Walgreens Rx Supply Chain
Transforming to an Outsource Model

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Walgreens
AT THE CORNER OF HAPPY & HEALTHY™

Background

- BS-Finance (Indiana University) and MBA-Finance (DePaul University)
- Andersen Consulting (now Accenture) for 6 years in IT consulting
- Areas worked at Walgreens over the last 21 years:
  - Finance
  - eCommerce
  - Business Development
  - Rx Purchasing & Supply Chain since 2003
- Current responsibilities include:
  - Buying of pharmaceutical into all business units
  - Optimization of Rx inventory levels across all business units
  - Operational ownership of the new Amerisource Bergen relationship
  - Analytics for the Rx Supply Chain and Rx Purchasing
  - Long-term Rx integration with Alliance Boots

Transforming the Face of Healthcare

From the corner drugstore to **healthcare leader**

Charles R. Walgreen opens his first drugstore

Walgreens introduces childproof safety caps

Walgreens launches the first drive-thru pharmacy

Take Care Clinics℠ open

Walgreens smartphone app **allows customers to refill prescriptions from their mobile devices**

Over 110 YEARS of innovation.

1901 1968 1992 2007 2010 2013

The Corner Store and MORE

More capabilities through strategic acquisitions and partnerships

medmark
A Walgreens Specialty Pharmacy

bioscrip

duane reade

drugstore.com
the uncommon drugstore

Cystic Fibrosis Foundation

OPTIONcare
Specialty Pharmacy and Infusion Services

SpecialtyScripts
PHARMACY

SCHRAFT'S
A Walgreens Specialty Pharmacy

McKesson Specialty Pharmacy

IVPCARE®
A Walgreens Specialty Company

healthcare clinic

i-trax
Healthy working. Healthy living.

Critical Care Systems®

WHOLE HEALTH

KERR DRUG
For a Healthy Relationship

USA Drug

Crescent Healthcare, Inc.
Trusted Partner in Innovation

theranos

Alliance Boots

AmerisourceBergen®

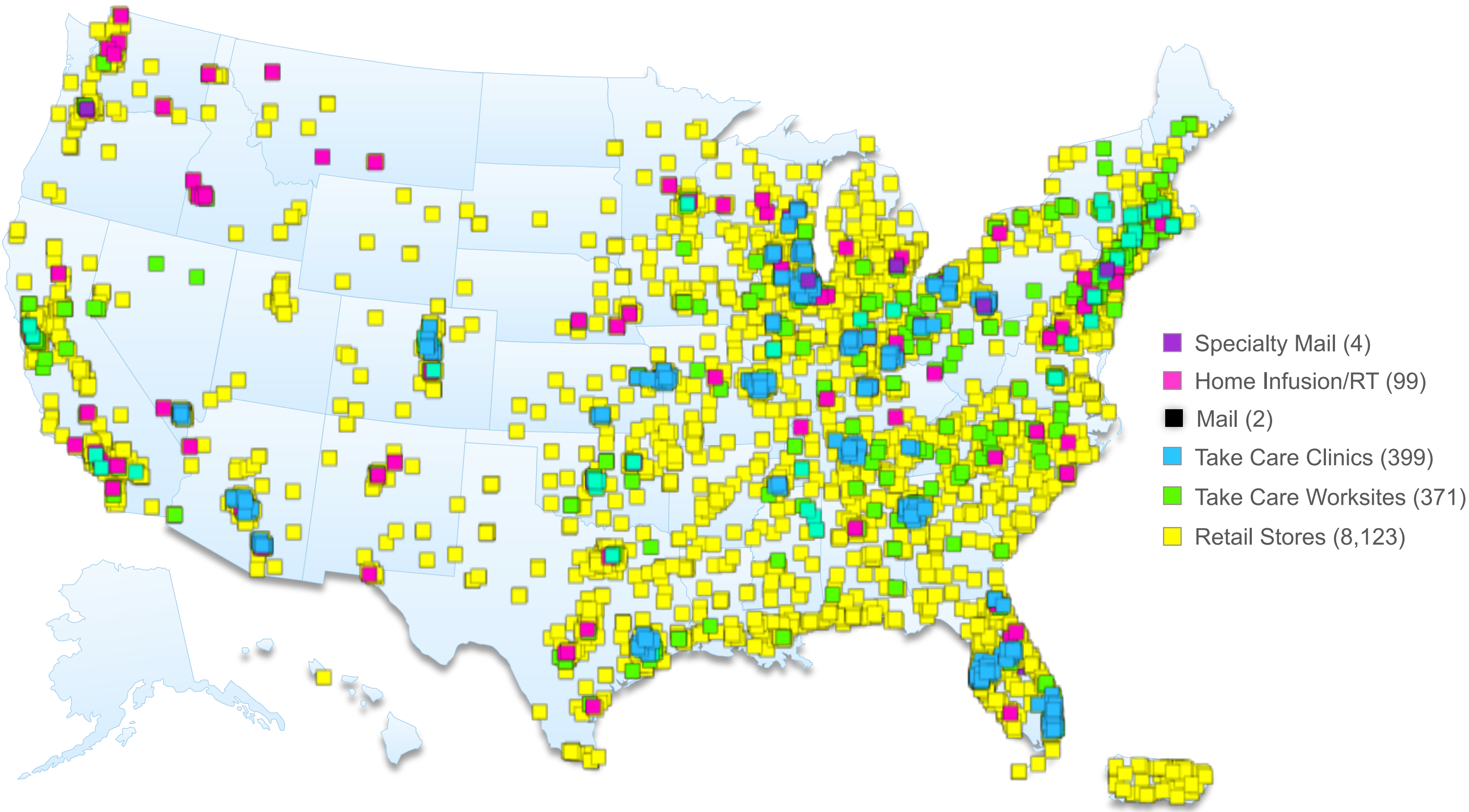
More Services in More Places

Walgreens offers cost-effective care services delivered through:

- Retail Pharmacies
- Retail Clinics
- Worksite Health Centers
- Alternate Treatment Sites / Home Infusions
- Pharmacy Centers of Excellence
- Specialty Pharmacies
- Health System Pharmacies

Walgreens: Multichannel, National Footprint with a Local Presence

Walgreens is the largest retailer in the country, filling more than 21% of all scripts-more than any other pharmacy network



On the Front Line of Healthcare

27,000 | Pharmacists & Nurse Practitioners

70,000 | Health Care Providers

#1

Retail Pharmacies	24 Hour Pharmacies
Retail Pharmacy Share	Pharmacy Drive-Thrus
Retail Pharmacy Sales	Employer of Pharmacists
Retail Prescriptions	Certified Immunizing Pharmacists
Flu Shots Administered	Certified Pharmacy Technicians

Leveraging the Best Pharmacy Delivery Network

Nearly

of America lives within 3 miles of Walgreens

- Over 8100* Stores & 8,500 Points of Care
- 3rd Largest Specialty Pharmacy; Largest Home Infusion Provider
- 27,000 Registered Pharmacists & 37,000 Certified Technicians
- ~20% U.S. Retail Rx Market 6 Million Customers a Day
- 75% of African-Americans & 78% of Hispanics Live within 3 Miles of a Walgreens

Walgreens: Fighting For #1

Company	Stock Ticker	Estimated 2012 Prescription Revenues[1] (billions)	Share of 2012 Prescription Revenues	Primary Dispensing Format
CVS Caremark Corporation	CVS			
• Retail Pharmacy		$43.7	15.8%	Chain drugstore
• Pharmacy Services[2]		$19.4	7.0%	Mail pharmacy
Walgreen Company[3]	WAG	$42.8	15.5%	Chain drugstore
Express Scripts, Inc.[4]	ESRX	$32.9	11.9%	Mail pharmacy
Wal-Mart Stores, Inc.[5]	WMT	$17.9	6.5%	Mass merchant with pharmacy
Rite Aid Corporation	RAD	$17.7	6.4%	Chain drugstore
The Kroger Company	KR	$7.5	2.7%	Supermarket with pharmacy
Safeway, Inc.	SWY	$3.9	1.4%	Supermarket with pharmacy
UnitedHealth	UNH	$3.5	1.3%	Mail pharmacy
Target Corporation	TGT	$3.1	1.1%	Mass merchant with pharmacy
Sears Holding Corporation[6]	SHLD	$2.3	0.8%	Mass merchant with pharmacy
Supervalu Inc.	SVU	$2.2	0.8%	Supermarket with pharmacy
All other chains	n/a	$35.4	12.8%	various
Independent pharmacies	n/a	$44.2	16.0%	Independent drugstores
Total		$276.5	100.0%	

Totals may not sum due to rounding.

1. Includes revenues from all pharmacy formats.
2. Excludes revenues from 90-day Maintenance Choice claims filled in CVS retail pharmacies. These revenues are included in Retail Pharmacy.
3. Excludes non-outpatient prescription revenues.
4. Includes proforma combination with Medco Health Solutions
5. Includes Walmart and Sam's Club stores
6. Includes Sears and Kmart

Sources: Company reports; *Drug Store News*; Pembroke Consulting estimates

The US Market is on the Verge of Significant Change

Headwinds

- Challenging economic climate
- Increased focus on value for our healthcare dollar
- 50 Million Americans Do Not Have Health Insurance
- 60 million Americans do not have access to a primary care physician

Tailwinds

- Aging of America
- More than 30M gaining insurance coverage in 2014
- Total drug spend expected to grow by $35-$45B in 3 years
- Strong pipeline of innovative and specialty therapies
- Significant need for accessible, high-quality healthcare services and providers

Walgreens Core Strategies

Strategic growth drivers to position us for long-term growth and value creation

Deliver the Well Experience

Transform the customer experience across all touch points, channels and formats

Transform the Role of Community Pharmacy

Offer unparalleled access to innovative, high quality, affordable health and wellness services within our communities

Create an efficient global platform

Become the first global pharmacy-led health and wellbeing enterprise

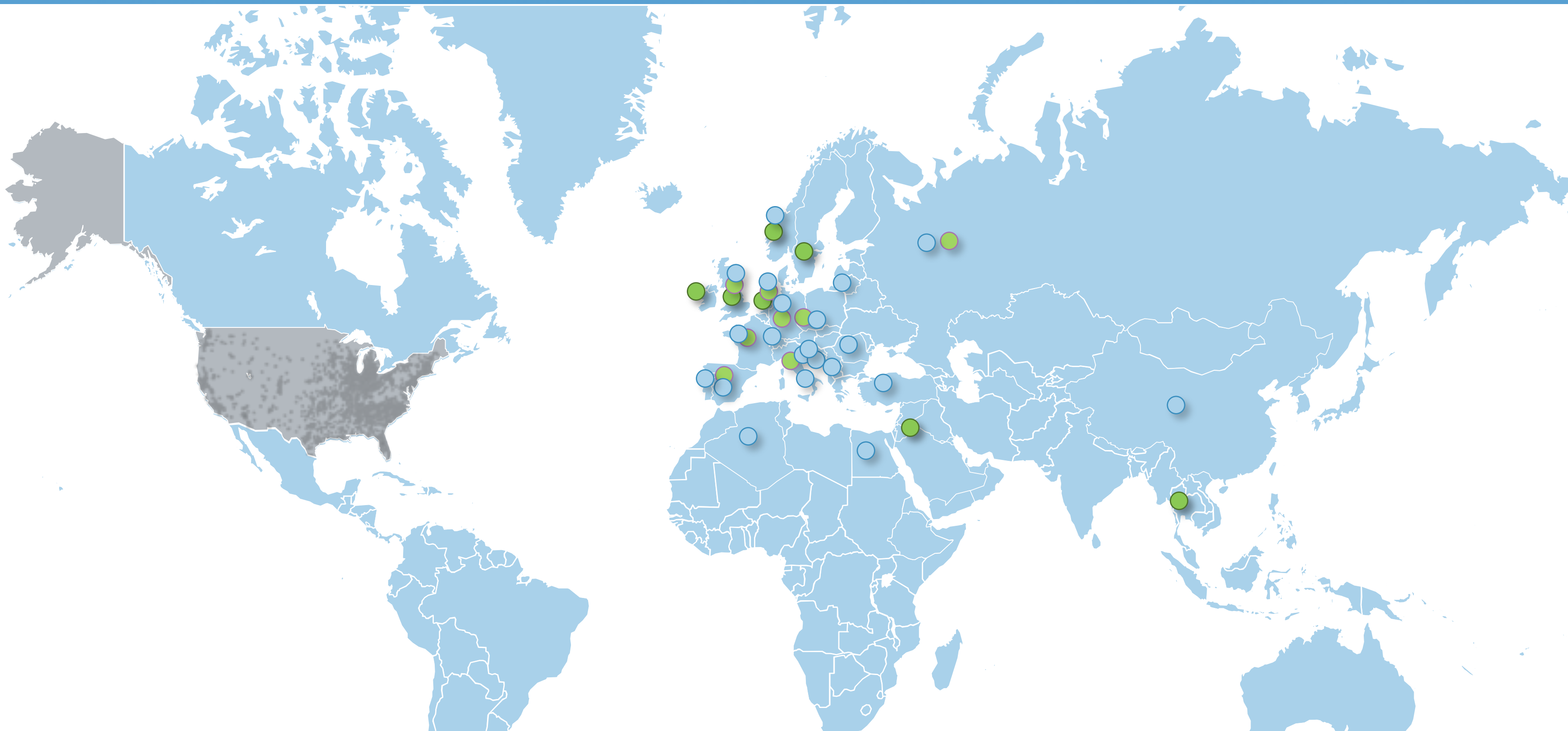
Walgreens and Alliance Boots Partnership:
First Global, Pharmacy-led Health and Well-Being Enterprise

The combination of Alliance Boots and Walgreens will create:

- A **global leader** in pharmacy-led health and wellness retail
- The **largest global biopharmaceutical wholesale and distribution network**
- The world's **largest purchaser of prescription drugs** and other health and well-being products

Within the framework of their partnership, the two companies have established a joint venture called **Walgreens Boots Alliance Development GmbH**

Unequalled Global Access



Alliance Boots

- Boots international countries: UK, ROI, Thailand, Netherlands, Middle East, Sweden, Norway
- Alphega: UK, France, Italy, Spain, Czech republic, Germany, Netherlands, Russia
- Wholesale countries: France, UK, Turkey, Spain, Germany, Russia, The Netherlands, Czech Republic, Norway, Egypt, Lithuania, Romania, Algeria, Croatia, Bosnia, Serbia, Slovenia, China, Italy, Portugal, Switzerland

Our Initiatives Are Organized to Deliver the Key Components For Success

Design a Winning Global Organization

- Design the future state of the corporate governance and business model for operating a global enterprise
- Engage in business planning, human capital capability, total rewards, and infrastructure that support the appropriate balance of global consistency and local flexibility

Optimize the Global Supply Chain

- Create economic value and sustainable competitive advantage through improved product availability, inventory productivity, and cost productivity
- Build industry-leading customer and supplier relationships through agility and segmentation
- Share and leverage best practices between Walgreens and AB and break down internal functional silos to accelerate innovation and drive superior customer service and productivity
- Create an optimized supply chain within our industry

Expand Own Brand Portfolio

- Create the strongest and most efficient portfolio of retailer-owned global consumer brand assets, where each brand plays a clear strategic role within its category(ies) and, in the case of retail and differentiated brands, is recognized as the market leader within its category
- Put our full weight behind this well-structured portfolio to maximize competitive advantage and margin contribution, and leverage with our retail expertise to become the partner of choice for innovation launches

Leverage Best Practices, Capabilities, and Innovation

- The identification, collection, and delivery of business assets that enable our future state operating model, foster innovation, and drive shareholder value.
  - **Best Practices** focuses on leverage and reuse of concept, process, system, operating model, and the adoption of industry best practices that are required to support future state needs.
  - **Capabilities** focuses on new functions and capabilities required to support the future state operating model.
  - **Innovation** focuses on cultivating innovation across a global enterprise.

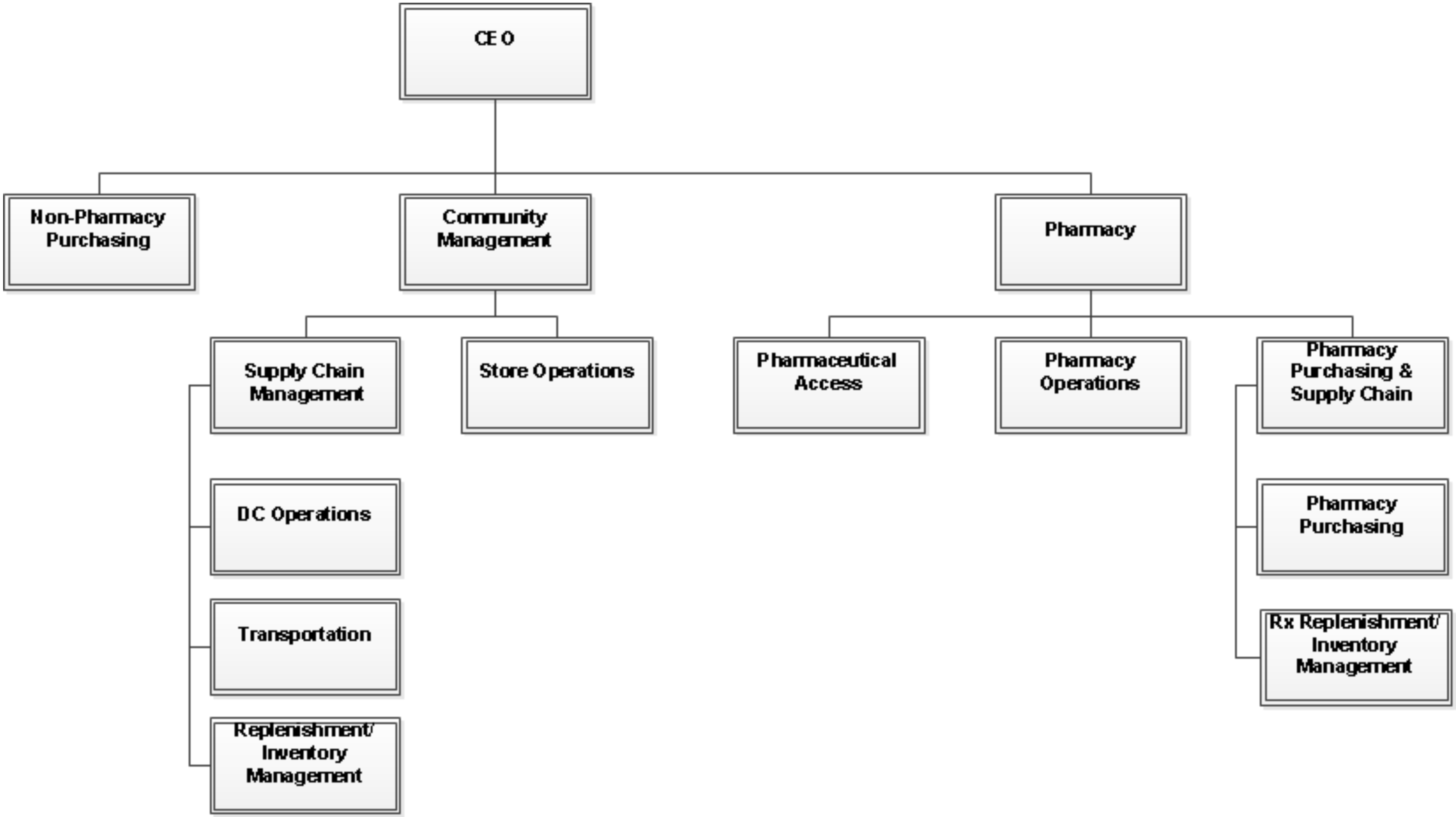
Pursue New Market Opportunities

- Utilize current international assets (both Walgreen and Alliance Boots model) for expansion into new international markets in alignment with AB strategy
- Identify/prioritize new markets and targets
- Enter into new markets primarily through Joint Venture and/or mergers and acquisitions
- Support the execution of identified opportunities

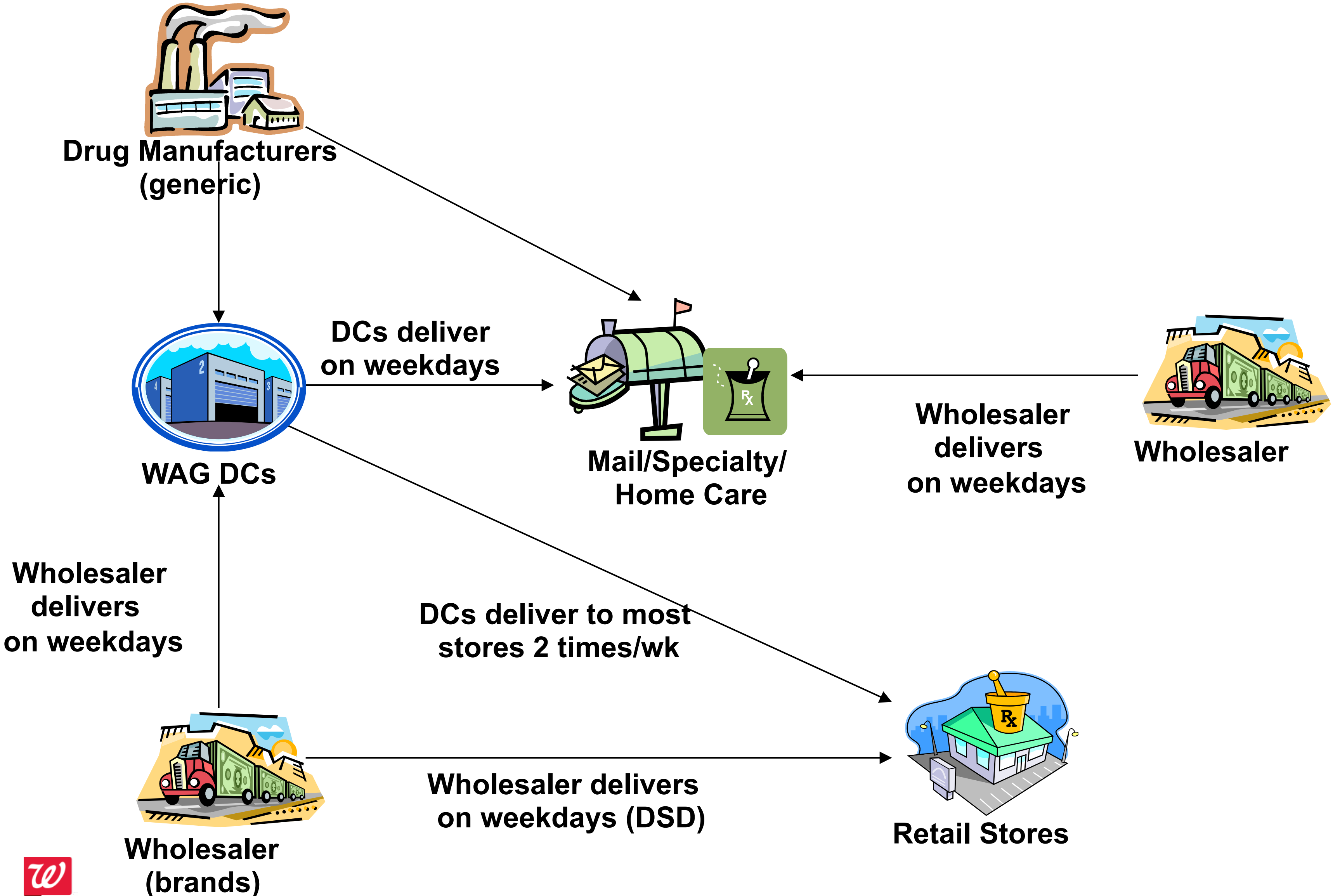
Key Programs

Synergy Capture/AB Integration/Brand Optimization, U.S. Supply Chain Transformation (includes Retail Renewal) and Market Expansion

Walgreens Supply Chain: Rx Split From Non-Rx



Walgreens Historical Rx Supply Chain



U.S. Wholesaling – Current Breakdown

Company	Primary Dispensing Format	Wholesaler
CVS Caremark Corporation		
• Retail Pharmacy[1]	Chain drugstore	Cardinal Health
• Pharmacy Services	Mail pharmacy	McKesson
Walgreen Company	Chain drugstore	Cardinal Health
Express Scripts Holdings[2]	Mail pharmacy	AmerisourceBergen
Wal-Mart Stores, Inc.	Mass merchant with pharmacy	McKesson
Rite Aid Corporation[3]	Chain drugstore	McKesson
The Kroger Company	Supermarket with pharmacy	Cardinal Health
Safeway, Inc.[4]	Supermarket with pharmacy	Cardinal Health
UnitedHealth	Mail pharmacy	McKesson
Target Corporation	Mass merchant with pharmacy	McKesson
Supervalu Inc.	Supermarket with pharmacy	McKesson
Kmart Corporation	Mass merchant with pharmacy	Cardinal Health

Sources: Company reports; Pembroke Consulting research

1. AmerisourceBergen is a secondary supplier to CVS Caremark.
2. Express Scripts switched from Cardinal to AmerisourceBergen, effective October 2012.
3. In October 2012, Rite Aid renewed its supply agreement with McKesson until March 31, 2016.
4. Safeway switched from McKesson to Cardinal, effective April 2012.

New Strategy: Buy Brand Direct

Walgreens worked on a new strategy to disintermediate the wholesalers and buy/distribute ALL Rx direct from manufacturers

- Majority of generic purchasing direct for many years
- Walgreens put together a purchasing team in 2011 focused on moving to a direct brand purchasing model at the conclusion of the Cardinal contract (8/31/13)
- Worked towards direct service agreements (DSAs) agreements with all brand manufacturers
- Met with mixed reactions from the brand manufacturer and wholesaling industries
- Direction was changed with the announcement of the strategic deal with Amerisource Bergen (March 2013)

March 2013: AmerisourceBergen Deal Announced

Branded & Generic Pharmaceutical Distribution

- New 10-year agreement creates unequalled buying opportunities in the generic drug purchasing market
- Allows additional, newly innovative solutions

Strategic Collaboration

- Collaboration on global supply chain opportunities, customer and supplier collaboration and domestic and international growth

Equity Alignment

- Aligned common interests to improve healthcare delivery and value for patients
- Walgreens and Alliance Boots together have the option to acquire up to 23% equity in AmerisourceBergen

Strategic Long-Term Partnership With Amerisource Bergen

Walgreens will move from the current model to a new model for the procurement and distribution of brand and generic pharmaceuticals

- Walgreens will be outsourcing all distribution of pharmaceuticals to Amerisource Bergen
- We have entered into a 10-year deal that starts 9/1/2013
- Amerisource Bergen will take over purchasing for brand pharmaceuticals (with the exception of certain direct specialty, WIRS, and vaccine purchasing which we will retain)
- Amerisource Bergen will buy all generics (for Walgreens volume and non-Walgreens volume) via WBAD (the Walgreens/Alliance Boots joint venture)

Rx Outsource Model: Benefits

- Lower inventory investment by eliminating DC inventory
- 2 days/wk delivery to stores moved to 5 days/wk delivery via ABC (decrease in store safety stock)
- Much more strategic/collaborative wholesaler relationship
- Increased leverage in COGS negotiations
- Leveraging ABC’s core competency

Rx Outsource Model: Challenges

- Loss of some control over purchasing into the stores
- Generic formulary compliance concerns
- Supply issues (particularly generics)
- Elevated store inventory issues
- Limited inventory smoothing across retail store network
- Higher COGS with a wholesaler model (vs. direct)

Next Opportunities

- Integration with Alliance Boots
- New opportunities with AmerisourceBergen
- Front-end supply chain opportunities