

Walgreens Transformed by Megamerger

DEERFIELD, Ill. — The Walgreens Boots Alliance Inc. (WBA) era is under way.

With the finalization of the merger of Walgreen Co. and Alliance Boots GmbH on December 31, a global pharmacy and drug distribution power was born.

Its size and scope positions WBA to be nothing less than “one of the companies that helps shape the future of health care, pharmacy and retail on a global basis,” executive vice chairman and acting chief executive officer Stefano Pessina said this spring.

Already the company has achieved much, Pessina said, on

its way toward fulfilling its potential to become an “extraordinary and outstanding organization.”

Combining two businesses will, by definition, change both, he said. “The secret to capturing the true value of any such merger is recognizing this, expecting it, and embracing it as it happens.”

The three main parts of WBA’s business model are distribution, brands and pharmacy-led retailing. It will consider market entries “where we can see an opportunity to operate any one of these elements well and at scale within a reasonable time,” said Pessina. “Frequently to date this has been through merger or acquisition.” In wholesaling in particular, such a move “is the easiest way to get to scale quickly,” he said.

The company’s distribution business gives it significant

tactical and strategic advantages that provide additional strength to the group as a whole, he noted. “It is an extremely cash-generative business that provides a common platform and true international presence in a sector we scope for further consolidation.”

Wholesaling is an “enabling business” that allows WBA to enter new markets more rapidly than retail, with cash flow that provides financial scale and efficiencies, he said. “It brings the mind-set of running a low-margin business with all the rigors and disciplines that it demands into the mix of the combined group’s culture.” Also, it is the basis of WBA’s “world-class procurement” of pharmaceuticals.

Across all its businesses, WBA can expand horizontally — add to its networks to access new

markets and increase its footprint and volume. But a market is most enticing to the company when it offers a route to harmoniously combining two — or ideally all three — components of WBA’s business model in order to gain efficiencies; differentiation; and clear, sustainable value.

The company will assess any opportunity that may open a new market for it, deciding whether to go further only after detailed analysis. It remains committed to vertical integration and devotes extensive time and effort to considering how markets have evolved, particularly in health care, to ensure that it is growing in a way that aligns it even more closely with payers, said Pessina.

In the United States, said WBA executive vice president and Walgreens president Alex Gourlay, the company’s mission is to make the chain “America’s most loved, pharmacy-led health, well-being and beauty retailer.”

The mission will be accomplished with “an integrated, back-to-basics approach: pharmacy and front of store that deliver ultimate convenience, customer loyalty and extraordinary cus-

WALGREENS

measures to generate consistent execution.

“Over the holidays we saw some of the best execution we have seen in years: great inventory management, smooth sell-through, product availability right through the busiest days, excellent customer feedback,” said Gourlay. “All thanks to a fully developed customer plan.”

Other efforts include leveraging the Balance Rewards program, which will be enhanced with additional ways for consumers to accumulate points and earn rewards. With more than 80 million active Balance Rewards members, Walgreens can distribute more than 30 million personalized offers, he noted.

“Our savvy customers have our app, their rewards information and other details delivered straight to their phone,” he said. “And to bring our brand promise to life we are celebrating healthy lifestyles with Balance Rewards for Healthy Choices, rewarding customers with points for exercise activity, for adopting healthy habits such as regular blood pressure testing and for eating right.”

Walgreens is also intent on controlling costs, Gourlay said. The company committed last year to \$1 billion in cost cuts by 2017, has instituted a corporate hiring freeze, and is changing policies on travel and expenses and use of management consulting and temporary labor. There has also been a pay freeze for top U.S. executives. The savings target is now \$1.5 billion, up from the initial \$1 billion.

The moves are designed to create a sustainable cost model, Gourlay said, allowing Walgreens to reinvest in key areas — including information technology, store formats, customer service support and personnel training and development — to drive growth.

WALGREENS

FINANCIAL RESULTS (8/31/14)

SALES:	\$76.39 billion (+5.8%)
NET EARNINGS:	\$1.93 billion (-21.1%)*
NET MARGIN:	2.5%
COMPARABLE-STORE SALES:	+ 4.9%

OPERATIONS

HEADQUARTERS:	Deerfield, Ill.
FISCAL YEAR-END STORE COUNT:	8,207
PRIOR YEAR-END STORE COUNT:	8,116
BANNERS:	Walgreens, Duane Reade, Healthcare Clinic, drugstore.com, beauty.com, VisionDirect.com, Skinstore.com, Community Pharmacy, Pioneer, Corner W

RANK

5 in sales

*Earnings for fiscal 2014 include the following after-tax items: an \$866 million noncash charge to record the company’s loss on the amendment and exercise of its Alliance Boots call option, \$238 million for acquisition-related amortization, \$167 million in Alliance Boots-related tax, \$54 million in acquisition-related costs, \$139 million for store-closure expense, and \$40 million in other optimization costs, all partially offset by a \$351 million increase in the fair market value of warrants to purchase AmerisourceBergen’s common stock and a \$6 million gain on the sale of Take Care Employer Solutions. Prior-year earnings reflected the following after-tax items: \$241 million of acquisition-related amortization, \$124 million in Alliance Boots-related tax, \$60 million in other acquisition-related costs, \$47 million in costs related to a settlement with the Drug Enforcement Administration, \$8 million stemming from Walgreens’ transition to AmerisourceBergen Corp. as its prescription drug distributor, and \$24 million in costs stemming from Hurricane Sandy, all partially offset by a \$110 million gain on the increase in the fair market value of AmerisourceBergen stock warrants, and a \$13 million gain on the sale of Walgreens Health Initiatives Inc.



Management Team Takes on a New Look

DEERFIELD, Ill. — Dramatic personnel changes have accompanied the lead-up to and early days of Walgreens Boots Alliance, most notably the retirement of Greg Wasson as Walgreens president and chief executive officer.

Stefano Pessina, who was executive chairman of Alliance Boots, became WBA’s acting CEO, while Alex Gourlay, who was president of customer experience and daily living for Walgreens, became the chain’s president.

Another major change was the appointment of Richard Ashworth as Walgreens president of pharmacy and retail operations. He is responsible for uniting all the retailer’s services across the country. He had been director of health care for health and beauty, U.K. and Ireland, at Alliance Boots. He was responsible for the pharmacy, opticians and hearing care teams while serving on the Boots U.K. operating committee.

Also, Linda Filler was named Walgreens president of retail products and chief merchandising

officer. She will be responsible for the vision, leadership, strategic direction and performance of all merchandising activities.

Filler had been president of Claire’s Stores Inc. Prior to that, she was executive vice president and chief merchandising officer at Sam’s Club, where she also led the owned brand strategy. She also held executive vice president positions at Walmart and Kraft Foods Group Inc., and leadership positions of increasing responsibility at Hanes brands for Sara Lee Corp.

“Linda brings to Walgreens significant experience in merchandising, marketing and strategy in a variety of industries, and will be a great addition to our leadership team and our retail products division,” said Gourlay.

George Fairweather, who was formerly group finance director of Alliance Boots, is WBA’s global chief financial officer. Fairweather succeeded Timothy McLevish, who was the initial global CFO of the combined companies.

The goal is to ‘help shape the future of health care’

tomor care,” he said. Supporting that customer experience will be “a sustainable cost model that is incredibly efficient.”

To strengthen its pharmacy operation, Walgreens will have a robust online and mobile component, while bolstering its partnerships with payers, Gourlay said. The retailer will also eliminate unnecessary back-end processes to free up pharmacists for patient counseling, while optimizing the clinic model.

In the front end, Walgreens has concentrated on efficient retailing to expand margins. It is streamlining the supply chain to improve its in-stock position while driving inventory productivity. Also in place are strong

