, it doesn't occur. It's a price market.

I don't know, John, do you have a point of view on pharmacy...

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

I do. I'm really excited about the opportunity. It's a great question. And I think it's going to just open a ton of doors for us in the pharmacy business to gain access to additional patients and services. So we're really excited about where we're heading and the opportunities it's going to create in the core Walgreens business.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Our next question is going to be coming from Justin Lake of Wolfe Research.

Justin Lake - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

Can you talk a little bit about the assumptions on the VillageMD business in terms of how -- do you have any kind of script numbers, margin numbers? You've had stores open for a while now. What do you expect to be the downstream impact there to the pharmacy business? Is there anything you -- any numbers you can put around that or give us an idea of when you think you might be able to communicate that? And then secondly, can you talk a little bit about what you expect from the international business within 2022?

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

Sure. James, do you want to take...

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

Yes, maybe I'll pass back to you for the scripts. But international, we're expecting a really, really strong upcoming couple of years, particularly driven by the next year. We expect international to grow by about 50%.

The U.K. business has been -- it's been a big success over the last year when it already doubled profit once. So it was coming off a fairly low base. But what the team has done a fabulous job on is resizing the cost structure. The second big one is shifting the company online. So we have a current online penetration of about 22% of the total businesses online, and it's growing extremely quickly. So the business has been redesigned for the future.

And once the sales come back like next year and the sales growth is around somewhere in the 8% to 10% kind of range in the U.K. Once it comes back, it's coming back on a very efficient model, very limited incremental overhead. So we're -- we have a very fit company. It's exiting prior year very, very strongly. So we did a very good fourth quarter. We had the biggest marketing campaign in many, many years in the U.K., strong -- so we have strong momentum. Our cost structure have really strong online presence and foot traffic has finally come back in the U.S. But it's not -- sorry, in the U.K., but it hasn't come back as quickly as we'd like. So we will see improving trends over the next 12 to 18 months.

The way we think about it is the U.K. will be fully recovered from COVID only in 2023. So if you want to think about the horizon, it gets back to pre-COVID levels by that time. So it's been a tough journey for them, much easier and -- not easier in the U.S. But the U.S., for us, we had a very, very buoyant Q4. I think you've seen the front of store comps up 6%, that's really, really strong. And the pharmacy business was up 8% on scripts, right?

So John, do you want to talk about the other piece?

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

Yes, sure. I think the point I would make first is just the investment is about a lot more than the script count. Obviously, it's a pivot into primary care and taking risk. So that's the first point. The second point is, we're absolutely gaining script count from the relationship, and we are getting pretty decent penetration into the VMD patient base as well.

We haven't disclosed specific numbers, but there's -- we're definitely creating value there. But in the even bigger picture, I'm really excited about the things that we can do together like the collaborative practice agreement and other services that we can get involved in with VillageMD to manage risk and drive better outcomes. So it's just going to open a lot of exciting doors for us.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Our next question is coming from Ann Hynes of Mizuho.

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

Within your long-term guidance, can you just discuss how you view free cash flow and cash flow because I don't think you discussed that. And then secondly, when you view the outlook for each segment, obviously, you gave very attractive long-term growth. What do you think is the biggest risk for each segment? And within that, maybe more in the near term, how do you view inflation? Maybe what parts of your business is seeing the biggest inflationary pressures, whether it's generics, labor or things like that, that would be very helpful.

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

So thank you for that question, Ann. I'm going to start off with one part of that and then pass it on to my partners here. So first of all, just starting with inflation. So you're right, we're seeing some inflationary indications in the marketplace. In some instances, we've been passing some of our cost increases on. We'll continue to do that and look at it carefully.

What we are starting from a very good point of the transformational cost management that you've seen us apply against the business, which is why we've extended that into the future years, we're seeing some success there so that we can sort of offset what we're seeing in the increased pricing.

The other thing I would mention to you in terms of our labor position, I think that this team has done a fantastic job of engaging our team members at store level in addition to our fulfillment centers. And a lot of that has been the work that we've done around our labor position and increasing wages and then recognizing the hard work of our pharmacists. And John and his team has just done a fantastic job of not only engaging our own labor issues in terms of just engaging every day with our team members, providing development.

And I think the most important work that we're doing in this space, Ann, is to make their jobs easier. John and his team have been working very hard and putting in some of the work that we're doing around our central fill opportunities and automating the processes behind the scenes of what one customer might see when they come into our stores. So I'm encouraged that as inflation happens, we'll still continue to try and pull our cost down and deliver as best we can on behalf of the consumer.

And I don't know, James, if you want to add to that?

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

No. I'll maybe answer your cash question, we're -- we delivered $4 billion of free cash flow last year quite strong. So that was basically in line with the previous year where we covered the lost cash flow from the Alliance Healthcare business. We're not going to start giving guidance going forward. There's -- we will keep fairly healthy levels of capital investments, probably at similar levels to today.

And as IT investments go down in the future, we'll probably shift the investment into refresh of the stores. That's a simplistic assumption. We're probably taking out -- over the last 2 years, we've taken out $800 million of CapEx -- sorry, of working capital each year. And there's no reason why that couldn't continue for the next maybe 2 years. So we're in a fairly good position when it comes to cash.

As you get outer in the -- way out in the cycle, call it, 5-plus years out and the health care investments have shifted into scale and they're thrown off cash, that's the stage where we can contemplate going back to probably a fairly serious scale share repurchases if required.

And then the final piece, as you asked, by segment risks, maybe I'll give you my impression then John -- and then I'll pass to John. But international, I'd have to probably say, none. I think it's, I would say, if you look at a long-term growth rate of 3 and a mid-single digit on AOI, that's eminently doable if you're the #1 beauty specialist retailer in the U.K. And most of the other international plans are achievable. I think it's literally down to does footfall come back in line with the assumptions or not, but there's enough contingencies such that I don't see any real risk in the U.S.

I think on health care, I would say there's probably upside to the theoretical numbers. But then the only risk is, can we hire people quickly enough? We always seem to be about 3 months behind. There is a war for talent. We are finding it increasingly easier to hire health care people into the company, which is quite surprising. There is -- they're believing in the vision, but we're still -- as we ramp up, we've got Blue Shield, which -- California, which is a huge endeavor on top of the Clover work that's being done. We have to scale up enormously the organic team internally just to deliver the Blue Shield, California. And that's a tremendous opportunity with the amount of lives we've presented.

So I think it becomes a people game in health care, no risk in international. My perspective on the U.S. is, you never want to say too much about reimbursement. It's always a risk, but I think we've planned it relatively in the right position. I think the potential risk is we are counting on money from new businesses like vaccines, diagnostics, that kind of thing. I think we have a right to win, but we've got some decent goals in there. But at risk, I'm not sure. John, how do you feel about it?

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

I feel good about the plan and the guidance that we're giving. And you touched on reimbursement rate that -- we look at that pretty carefully, and we've done some modeling on it just to try and get a sense of kind of where it goes. And clearly, there's going to be -- there's been reimbursement discussions. There's going to be ongoing reimbursement discussions.

But as I kind of start -- as we start to look out and do a little bit of modeling into the future, it seems to us that if reimbursement rate trends continue kind of into the medium to long term, it probably does start to cause some contraction in terms of access in the marketplace. And so that may be potentially some issue for us kind of in the medium to long term as we kind of look out. So I think it's -- we just continue to work with it.

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

But the biggest number in the plan is actually the 25 million vaccinations.

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

Yes.

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

And to be honest, it's the only thing that really keeps me awake, but we've had a really, really strong start to the year. So risk that I thought we had 4 weeks ago, I really -- have kind of dissipated so I'm feeling -- in a much better position about the current here. Is that a fair statement?

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

Yes, I'd agree with that, too.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Our next question is going to come from A.J. Rice of Credit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

Maybe just 2 quick questions here. One, when you think about the new health care business, I'm trying to understand how that infrastructure is going to be set up. You've got entrepreneurial companies like Shields and CareCentrix and VillageMD in there. Are they -- are you seeing those running as sort of a collection of businesses or will there be a significant Walgreens overlay of management infrastructure? And how much can you integrate those and realize synergies at the G&A level? Or do they have to sort of stay separate over time?

And then my follow-up question would just be, we've heard a lot about supply chain lately. Are you having, sort of near to intermediate term, any issues around supply chain or anything worth calling out there?

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

Great. I'll start that response, and then I'll pass it to John for the supply chain work that his team has been doing. So when we think about Walgreens Health, this is a new segment within our company. So when you think about our business segments right now, we have our Walgreens U.S. business and then our Boots in international. So we are standing up a new segment.

And so when you think about these companies and the integration of all of them, absolutely, we are activating those businesses within our company. And so they won't sit on the sidelines as investments, and we will seek to create those synergies and bring those synergies to life. And we'll do that so that this whole description of how we want to wrap a health care ecosystem around our consumers, we will need to activate those companies. They will be needed. And so we'll have leadership.

We are putting leadership in place as we speak to run the new segment. So you'll see likely another person on stage with us in the future and in our conversations, talking about how that business is coming forward. So we'll have a reporting structure around it. We'll have a team, an operating model around that business. But our intention is to integrate those synergies and bring it to life on behalf of the consumer. So you'll see that coming forward, absolutely.

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

Yes. And just to reemphasize that, we actually have a CFO already for this segment. We have select parts of the management already in place. So we're not starting from 0, but we still have some development to do on organization. But you can be guaranteed, there are -- there will be mechanisms to generate mutually beneficial synergies between all the entities in a very structured way.

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

Yes. John, supply chain?

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

Yes. Our team is working extremely hard with all of our supplier partners to tackle supply chain issues. So we are meeting regularly, top-to-tops and having discussions to work through some of the challenges that have arisen, but I think we've generally done a very good job. But there are spots in our supply chain where there are some challenges that we're working through.

We've increased lead times in terms of how we order a product, particularly if it's coming from overseas. We've been creative, I think, in finding ways to tackle some of those issues with our partners, and we continue to push hard here to try and have the best experience we can in stores for our customers.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Our next question is coming from Charles Rhyee of Cowen. Charles.

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

Just wanted to follow up maybe on to Lisa's question at the beginning. Jim, I understand your comments around the strategy and making investments first with a path towards 100% ownership and wanting to keep sort of the agility of those companies to really pursue their different strategies. But as it relates to your discussion around entering into value-based arrangements, can you talk about how you think about where Walgreens will be within these type of value-based arrangements going forward? And how do you manage all these partnerships in that sense, at least, over the near term before maybe full ownership to keep everyone aligned so that you can kind of progress towards your goals?

And then as a follow-up, maybe on the supply chain cost from A.J. I think in the guidance, you only noted about 1 percentage point on labor costs as it relates to those other supply costs, what are your assumptions in terms of impact to earnings?

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

Yes. I'll cover the last one first. The assumption here, we are getting lots of requests from suppliers on price increases. The first part is pushback or try to mitigate those. And the second, obviously, is going to have to be we got to raise the retail prices like most retailers are doing in the U.S. So our assumption is that over a 12-month period or an 18-month period, there is no impact on margins.

And I think if you look at our results in the fourth quarter, our actual -- the comps are up 6% in front of store and margins are up, I think it's 20 or 30 basis points. And we finished the year up 60 basis points. So some of that is coming from mix, but there is no dilution right now, and we're not anticipating very much coming from supply.

It's a little different in the U.K. They have a short-term issue. It's a lot about transportation. There's no drivers. Transport costs have skyrocketed. But you're talking about $5 million or $10 million in these cases. You're not talking about $100 million. So it has absolutely no materiality on the total results of the group.

Your first question, I don't know if you want to handle that, Roz, and I'll take a shot is, I think the best way to think about value-based arrangements is we have WBA Health, which is the ecosystem, and it's the orchestrator. And that entity itself will take risk over time. We're setting up a consumer-centric technology-enabled platform. And the examples right now are Clover plus Blue Shield, California. So the first simplistic step of this is we have an app that's fully developed. We also have -- we've opened Health Corners in the Clover arrangement already. We have 40 of them.

So the whole idea is you start out rather basic on a per patient per month or some kind of fee for service. And over time, you evolve the relationship with the payer to more and more, we take on risk. So we start engaging with the consumer and driving better health outcomes. The overall cost of care goes down, and there will be an evolution for risk sharing over time. That was the basic premise of what we set out back in January of this year.

That strategy has evolved, and I would say it's actually much, much stronger. Now the second part of it is we always had this physical plus digital. We're fundamentally convinced that a digital provider by themselves without physical would ultimately not be successful in engaging consumers. Likewise, a physical only will not be successful, right? It's just not going to work. So we have this physical and digital.

And previously, we thought about it was just these Health Corners of -- and we're going to open 3,000 Health Corners. Nobody in the U.S. is doing it at this scale. I want to be really clear on this. It's a long-term goal, and it's probably an 8- to 10-year goal, but it's 3,000. That is 1,200 in the next 5 years. These are huge numbers.

The second part, we said though, is these are, call it, more pharmacists or nurse practitioner-enabled. The second evolution of the strategy, since Roz came in, has been let's get deeper into the care delivery, which means we don't just have assets with care corners. We're taking primary care physician, value-based operators, and we selected a company that we believe has got the best and most innovative model. They have set all types of insurance. They get to scale far, far quicker than most of the other participants in this market. We estimate they have clinics that are breakeven in the third -- beginning of the third year and are fully at scale in 7 years. Very few other companies are doing that.

And then finally, we said on one of the other -- and obviously, these M&A opportunities come along when you're least expecting them sometimes. And the other one is CareCentrix. You got to stare at that and say, this is a play on home care and it's a play on post-acute. So we want to line up a series of -- and I want to just -- pay attention to my next comment, a series of partners, and some of them are just partnerships and some of them will be owned. We don't believe we have to own all the assets, right?

So we're going to have -- it will vary from the Health Corners, which we will own 100% through something else, which we could own like VillageMD at 63% to something else, which we may have no stake in. And many of the providers we will have on a local basis when we're managing risk, we will not have a stake in.

And I do want you to think about it for a minute. We are an agnostic provider. We're independent. We don't have an insurance company directing what we're going to do locally. Our only interest is consumer health, and that's why we believe our approach is unique and differentiated in the market. And it's not a case about ownership here. It's the ability to work with other people to improve the health of consumers, and the mothership is the ability to engage with consumers and get them engaged in their health.

And our premise is different from an insurance company. Our premise is unless the consumer is engaged, health outcomes are not going to improve. And the reason why we're differentiated is we're very, very good at the consumer piece.

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

That's exactly right. Starting from our core, we talked about this as being -- our strategy forward has started our core. James said some very important things, and I want to remind everyone this is about scale, and we believe we have scale. I think it's very important to remember that we have payer independence. And so we have the flexibility to make this model work and then we have the acceleration.

So moving from what we would have maybe in the past, investments that didn't look very strategic, that these are strategic investments for us and so we're going to be deliberate. We're going to take advantage of our payer independence. And then I think our ability to scale with acceleration will be the winning ticket for us. And thank you for the question, by the way.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Our next question is coming from Jack Slevin of Jefferies.

Jack Garner Slevin - *Jefferies LLC, Research Division - Equity Associate*

Just wanted to focus in on the accretion guidance for the health care investments that you're making in 2023 on. Can you just walk us through the moving parts that are underneath that assumption? I think when we look at the aggressive path with VillageMD for expansion to 600 units and the profitability curve that we've observed in the marketplace, we would think that might be taking on a little bit more losses 1 to 2 years out. Should we be expecting that to improve along with further growth from the other businesses? Or can you just walk me through the moving pieces there?

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

Yes. Okay. I'll take the easy ones first. CareCentrix is broadly neutral in the first year, it's like $0.005 and it will be accretive from the second year. And then on Shields, Shields is immediately accretive. It's a fabulous asset. It's -- we've got visibility to, I don't know, in the first year, 95% of their revenue. By the third year, we have visibility to 85% of the revenue. So it's highly certain.

And probably the accretion in 3 years is, I don't know, teens. It's in the teens area in terms of accretion. And then if you go to VillageMD, you make a very good observation and you're right. It depends on the pace and it depends on the magnitude of the investment. And frankly, we have 2 scenarios of investment, and that's why we gave a range of -- what was that we gave, I think it was $0.08 to $0.15 or something from VillageMD.

We're still thinking through what's the pace of investment in the short term, and that will have an impact on the long-term. We would expect this to start becoming, I would say, EBITDA positive, probably in the year of '24 -- '23, '24, depending on the investment profile we adopt. I think this is something we'll have to give guidance on probably going forward as we build out the segment.

Immediately, you're right, the business we're buying loses money on an EBITDA basis because they're opening clinics at an aggressive pace and we've given you the endpoint. So the endpoint is 1,000 clinics in Walgreens in 2027. You can divide that by we've opened up what -- we would have opened up 80 by the end of this year. So 1,000 less 80 will show you how many they have to open each year.

The economics, we've been through all the unit economic models. You're looking at adjusted operating income margins. Once they're at scale, which is 7 years after opening, probably in the high single-digit kind of range, but that includes all the depreciation. And these are -- there's a fair investment upfront.

So we've been through the model. We're really happy with it. They're breakeven after 2 years then they start scaling up. They migrate more and more patients to risk and away from commercial over time. So we're comfortable with the model. It all comes down to how many clinics we're going to open each year, and whether we go for an accelerated plan or the base plan.

So I think the base plan would foresee probably losses for the next 3 years and an accelerated plan, actually, we may actually be able to reduce some of those losses in the '23 and '24 period. But I'm being deliberately imprecise because we have a number of options here.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Our next question -- Jack, I'm sorry. Perfect. Our next question will come from Eric Coldwell at Baird. Do you want to kick it over to Eric?

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

Okay. Am I on or is it still Jack?

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

There you go. I think we're good now.

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

I think I'm up now. So 3 questions, 3 very different categories. First one, you've talked a lot about culture, customer satisfaction, employee satisfaction. We've seen a number of initiatives there. These are great qualitative goals in comments, but I'm curious if there are any quantitative metrics or benchmarks that you'll be sharing with us over time to understand the benefits of the various investments thinking in culture and customer relationship?

Second question around No7 Beauty Company as well as just all of your owned brand, if I remember, you have a target of growing to nearly $5 billion in revenue next year, if I got that right. I'm curious about your moves into retail and then more importantly, retail beyond Walgreens -- Walmart, for example. And then beyond that, if you could talk a little bit about the benefit to returns and margin from this mix shift.

The third question is around deal activity. You've done iA, Shields, CareCentrix,, VillageMD investments of size this year as well as a number of others. It does beg the question of how much is the foot on the accelerator for additional deals of size? How many holes are left to fill or might this be a period where you really spend your efforts integrating those businesses and focusing on what you've already bitten off here in calendar '21?

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

Thanks, Eric, for that question. So I'll start off with the culture work that we're doing here in the company. I talked about how critical it is to align culture with strategy, especially when you're making a transformation of this sort, right? You want to make sure you have the right team in place and people feel good about the work ahead of us because we've got work to do.

And so you will see us put together KPIs and talk very openly about how we're moving forward in this space because it's going to be as critical as delivering the financial performance of the company. So we already track things like our team member engagement, and we talk about our customer engagement. Those 2 things are very much intertwined. We know when we do well with our team members and they feel satisfied about the work that they get to do in our stores and in our buildings, then that really transcends to the customers' engagement. So we will track those numbers and share those kinds of metrics with you so that you can see that we're moving these things in tandem. So we will do that.

The second piece around owned brands, I'm going to ask James to talk a little bit about that. But we have seen good performance between our business, business relationships with companies like Target and Walmart. I think our Global Brands team has done a fantastic job in that space. We're seeing that these retailers are making space for us, prominent space. Just recently in the Target stores redesigned, I think our products look very good and show very well, and we'll continue on in those relationships.

In terms of investments and are we going to go on a pause or work on integration, we talked about being very strategic with our capital allocation. And part of that is you are exactly right, we've got integration work to do. So it may feel a little bit like slowing, but it's also going to be a little bit more about targeting. You'll see us target. It will make sense in terms of where it fits on our strategic road map. And you'll say, okay, that makes sense, and then the integration would happen.

The other thing is that we're going to be developing the Muscle for integration, right? Because in many of these, these were partial investments and now we're a large stake position and they're going to be part of our path forward. So that integration piece is going to be really critical for us.

I think you saw the announcement of Anita Allemand joining the company. She will be our Transformation and Integration Officer for us. So we are building the muscle in that space. So stay tuned to watch us be just very strategic about what we do next and a little bit less of what looks like a side investment and more about where do we need to plot acceleration and then to close out the road map on our strategy.

So James, do you want to talk about the margin returns and anything about our B2B work on Global Brands?

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

Yes. So it's -- just to clarify the numbers, the current revenue of these brands that we own, which is principally No7, but also Soap & Glory is about $75 million. And over the next 3 years, it is expected to go to $1 billion. So at a fast clip.

The U.S. is the growth engine right now. We were in Walgreens, Target and Alta and doing quite well there and then move into Walmart was a very, very big move, and they've executed very strongly behind it. But still a lot of potential in that relationship.

And the final thing we've done in the U.S. is DTC, so our direct-to-consumer No7 site. I would say going forward, there will be a shift as well into China, which is we have a number of, call it, retail and wholesale investments in China, but we're also present on a number of the large Internet sites in China like Tmall. Still small businesses. We're putting our foot in the water to test the receptivity to our brands, and we already have Soap & Glory there and expect to go in with No7 in the next couple of years. That could be a massive opportunity.

And then finally, some markets around the edges like Australia, but they won't be material. This is a U.S. growth business, and it is also -- China is the big -- China and Asia are the big opportunities. So I think it's a fabulous business, $1 billion of owned brands. So it should be attracting a valuation like a consumer products company.

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

James, if I could just jump in with a clarification. We were taking notes frantically without the slides at our disposal. So I apologize if I mixed up the numbers. I thought I saw a slide earlier about something about in the ballpark of $4.7 billion.

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

That's Walgreens. That's Walgreens. That's the Walgreens brand in the U.S.

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

Walgreens brand in the U.S. Okay.

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

It's a different number. The Global Brands business is basically No7. It's all beauty brands, No7, Soap & Glory and some other small brands. That...

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

Right. So is the No7 $1 billion on top of the $4.7 billion or part of that?

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

Yes. It's $1 billion on top. Yes. The No7 is U.S. Walgreens.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Our next question is coming from Ralph Giacobbe from Citi.

Ralph Giacobbe - *Citigroup Inc., Research Division - Director and Co-Head of Americas Healthcare Research*

I guess, I just wanted to clarify some of the margin commentary, specifically within the Health business. I think you mentioned 25% margin. Just wanted to make sure that's sort of the ultimate goal? And then how long essentially that it takes get there and then how we think about that as you ramp revenue from that $3 billion to essentially the $10 billion even in 2025?

And then the second question, Roz, I think in your opening commentary, you mentioned or made comments around as you reflected on the business wrong turns that maybe you think the business may have taken, I was hoping you could just sort of clarify what those wrong turns in your mind were and maybe you can fix those or how to address those going forward?

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

Sure. So I'll start this off and then I'll turn the margin question over to James. So when I took a look at the business in the very beginning, it was interesting to me that the company had made such great strides in terms of the way it responded to the vaccine administration.

And if you even go past that time in our journey, I look at the history of the company, and we've just had a very strong retail position in our stores. We've had a great response to how our pharmacists interact with the company and with the consumer. But one of the things that surprised me was a little bit of the confusion between are we a retailer? Are we a pharmacy dispensing?

And so that is what really made me think about should we have gone with this strategy maybe a little bit earlier, right? So -- but there's energy here. There's a lot of good guts in this company in terms of what we can turn towards this new health care ecosystem that we've been talking about. And so while there may have been some slight turns, this team is ready to course correct and get energized behind the core of who we are. And so I'm excited about it. Those are -- that's history. We're on to a new opportunity.

And the other thing that I would say that maybe many of you all can't feel because we're doing this virtually is that this team is really excited about now having clarity of vision and purpose. And then I will focus on one point is around execution because I think that is an area where sometimes we could have done a better job.

But now this path forward is about how well are we going to execute, how we're going to hold ourselves personally accountable and then we're going to be accountable to people like yourself, right? We're going to get in front of you. We're going to tell you what we're going to do. We're going to give you the milestones. We're going to repeat it again and again so that you know we're committed to it and then you'll go on the journey with us. And so it's about transparency, clarity, execution and getting really energized about what our future has to offer.

So with that, I'm going to turn it over to James to talk about a little bit on the margin piece.

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

Yes. Ralph, just as you model out the segment, my advice would be take each of the acquisitions separately and model out based on the accretion I mentioned before. So Shield is immediately accretive. CareCentrix in the second year, and VillageMD will probably have losses for 2 to 3 years. That's on a -- even on an AOI basis. And then it dramatically scales up beyond that.

On the original, the organic development, which is the $3.5 billion minimum revenue we're targeting, we already gave you numbers for '22. We said we'd lose $200 million; '23, $300 million; then $170 million in '24. It actually starts hitting breakeven in '25. So the $170 million gets to breakeven and then you're on a curve of pretty exponential profit growth because all of these businesses hit a point of scale.

It really depends on how many partners you've signed up, how many lives are on the platform, how many are using the platform to actively manage their health. And once you hit a tipping point, you start getting very quickly into the 20%, 25% margin range. And I would emphasize that if we do this well, 25% is the minimum. This is primarily a tech type model which depends on getting sufficient lives on the system. And then once we have the lives, the profit margins are extremely attractive.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Our next question is coming from Eric Percher of Nephron Research.

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

Roz, I wanted to come back to this concept of all And when you think about the digital health care ecosystem or Walgreens Health, is the idea to really focus in on the 50% of lives that are at regionals and Blues? Is that what drives 2 million lives to 10 million lives? And how do you think about the offering for the national payers?

And going to John's earlier comment on reimbursement impacting access, and maybe this is question 2, you come into a company and you hear every year, we're faced with hundreds of millions of dollars of headwinds on reimbursement. How have you pressure tested that or thought about how to offset it?

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

Sure. So first of all, you hit on a very good point that there is a good opportunity here for us in that other 50, right? And when you think about taking advantage of that, which is something we haven't really played forward in our plans. And now we have the ability to do that. So there is opportunity that you've definitely shared a highlight on that being payer independent, there is a broad, open, accessible marketplace for us. And so we're looking forward to that.

And one of the things I'll mention is that usually, when speaking with us, we talk about our retail business, we'll talk about things like traffic in our stores, but we'll come back to you and talk about those number of lives, right? Because we think now we're in a position to do that.

And to your second question about walking into a business and seeing what those reimbursements look like and how do we offset, I think now what this new health care strategy that we're talking about, we're going to be in the middle of helping to drive better cost throughout this entire system. So we hope that we now have a different relationship with our payer partners because we're both in the same game of trying to reduce the cost on even a bigger scale. We have more of an ability now to play a part in this game and to move towards value-based health care.

And so I think that we're going to be viewed in a different way when we interact with our payers. And so eventually, we'll see that as this model shifts, we can do -- we can have a different relationship there and maybe begin to offset some of this reimbursement expense that we see right now in the business.

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

And John, was that comment on access fundamentally different than you would have made in prior years?

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

It is. I just -- I think we've -- I've been in this industry a long time. So -- and I think we're at a point now where we're continuing to find efficiencies in generic drugs and things like that, but it's getting to be a fairly mature business at this point. And so I think if there's an expectation that rates can go down for the next 5 years like they went down from the last 5 years, that's probably not realistic for a lot of folks in the industry. And so I think that's kind of just where we are in the cycle of the industry at this time.

So I think we have a lot of great opportunities in front of us. There's a lot of things we can do. This Walgreens Health is going to be fantastic in terms of opening a lot of doors. VillageMD is going to open a lot of doors, as Roz and James said. So there's always going to be some level of reimbursement pressure in the industry probably, but I do think down the line, it will take its toll in terms of access.

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

Yes. Bear in mind, this is -- the way you could think about this as well, the new segment we're setting up will generate significant and material revenue and profits well into the future. And don't let it be lost on you that the growth rate we see even beyond 2024, '25 is we called out high teens. So this is not an entity that would be growing at 5%. The terminal value of something that's growing at 18% is quite interesting.

So we see -- we continue to go back to this point that these equity investments, some of them were very, very attractive. Now we're unlocking these as part of the total WBA Health. And I think our aim is that the future income coming from WBA Health is far exceeds any reimbursement pressure that's coming on in the core business. And I stress far exceeds.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

Our final question is going to come from Kevin Caliendo of UBS.

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

So I want to understand a little bit about the growth that you're projecting in the base business, first of all. The base business hasn't really grown. When you come off 2022, you're expecting sort of mid-single-digit growth, and you're going to have a vaccine sort of headwind presumably. Are you assuming that the rollouts and the synergies from the health business are going to really be the driver of growth there? Is it more cost cutting? Like incrementally, how do you get to mid-single-digit growth with the vaccine headwind for a business that hasn't grown?

And then I guess the second question that I had is getting from $3 billion to $10 billion, how much of that is just the rollout of the VillageMD stores and the organic growth that you expect from the other assets? Or is there some incremental M&A built in there?

I guess that leads to the final question around ultimately, your free cash flow going forward, how should we think about the deployment of that post sort of 2022? How will you be using that? Historically, it's been debt and share buybacks, is that changing now?

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

Yes. I'll take your last one, which is the $3 billion to $10 billion, we're not assuming any M&A. This is the development of the organic vehicle plus the 3 acquisitions we've mentioned. We don't have any go-gets or anything else. So this is $10 billion that we have, I would say, very good visibility to as well. So it's -- we know the number of clinics that will be opened. We have detailed plans from Shields and CareCentrix that we've vetted 10x over. So we have good line of sight to all of this.

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

10x over.

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

And then the last point there is, I'd say, right now, we're not necessarily finished on M&A. There are other pieces of our puzzle that we'd like to build out a little bit more? The answer is yes. They're probably in the tech area, and it's probably around how can we speed up the organic even more and take a year out of the journey. So that's -- if you ask us what are we thinking about, it's more about less maybe care delivery right now because we've just bought majorities in 2 assets. And it's more about how do we accelerate the tech journey, and we're thinking heavily of what our potential targets in this area.

I'm trying to remember now what your first question was.

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

The base business growing from '22 on...

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

I think international growth is the one I'd point out first, which we're going to see very -- still -- some of this is still benefiting from recovery, but then it's good execution on operational excellence in the U.K. and international. And I think we called out in the next 3 years, that's going to develop, 5 points of the growth is going to come from international.

And then the ABC contribution, which is fairly safe as well because they just made an acquisition. So they'll be growing above their historical pace, right? So ABC, we called out as 4 points. And then the base business, if you take out the vaccines headwind, will be up 3%. And that's a lot of blocking and tackling in the U.S. business.

I call out 2 items that give us a fair amount of confidence. One is the TCM program. We control it. John and I sit on a very small steering committee of 4 people that basically do this stuff. It's compact. We take decisions quickly, and we have a series of initiatives that I showed you on one of the charts. There's a lot more behind that.

So that's one piece that we control. The other one that I'm even more excited about are new businesses that we're setting up. So one is vaccinations have validated a role in testing diagnostics. That's a big business that John spends a lot of time on. We also spend a lot of time on the credit and debit cards we've just launched. Take a look at the credit card, there's no competitor in the market. It's the first that's oriented to health and wellness. It's true innovation, a lot of work behind it, but there's a lot of new business income coming in that's offsetting some of this reimbursement pressure and we have fair line of sight for these opportunities. I don't know how you feel, John.

John T. Standley - *Walgreens Boots Alliance, Inc. - Executive VP & President of Walgreens*

Yes. I'd point out a couple of things, too. First thing is we had a really good year this year. And when you look at top line results, we did get a nice pickup from the vaccine. But you also have to consider that we had absolutely no cough and cold season last year, which was a killer over the winter.

So if you think about this year, we're going to maybe have a little bit of headwind on the vaccine. But if we get a little bit of recovery in cough and cold, those things kind of washed out this last year, you'll -- then should see how it sort of plays out, I think, for this year.

The second thing is we haven't talked a lot other than my talk earlier about our customer engagement platform. And that, we're really excited about. We think that gives us an avenue to growth. We're really trying to personalize our offers and the way we go to market, and we've made some really good progress there. And in fact, coming up here like next week, our digital offers will all be customized individually to our customers. So I'm really excited about that.

So I think we've got some really good growth opportunities there, add on some things we can do in testing and where we're going with vaccine, both with flu and with COVID. And I think we've got some really good kind of growth opportunities here in addition to the block of some of the merchandising things we're doing and other opportunities that we're working on.

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

Just a quick follow-up for James, if I can. James, the -- did you just preempt the ABC guidance call for next year with your assumptions around...

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

We actually -- we're not that smart, honestly. What we do is we take your numbers. So actually, we take the average consensus that exists for ABC, and that's what we build in our plan. So we actually rely on you.

Jonathan Spitzer - *Walgreens Boots Alliance, Inc. - VP of IR*

All right. That's a perfect note. Well, with that, thank you for the time today. Before we close over, I'm going to hand it back to Roz for some closing comments. So Roz, over to you.

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

All right. Jay, thank you for everything today. First of all, I hope you take away some few key very salient points here today. We tried to express a real clarity of our vision, the clarity of our strategy and just how excited we are about what's ahead for us. We've actually announced a completely new strategy today. This is a major pivot to U.S. health care.

When you think about Walgreens Health, I just want to remind you, it's differentiated. And our independent offering in the local community, both the physical and digital partners we have with patients and our payers, we're looking at an innovative suite of services. And these assets, hopefully will help us integrate into a whole new category. So with our existing position and our trusted health and well-being provider in the communities across the U.S., we really think this is going to be a step change difference for us.

So we're looking forward to keeping you all up abreast in terms of where we are, how we're moving forward. You'll see as we talk about new talent additions to the company. But remember, we've got things moving in the right direction on our core U.S. business and our operations there. John and his team is doing a fantastic job.

We've got our new growth engine, Walgreens Health. We're looking at our equity investments, turning those into really active parts of our business and our long-term strategy. And we're in a pretty good strong cash flow position. So at this point, WBA has never been more vital than it is today. So we're excited about where we are. We appreciate you joining us in this virtual setting, and we look forward to seeing you guys some time in person. Thank you.