PARTICIPANTS

Corporate Participants

Rick J. Hans – Divisional VP-Investor Relations & Finance, Walgreen Co.
Gregory D. Wasson – President and Chief Executive Officer, Walgreen Co.
Wade D. Miquelon – CFO, President-International & Executive VP, Walgreen Co.
Kermit R. Crawford – President-Pharmacy, Health & Wellness Services, Walgreen Co.

Other Participants

Steven J. Valiquette – Analyst, UBS Securities LLC
Mark R. Miller – Analyst, William Blair & Co. LLC
John E. Heinbockel – Analyst, Guggenheim Securities LLC
Ricky Goldwasser – Analyst, Morgan Stanley & Co. LLC
George R. Hill – Analyst, Deutsche Bank Securities, Inc.
Michael R. Minchak – Analyst, JPMorgan Securities LLC
Robert P. Jones – Analyst, Goldman Sachs & Co.
Edward J. Kelly – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Charles Rhyee – Analyst, Cowen & Co. LLC
Meredith Adler – Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Walgreen Co First Quarter 2014 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Rick Hans. You may begin.

Rick J. Hans, Divisional VP-Investor Relations & Finance

Thank you, Nicole, and good morning, everyone. Welcome to our first quarter 2014 conference call. Today Greg Wasson, our President and CEO, and Wade Miquelon, Executive Vice President, CFO and President International, will discuss the quarter. Also joining us on the call are Kermit Crawford, President of Pharmacy, and Mark Wagner, President of Store Operations.

As a reminder, today's presentation includes certain non-GAAP financial measures and I would direct you to our website at investor.walgreens.com for reconciliations to the most directly comparable GAAP measures and related information. You can find a link to our webcast on our Investor Relations website. After the call, this presentation and a podcast will be archived on our website for 12 months.

Certain statements and projections of future results made in this presentation constitute forward-looking statements that are based on current market, competitive and regulatory expectations that involve risk and uncertainty. Except to the extent required by law, we undertake no obligation to update publicly any forward-looking statement after this presentation, whether as a result of new information, future events, changes in assumptions or otherwise. Please see our latest Form 10-K and 10-Q and subsequent filings for a discussion of risk factors as they relate to forward-looking statements.

Now, I'll turn the call over to Greg.

Gregory D. Wasson, President and Chief Executive Officer

Thank you, Rick. Good morning, everyone, and thank you for joining us on our call. Today, I'll begin with highlights of our performance in the first quarter. Next, I'll update our strategic progress in light of the continued soft economy. And, finally, I'll look ahead into the fiscal year. Then I'll turn the call over to Wade for a more detailed financial review of the quarter and the coming year.

Before we get into the highlights, I want to start by saying we are generally satisfied with our top-line results, our cost management and our synergy performance this quarter. Our margins, however, were most significantly affected by the year-over-year negative impact related to generics. This quarter saw a significant shift in the generic wave from a peak in introductions in the first quarter last year to trough this year.

We also saw an impact from our strategic decision to make meaningful promotional investments in our Daily Living business. Wade will walk you through the gross margin story in more detail later.

Regarding sales for the quarter, we generated a record $18.3 billion. GAAP and adjusted first quarter earnings per diluted share were $0.72, which include the positive impact of $0.07 per diluted share attributable to a deferred tax adjustment from a reduction to the U.K. corporate tax rate for Alliance Boots.

We filled a record 213 million prescriptions in the quarter and increased our pharmacy market share 50 basis points to 19.4% year over year. We opened an innovative new store with Johns Hopkins Medicine, which will allow us to co-develop clinical initiatives designed to improve community health care that we intend to pull throughout the chain.

Walgreens and Theranos also took the next step in our planned national roll-out of groundbreaking new lab services with the opening of Theranos Wellness Centers in two stores in Phoenix.

We continue to participate in industry consolidation as we completed the acquisition of certain assets of Kerr Drug's retail drugstores and specialty pharmacy business. And, finally, we opened our net zero energy store in Evanston, Illinois. We're investing in this store to bring what we learn to our other locations and help us reduce our chain-wide energy consumption 20% by 2020.

As I mentioned, we reported first quarter sales of $18.3 billion, up 5.9% from $17.3 billion a year ago. GAAP operating income for the quarter was $924 million, up 31.1% from $705 million last year. Adjusted operating income for the quarter was $1.1 billion up 19.4% from $924 million in first quarter 2013.

GAAP earnings per diluted share were $0.72 in the first quarter compared to $0.43 last year, up 66.1%. And first quarter adjusted earnings per diluted share were $0.72, up 24.1% from $0.58 in the same quarter last year.

Finally, we generated operating cash flow of $133 million in the first quarter compared with $601 million in the year-ago quarter. The decrease was primarily the result of the timing of working capital changes associated with our transition to AmerisourceBergen.

Looking at our gross profit dollar growth and SG&A dollar growth on a GAAP basis, this quarter, the spread was $72 million. On an adjusted basis, the spread was $44 million. Adjusted gross profit dollar growth increased by $61 million or 1.2% compared to the same quarter last year. Adjusted SG&A dollar growth increased $17 million or 0.4% compared to the same quarter last year as we continued our strong focus on cost management. In fact, our SG&A dollar growth performance this quarter was among the best we've had in the past several years.

As we made progress on our top-line results, we also advanced our three strategic growth drivers: creating the Well Experience; transforming the role of community pharmacy; and establishing an efficient global platform. Today, I'll provide an update on that progress.

Beginning with Well Experience, we are continuing to see a value conscious consumer and the impact of a soft economy. We responded with meaningful promotional investments in the quarter resulting in an increase in traffic of 210 basis points compared to fourth quarter fiscal 2013. In addition, basket size grew 2.2% and Daily Living sales in comparable stores increased 2.4%, all compared to the same quarter last year.

We also saw aggregate gains in market share in the quarter across Nielsen track categories in our Daily Living business, which improved as the quarter progressed. While these numbers represent solid gains in our Daily Living business, as we go forward into fiscal 2014, we will leverage our data and insights from Balance Rewards to improve the effectiveness of our promotional investments.

We're elevating our focus on meeting customers' expectations in all channels and are driving alignment across our organization with the appointment of Sona Chawla as President of Digital and Chief Marketing Officer. Through her new role, we bring together the power of e-commerce, marketing and insights and analytics teams to help deliver our Well Experience.

A key part of that strategy is the continuing roll-out of our Well Experience store format. We're pleased with our progress to date on Well Experience with 87 new and converted stores this quarter, totaling 600 across the country. As we continue to refine our strategy, we will bring our innovative format with its updated assortments and integrated healthcare offering into new markets.

We're also enhancing our beauty offering, which we rolled out in nearly 200 of our Phoenix and Arizona stores this quarter, and where we launched Boots No7 products in partnership with Alliance Boots along with a broader assortment of beauty brands. We also created a more engaging interactive experience for our customers with specialized training for our beauty advisors and, most importantly, performance is exceeding our expectations.

And, finally, turning to Balance Rewards. 70% of front-end sales in November were processed through our loyalty program with 74 million active members and 92 million members enrolled. Also, with more than 12 months of data, we are gaining valuable insights into our customers' shopping and purchasing habits giving us excellent information to work with as we sharpen our category plans for the year ahead.

In our Pharmacy, Health & Wellness business, demand for flu shots remained high despite the slow start to the cough, cold and flu season. In a quarter, we administered 1.1 million more flu shots than we did last year, bringing our total for the season to-date, to 6.4 million.

In addition, our script comp was up 5.5% in the quarter and our retail pharmacy market share increased 50 basis points to 19.4% year-over-year. We also exceeded the industry prescription growth rate in the quarter by 2.9 percentage points and filled a record 213 million prescriptions.

However, as I described earlier, our margin was impacted by a negative effect related to generics, including a slowdown in generic introductions as well as an impact to controlled pain medications. The past year we led the industry to ensure the safe dispensing of controlled medications, working to ensure our patients receive the medications they need and to help control abuse through new processes, procedures and training as part of our Good Faith Dispensing Policies.

As result of our enhanced procedures, we saw some drop-off in volume of these higher margin medications and a 50 basis point impact to gross profit dollar growth.

As we begin to look beyond the flu season, we will leverage our success with flu shots to drive our non-flu vaccine program. We've seen year-over-year growth in vaccines of 34% and we continue to see tremendous potential to grow our share of the $7.4 billion market.

We also will continue to grow our share of Medicare Part B patients as we take advantage of the consolidation of mail-order diabetes testing supply companies. As a result, we have seen significant growth in our testing supply prescriptions and are looking to continue to increase that business.

Last year, our share in Med D outpaced the industry and we are focused on improving our performance this year. Once again, we are a preferred provider for four of the top national plans offering our customers lower co-pays for the medications. We have experience with these programs, know the customers and believe we are well-positioned to improve our Med D script volume.

Through our Well Network, we have brought over 400 healthcare clinics, specialty and infusion assets, hospital on-sites, centers of excellence and other resources together with our 8,200 retail pharmacies and connected them with partners across the industry, including physicians, health plans, payers and plans. Together, we are pioneering new kinds of partnerships and models of care that will create better experiences for patients, improve health outcomes and lower the overall healthcare costs.

Next, our partnership with Alliance Boots also continue to add to our results contributing $0.14 per diluted share to Walgreens first quarter 2014 adjusted results, which included $0.07 per diluted share attributable to the deferred tax adjustment I referenced earlier. As you recall, that compares favorably to our previous estimate of $0.05 for the quarter.

In addition to the company's contribution, we're making solid progress through our joint venture in Bern, Switzerland, building productive relationships with generic manufacturers and integrating AmerisourceBergen into our global procurement process.

In addition, with our scale and expertise, we can add value beyond procurement working with manufacturers on a full range of programs that bring together our healthcare assets, improved service delivery and health outcomes. 16 months into our work, I'm more confident than ever in our game-changing strategic partnership with Alliance Boots, and our strategic relationship with AmerisourceBergen. We're bringing together two iconic retail brands, the leading European integrated wholesale retailer and a leading U.S. wholesaler to create a truly unique collaborative global retail wholesale model.

This combination is powerful in itself, three of the world's leaders in our respective industry sectors, building a global platform that is unmatched in the retail or wholesale pharmacy industry that will allow to not only better serve the U.S. and European healthcare systems and patients, but allows to serve the growing markets around the world. Wade will give you more details on this as well as our progress toward our 2016 goals shortly.

Overall, we believe we are well positioned for future growth. As we noted in our press release, we anticipate the effect of the generic trough will moderate in the back half of the year. And with our joint venture in Bern, we are best positioned to manage the changes taking place across the industry. We are focused on determined execution in our core business, the fundamentals that have always defined this company, disciplined cost management, driving top-line results and meeting the needs of customers every day in our stores.

Finally, with Christmas just a few days away, we are in amidst of our business season. I want to thank our employees who have done a great job providing extraordinary customer care and ensuring that we execute with excellence during a very critical time for our business. We wish everyone on our team a happy and healthy holiday season.

And with that, thank you, happy holidays, and I'll turn the call over to Wade.

Wade D. Miquelon, CFO, President-International & Executive VP

Thank you, Greg. Good morning, everyone, and thank you for joining us on the call. This morning, I will take you through our quarterly results as well as update you on our Alliance Boots partnership and our AmerisourceBergen relationship.

As Greg noted earlier, for the quarter we reported a GAAP EPS of $0.72 per diluted share based on 960 million shares. GAAP EPS walks to an adjusted EPS of $0.72 for the quarter as illustrated by this chart. A LIFO provision of $0.04; acquisition-related items were $0.11 per share consisting of $0.05 of acquisition-related amortization costs; $0.02 of acquisition-related costs; $0.03 from Alliance Boots related tax and $0.01 of Alliance Boots related amortization. Finally, special items were a net reduction of $0.15 per share.

As noted, there was $0.02 per share in costs associated primarily with the closing of the Lehigh Valley distribution center, as the company positions itself to operate on a global platform which was more than offset by the positive EPS impact of $0.17 per share related to the warrant issued by AmerisourceBergen.

GAAP and adjusted net earnings in this year's quarter include the positive impact of $0.07 per diluted share attributable to a deferred tax adjustment resulting from a reduction to the U.K. corporate tax rate applicable to Alliance Boots, which was enacted in July of 2013.

Let me now provide more detail on our comparable store sales for the quarter. Comp prescription sales increased 7.2%. Comp front-end sales increased 2.4% and total comp store sales increased 5.4%. Comp prescriptions filled increased 5.5% versus the script comp of negative 4.8% in the year-ago period. Now, please recall the year-ago quarter was negatively impacted by our exit from the Express Scripts network.

In the first quarter, the front-end comp increased 2.4%, traffic increased by 0.2% and the basket size increased by 2.2%. As Greg touched on earlier, our front-end has now turned positive on both a one-year and two-year stack basis, primarily due to the momentum of our new promotional decisions designed to balance traffic and basket with profitability.

Looking at comparable store script numbers, our retail scripts were up 5.5%. And this continues to reflect the fundamentals of our underlying business, return of Express Scripts customers, and our continued progress in winning new Medicare Part D customers. It is also worth noting that the two-year stack on script comps has turned positive for the first time in eight quarters.

With respect to margin, our adjusted FIFO gross margin was 28.5% in the current quarter compared to 29.8% last year, a 130 basis point decline. While we always experience some reimbursement pressure, by far the most significant factor affecting the pharmacy margin was dramatically slower rate of new generic introductions this quarter versus the quarter a year ago.

The front-end margin was negatively impacted by increased promotional investment designed to drive traffic as well. As Greg mentioned, the loss of some controlled substances in the business impacted the margin negatively.

Taking a look at our longer term adjusted FIFO gross margin trends, this quarter's 130 basis point decline was up against 140 basis point increase a year ago. In essence, the benefit of the generic wave last year reversed itself this year, and we expect an impact of similar magnitude in the second quarter. As stated earlier, both the Pharmacy and front-end margins decreased in the quarter, which impacted our overall results. Moving forward, front-end margin will continue to be impacted by our new promotional adjustments until we cycle these changes.

This next chart, which we demonstrated and discussed last quarter, illustrates the impact the new generic drug introductions have on our monthly prescription sales comps. You can see that the generic impact on comp prescription sales was greatest in the first quarter of fiscal 2013, reaching a negative 8.8% versus the generic impact in the most recent quarter of a negative 0.9%.

The highlighted quarters illustrate that the number of new generic drug introductions have slowed dramatically versus a year ago. In our experience, the margin change resulted from generics is inversely correlated and slightly lagged to the impact of generic changes. That is the strongest positive effect on margin typically occurs shortly after generic impact on prescription sales and is the most deflationary. And, conversely, the weakest positive effect on margin typically occurs shortly after the generic impact on prescription sales is the least deflationary.

Transitioning now to gross profit, this slide illustrates our quarterly gross profit dollars growth trends for the past nine quarters on a GAAP basis. And next slide shows these trends on an adjusted basis. Adjusted gross profit dollar growth slowed slightly from 4.3% in the fourth quarter of 2013 to 1.2% in the first quarter of 2014 commensurate with the generic wave shift and the front-end investment.

To get to adjusted SG&A dollar growth, you can see that our GAAP SG&A dollar growth was a negative 0.4%, to which we add back 0.3 percentage points for Walgreen acquisition-related amortization and 0.9 percentage points for the Hurricane Sandy offset, sum up by a 0.4 percentage point related to organizational efficiency costs. Many of these items resulted in adjusted SG&A dollar growth of positive 0.4% in the quarter.

Shown here are the SG&A dollar growth trends for the past nine quarters on a GAAP basis, and the follow-on slide shows a similar trend on adjusted basis. The adjusted SG&A dollar growth for the quarter was a 0.4% year-over-year increase versus the 2.5% increase in the first quarter of fiscal 2013. This next chart illustrates that our two-year stack for the SG&A dollar growth trends on a GAAP basis for the last nine quarters.

Now, let's review the two-year stack trends on adjusted basis. Two-year stack adjusted SG&A trends improved versus a year ago by 450 basis points, with a two-year stack of 2.9% growth in the first quarter of 2014 down from 7.4% last year. During the quarter, the rate of growth and adjusted FIFO gross profit dollars exceeded adjusted SG&A dollar growth by 80 basis points. Given the very powerful margin headwinds we faced, we are pleased with the SG&A effort needed to yield this positive spread. And, as you can see, this is the third consecutive quarter with a positive spread.

Turning to a few other components of our income statement, this quarter included LIFO provision of $58 million versus the provision or charge of $55 million a year ago. Our effective LIFO rate for the quarter was 2.8%, up slightly from 2.5% a year ago.

Net interest expense for the quarter was $41 million versus $37 million from a year ago. Average diluted shares outstanding were 962 million shares versus 951 million shares last year and the change is primarily due to the impact of a higher stock price on the number of in-the-money options which are accounted into diluted shares.

In Q2, you can expect diluted share count of approximately 960 million shares subject to changes in the current share price. You can also expect interest expense of approximately $40 million in Q2.

Our blended effective tax rate for the quarter was 36.8% versus 38.2% last year. On a go-forward basis, Walgreens tax rate is expected to be about 37.5% excluding the various impacts associated with the Alliance Boots partnership.

Cash and cash equivalents were $969 million in the first quarter versus $1.8 billion a year ago. Accounts receivable increased by 20.5%, primarily due to increased business including the return of Express Scripts network prescriptions while accounts payable decreased by 1.2%. LIFO inventories were down 1.2% and FIFO inventories were up 1.5% year-over-year versus the sales growth of 5.9%. Overall, net working capital decreased by 5.7% versus the year ago.

During the first quarter, we generated $132 million in cash from operations versus $601 million a year ago. The decrease was primarily the result of timing of working capital changes associated with our transition to AmerisourceBergen, which we expect will work itself out over time. Free cash flow in the quarter was a negative $231 million versus a positive $265 million a year ago.

Shifting to our quarterly Alliance Boots accretion walk, as shown, the walk yields an accretion of $0.14 in the quarter including $0.07 one-time tax benefit due to the lowering of corporate taxes in the U.K. A detailed description of this walk is included in the Appendix.

Looking forward, we estimate the adjusted EPS accretion from Alliance Boots for the second quarter of fiscal year 2014 to be $0.07 to $0.08 per share based on our current estimates of IFRS to GAAP conversion and foreign exchange rates. And moving forward, we will continue to provide our accretion estimates on the call each quarter, in advance. We're also confirming the combined synergies for fiscal year 2014 and expect them to be in the $350 million to $400 million range.

A key consideration for the second quarter each year is a relative population affected by the flu as illustrated in this chart. As noted, the red line is the incidence of flu last year with the peak in January and the purple line is the average incidence of flu for the last three years. And the black line is the actual flu incidence season-to-date, this year. As you can see, the flu incidence this year is less pervasive than last year and is running 5% to 10% below last year. We will keep you posted on how this relative flu incidence plays out throughout the season with our monthly sales releases.

I'd like to close today with a brief update on progress towards our fiscal year 2016 goals, which we provided to you after we announced our 45% investment in Alliance Boots in June of 2012. While still relatively early in our journey, performance to date with respect to four of our goals is on track with or slightly ahead of our expectations. And these four goals are: sales of $130 billion including Alliance Boots share of associates and joint ventures sales; synergies of $1 billion; operating cash flow of $8 billion; and net debt of $11 billion.

Performance to date with respect to our adjusted operating income goal of $99.5 billion is currently tracking a bit below the CAGR required to meet this goal, largely because of gross profit dollar growth pressure domestically as I discussed today, and challenging environment in some international markets.

While we recognize there are risks to achieving this goal, we remain focused on delivering it and have identified a range of further opportunities, including benefits of our AmerisourceBergen relationship, incremental Alliance Boots synergies, business expansion and new initiatives and accelerated cost savings, all which can help mitigate these risks. We intend to continue to update you on our progress against these goals in future calls.

In summary, we continue to be very optimistic and excited about our future. We've made tremendous progress in our Well Experience journey to become the most relevant retailer in our space. But still we believe we are just scratching the surface of ways we can continue to leverage our best-in-class footprint with differentiated products and services to please and reward our most valuable customers, and gain new customers just like them. We believe we have the strategies, tools and talent to do exactly that.

We're gaining share in retail pharmacy as we're finding new ways to please and attract pharmacy patients. But what keeps us even more excited is the tremendous opportunity we have before us to move from a traditional pharmacy, historically participating in about 12% of the healthcare market to a company that is increasingly participating much more broadly, in areas like specialty, home infusion, workplace health, vaccinations, diagnostics lab, hospital partnerships and primary care.

Because of our unmatched infrastructure, over 70,000 healthcare service providers and new emerging technologies, we are extraordinarily well positioned to capture value while helping deliver better outcomes on healthcare spend across the board thereby benefiting patients, payers, suppliers and, in many cases, even other providers.

Lastly, our partnership with Alliance Boots and AmerisourceBergen gives us a unique opportunity to leverage our combined assets and capabilities to be more efficient and effective in our core business and to continue our journey to influence health, beauty and well-being on a global stage. We believe that this unique combination will continue to lead to other value-creating partnerships.

We've always said there will be some ups and downs in this journey, but if we stay relentlessly focused we can achieve our purpose to help people get, stay and live well, and continue to reward our stakeholders. Thank you for all your combined and continued support and I hope the holiday season blesses you and all of yours.

And now, I'll turn it back to Rick.

Rick J. Hans, Divisional VP-Investor Relations & Finance

Thank you, Wade. That concludes our prepared remarks. We are now ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Steven Valiquette of UBS. Your line is now open.

<Q – Steve Valiquette – UBS Securities LLC>: Hey. Thanks. Good morning, guys.

<A – Greg Wasson – Walgreen Co.>: Morning, Steve.

<Q – Steve Valiquette – UBS Securities LLC>: I guess with some other large scale generic deals being announced in the pharma supply channel recently, just kind of curious if you guys think you have a first-mover advantage with manufacturers just given the earlier timing of your JVs? And also just overall, do you think these other deals help your cause? Do they hurt a little? Are they neutral? Just curious for more color given some of these other deals.

<A – Greg Wasson – Walgreen Co.>: Yeah, Steve, good question. Certainly, I think, we do realize we have first-mover advantage. We've been at this for a period of time now and I think Jeff and team [indiscernible] (29:36) John Donovan, are doing a great job as we've talked about. Certainly, we're focused on maintaining that first-mover advantage and not giving it up. I think, as I somewhat said in my remarks, we do feel like we've got a truly differentiated model, which is not only an integrated retail wholesale model but certainly two great partners with AmerisourceBergen here in the U.S., Alliance Boots in Europe.

So, I think, we've put together an opportunity to serve both the U.S. and the European market with an integrated wholesale retail market with three iconic brands, which gives us the opportunity to even go beyond. So we think our model, frankly, is a superior model. We do not want to lose our first-mover advantage. As far as what it may do to the market, we'll see. I think, certainly, with three big buying groups out there, the industry's going to continue to change and we'll have to stay ahead of that to make sure we react. But we think we're advantaged.

<Q – Steve Valiquette – UBS Securities LLC>: Okay. That's great. Thanks.

<A – Greg Wasson – Walgreen Co.>: Thanks, Steve.

Operator: Thank you. And our next question comes from the line of Mark Miller of William Blair. Your line is now open.

<Q – Mark Miller – William Blair & Co. LLC>: Hi. Good morning, everyone.

<A – Greg Wasson – Walgreen Co.>: Hey, Mark.

<Q – Mark Miller – William Blair & Co. LLC>: Yeah. Can you expand on the business expansion and new initiatives, Wade, that you called out to be able to offset for the operating profit tracking thus far a little bit below the long-term plan? And then also the efficiencies and cost savings you alluded to, is that something we're going to see those expenses come through on a quarter-by-quarter basis? Or might we see a larger restructuring for the company?

<A – Wade Miquelon – Walgreen Co.>: Yeah, I'll speak a little bit to the business initiatives and expansion. Obviously, some of these things are public and known and some of these things are still things that are not, but they're the kinds of things we've talked about, work we're doing with. For example, Big Pharma to help reinvent their model to help save costs in clinical trials, which we're doing some work with right now. Also, things like Theranos, which we believe has very meaningful potential. We're very excited about. In various geographies, we've got a strong footprint, but we've got opportunities to do even more breadth of services in those markets and get deeper and broader and working with our partners; Alliance Boots, we're doing exactly that.

On the costs side, I think you saw we had very good cost progress. We think we're – we do a lot of things efficiently, but there's always opportunities to do a lot more. And under Tim Theriault's leadership, we're bringing good news, improvement to a whole another level in the company, really looking at every process end-to-end and how we can be much more efficient, much more enabling to our employees. So we have continued opportunities and we're aggressively going after it. But it's going to make us, I think, a much better company and allow us to serve our customers even better to boot.

<Q – Mark Miller – William Blair & Co. LLC>: Okay. And my second question is there's a lot of adjustments here to get to the underlying performance. But, one, I need help with this, the $0.07 positive impact on Alliance Boots. Is that being added back to the $151 million that's flowing through the equity earnings line such that if we took that out, it'd be around $80 million underlying?

<A – Wade Miquelon – Walgreen Co.>: Yeah, that's correct.

<Q – Mark Miller – William Blair & Co. LLC>: Okay. Thanks.

<A – Greg Wasson – Walgreen Co.>: Thanks, Mark.

Operator: Thank you. Our next question comes from the line of John Heinbockel of Guggenheim Securities. Your line is now open.

<Q – John Heinbockel – Guggenheim Securities LLC>: Hey, guys. So a couple of things. In your release, you have a statement in here about assessing various steps to optimize assets and cost structure alongside AB and ABC. What are you thinking about there, either generally or specifically?

<A – Greg Wasson – Walgreen Co.>: Yeah, John, Greg. I think we did mention and, I think, as Wade said in his remarks, the first couple things we looked at for this quarter were some distribution centers. But as we – what we want to do is make sure that we're looking to the future with our new partners, AmerisourceBergen and Alliance Boots and if that obviously come together like we think it will, there's opportunities for us to position ourselves going forward. And whether it's looking at distribution centers, making sure we've got the right footprint, we're looking at all types of cost within corporate to make sure that we've got the right initiatives, the right people devoted to those. Certainly, we're looking at all of our assets across the enterprise to make sure that we're set up for the future.

So nothing truly defined, but just an effort to make sure that we are indeed positioned ourselves for the future. As Wade said, I've designated Tim Theriault, who is our CIO and Head of Innovation, and continuous improvement as our – it's Lean into Lean Six Sigma and drive that throughout the organization. I think the one thing that we have seen from our Alliance Boots partnership with the wholesale expertise and cost focus that a wholesaler has bringing to Boots over the years, there's opportunities to bring costs now to the system. So it's really all that in a nutshell that make sure that we are positioned for the future.

<Q – John Heinbockel – Guggenheim Securities LLC>: And do you think alongside that – historically, I think you've looked at an SG&A run rate maybe in the 3% to 4% range, obviously you're well below that here. Is there a new long-term run rate well below that prior one?

<A – Wade Miquelon – Walgreen Co.>: We get 3.5% to 4.5%, is kind of what we have historically said on organic basis. I don't think we're prepared to give a new number today. I would just say that – we think there's opportunities to be increasingly efficient. It's not just SG&A, it's – by the way, it's across the board of – and it's really end-to-end processes. But, again, I think, the big idea here is who we're becoming in partnership with. Both Alliance Boots and AmerisourceBergen is enhanced and different company than who we've been and we're really readying ourselves to make sure that we can capitalize on that to the maximum extent possible.

<Q – John Heinbockel – Guggenheim Securities LLC>: All right. And then one last thing, when you look about the $1 billion of synergy, do you think some of that will end up getting reinvested back in the business? Maybe not so much at the front-end, but your pharmacy labor, things inside the store to deal with higher volumes or no – very little of that will get reinvested?

<A – Greg Wasson – Walgreen Co.>: Well, certainly as we go forward, some of it could, John. But I think, right now, we're focused on a lot of the initiatives we have over and above that to drive the business. So we think most – the majority of that will indeed come to the bottom line. At the same time, we haven't really given out what we think we can accomplish with AmerisourceBergen. AmerisourceBergen is indeed in those fiscal 2016 goals, but we're just beginning to touch the – get started on that. So we think there's opportunity over and above that.

<A – Wade Miquelon – Walgreen Co.>: [ph] Approximately in the (36:01) $1 billion, John, to the extent that some of it was reinvested, then we'll deliver more. I mean, that's really a net that we're targeting.

<Q – John Heinbockel – Guggenheim Securities LLC>: Okay. Thanks.

<A – Greg Wasson – Walgreen Co.>: Thanks, John.

Operator: Thank you. Our next question comes from the line of Ricky Goldwasser of Morgan Stanley. Your line is now open.

<Q – Ricky Goldwasser – Morgan Stanley & Co. LLC>: Yeah. Good morning. Can you help us think a little bit more details on the margin trajectory for fiscal year 2014? So giving all the moving parts, when I think about the promotional activity in generics, for second half of the year, should we model gross margin up year-over-year or only sequentially?

<A – Greg Wasson – Walgreen Co.>: Ricky, maybe I'll start and turn it over to Wade. I would say based on what we're seeing, certainly, that I wouldn't think Q2 directionally will be much different than what we're seeing in Q1. And I think we're already through the first – nearly through the first month and then the biggest month of the second quarter. We're continuing to see a cautious consumer, and therefore our promotional activity will probably directionally remain the same.

I think, obviously, as you've seen in the one chart that we put up was as far as the sales impact of the generic wave. Certainly, Q2 has got a significant peak from last year that we're going against another trough. So, directionally, for Q2, I don't see – I wouldn't think much of a change. Certainly, we've got some help in the back half with generics.

And as we get more and more Balance Rewards data and insights, we want to continue to make our promotional a little more effective. But, I would say – as I said, I think, Q2, not much directionally and we'll try to do what we can in the back half of the year. Wade?

<A – Wade Miquelon – Walgreen Co.>: No, I agree. I think certainly you – we often joke about Rick's theory of the Heisenberg uncertainty principle of the generics, the more that you kind of study and analyze the timing of these, the more they seem to change a bit, but you have similar information that we do. Certainly, the back half looks to be stronger. And, again, I think, under Alex's leadership, I think, we're doing a lot of things to get the smart balance between both growth and profitability. And as we sweeten the mix around Health & Beauty down the road as well, it's an opportunity for us.

<Q – Ricky Goldwasser – Morgan Stanley & Co. LLC>: And just to confirm because I think you've mentioned it, the promotional activity had a negligible impact on the front-end margin? So should we just assume the promotional activity spend is going to stay at constant levels throughout the year?

<A – Wade Miquelon – Walgreen Co.>: No, the largest impact was, as we said, was the waiver, the trough rather, of new generics, significantly. But then the next largest would have been the front-end promotion with, as we said, to a lesser degree, 50 bps from controlled substances in gross profit dollar growth. But it was meaningful, but the largest was the trough in generics by far.

<A – Greg Wasson – Walgreen Co.>: And, Ricky, with that promotional investment, as we said, we grew our traffic a couple 100 basis points in the quarter before we increased basket size and increased the comp, which is good. We just had to throw a lot more at it and – than we anticipated. And that's what we meant by meaningful investment and that's what I meant directionally, I don't see the competitive promotional environment changing much.

<Q – Ricky Goldwasser – Morgan Stanley & Co. LLC>: Okay. And then, I know that you've talked very positively about Theranos. Can you share with us kind of like your experience, I think, the technology has been in your pharmacies for a couple of months now. What are you seeing in the marketplace?

<A – Wade Miquelon – Walgreen Co.>: Yeah, I mean, we're very, very positive on Theranos. I mean, it's really a – one of the disruptive plays, it's a better patient experience with a prick of blood. It's the highest standard of quality in lab with costs, half of the cost of Medicare. And the patient feedback we're getting is very good, but it's really a better, faster, cheaper, more conveniently play. And we're going to – as we expand here, we'll keep learning and perfecting the patient experience which is really the case – the key thing. But we're very, very positive.

I think it's just one more example of how community pharmacy can play a role in broader health care. And that's the direction we're going, we've got the assets, we have the health care professionals, we have the convenience and we have the right to win in these spaces and we're very excited about it.

<Q – Ricky Goldwasser – Morgan Stanley & Co. LLC>: And just to confirm, are you still in the market buying ABC shares?

<A – Wade Miquelon – Walgreen Co.>: We are, but we only give the information as of the last quarter as you know, but we are doing that.

<Q – Ricky Goldwasser – Morgan Stanley & Co. LLC>: Okay. Thank you.

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

<Q – George Hill – Deutsche Bank Securities, Inc.>: Hey. Good morning, guys, and thanks for taking the question. I guess, Wade, first, as we look at the synergies you guys have reported today and kind of the buckets that you guys laid out at the analyst presentation in Europe, can you bucket for us where they're coming from and kind of give us a sense for where you're seeing the most traction early?

<A – Wade Miquelon – Walgreen Co.>: Yeah, I mean, sure, that the biggest – or the biggest benefit we've been getting is [ph] no (41:03) generics, as we've said, that hasn't changed. The other areas where we're getting meaningful early synergies are things like own brand procurement [indiscernible] (41:12) indirect spend, our relationship with some of the CPG players. So all of those are providing opportunities.

The one that will ramp up over time, but becomes really a point of differentiation in an ongoing giving is what we're doing to drive the own brand in the Boots portfolio. And, again, it's just, today, a few select stores, but the broad Phoenix area. But the results are very, very good and we're very optimistic that as we expand this, this will become something that becomes a very strong part of our value creating portfolio for many years.

<Q – George Hill – Deutsche Bank Securities, Inc.>: Okay. And then maybe on the inventory, I guess, maybe just as an update, as you guys ramp the ABC agreement, how should we think about inventory levels going forward either measured as a – I don't know, if you want to talk about in an absolute dollar sense or inventory days on hand or change in mix. I guess, kind of ability to extract cash from that line going forward, I guess, could you give us an update on how to think about that?

<A – Wade Miquelon – Walgreen Co.>: Yeah, I mean, there's a lot of moving parts as you can see in our cash numbers and working capital numbers associated with this transition. And this is a non-normal quarter, if you will, because even while we're transitioning inventory, for example, on brands to ABC, that reduces inventory for us, but our payables go up commensurately. But in the very short-term on the cutover rate, we also get fair large level as inventory at store, for example, so that we can make sure that we had a flawless transition, now that will work its way out.

So, I guess, what I'd say is two things is, one, is this kind of pig in the python will work its way out from the transition over time from a cash flow basis. But then beyond that, because we have daily deliveries, because of their expertise, we should be able to over time take out additional days of inventory although we put no specific goal there.

Also, keep in mind that starting next month, we'll begin the generic transition which will go several months, nine months, region-by-region, store-by-store. And that will also create a little bit of a timing flex up and down with our cash flow and working capital. But, again, over time, these things will work their selves out and lend themselves to a net-net inventory opportunity in the future.

<Q – George Hill – Deutsche Bank Securities, Inc.>: Okay. And then maybe just one last one quickly. As we think about the income statement moving through this year, you've got the margin erosion. That's a component of a tough generic comp. Probably until we get to fiscal 2015, you're going to see faster specialty growth and brand drug growth from a dollar basis driving the pharmacy top-line. I guess, how much of the margin erosion should we think of as the tough comp on generics? And how much of the erosion is kind of the mix impact of accelerating brand and specialty drug growth versus growth in generics?

<A – Wade Miquelon – Walgreen Co.>: That's a good question there is, from a margin percentage, you are right, specialty are the lowest and brand will be higher than that and generics the best. But from a gross profit dollar growth, it's a little bit different. Obviously, we have, for example, when there's branded inflation, we get some benefit on that. So, I guess, what I would say is, our model, really think of it in terms of gross profit dollar growth versus the margin percent per se. And this was certainly, probably as dry as any quarter gets in generics, next quarter's about the same as that. But, again, that's what will really swing the gross profit dollar growth once we get into the back half and beyond.

<Q – George Hill – Deutsche Bank Securities, Inc.>: Okay. Thanks. Appreciate the color.

Operator: Thank you. Our next question comes from the line of Lisa Gill of JPMorgan. Your line is now open.

<Q – Mike Minchak – JPMorgan Securities LLC>: Thanks. Good morning. It's actually Mike Minchak in for Lisa. Just with respect to the combined Alliance Boots synergy, during the first quarter, the $107 million you reported, it appears to be tracking a little bit ahead of expectations based on the $350 million to $400 million forecast for 2014. Can you talk about what's driving the upside there and sort of the cadence of those synergies going forward in 2014?

<A – Greg Wasson – Walgreen Co.>: Yeah, it is driving ahead. Good observation. The reason we – it does give us confidence actually even more so leading up to those fiscal 2016 goals that Wade talked about. I think the team in Bern is doing a tremendous job working with our pharmaceutical suppliers in new and creative ways. And now that will bring in the AmerisourceBergen volume and, as I said, that's positive as well. It could be a little less in 2Q because there's some bumpiness. But we feel for the fiscal year that we are ahead of that target that we've given and we feel confident in the $1 billion, and we believe there's upside.

<Q – Mike Minchak – JPMorgan Securities LLC>: Okay, great. And then just as a follow-up. With respect to the pharmacy reimbursement environment, can you sort of talk about how things are trending there and whether you anticipate things getting any materially better or worse in here?

<A – Greg Wasson – Walgreen Co.>: Well, as we say and as I say all the time, anybody in healthcare, we always says ongoing reimbursement pressure and certainly we're – that hasn't changed and frankly won't change, we have to deal with that. I think that we'll probably see and – probably similar to what we've seen but there's certainly more and more focus on it. I think what we're working to do is to work with people in preferred ways to create more value and be able to bring more and more services in addition to just the pharmacy provision that we bring. But I think we have to accept ongoing reimbursement pressures [ph] which were (46:16) focused on our cost to fill. Also, we think we're positioned better than anyone as far as procurement and to make sure that we're working all three of those metrics in unison.

<Q – Mike Minchak – JPMorgan Securities LLC>: Great. Thanks for the comment.

<A – Greg Wasson – Walgreen Co.>: Yeah.

Operator: Thank you. Our next question comes from the line of Robert Jones of Goldman Sachs. Your line is now open.

<Q – Robert Jones – Goldman Sachs & Co.>: Thanks for the questions. Just to follow-up on the cadence of the Alliance Boots contribution, it looks like you're calling for about $0.07 next quarter, $0.07 to $0.08 next quarter, about same as what we saw organically this quarter. I was just wondering if you could maybe shed a little light on a why that contribution would be flat sequentially? And then anything you can give us around the balance of the year would be helpful.

<A – Wade Miquelon – Walgreen Co.>: Well, there's couple things going on here. I mean, one is just – it's a bit iterative, right? You never know exactly what the accretion dilution is until our numbers are done, right? So as they grow their earnings and we grow synergies, it also is relative to whatever our base is. And, again, there's also a flexibility of what will the synergies be, which some of those are known in normal and some are known completely. But, I think, that we have it close enough at the point because of three months lag to know the general range but, again, there are a couple of moving parts that in the end can move around.

For example, this quarter we were thinking it would be $0.05, I think, was our guidance $0.04 to $0.05. We ended up at $0.07. Again, because of these moving parts for some of the final synergies and how they come in as well as our relative performance and then how you calculate that.

<Q – Robert Jones – Goldman Sachs & Co.>: Okay. Got it. And then just on generic price inflation has obviously been a big topic. One of your competitors called this out as a headwind to them in the quarter. I guess, specifically anything worth calling out in the quarter as far as generic price inflation goes? And then more broadly, how should we think about an environment where it does appear that generic price inflation will continue? As you guys look at the over the balance of the year, is that a headwind, tailwind, neutral? Any thought there'd be helpful.

<A – Greg Wasson – Walgreen Co.>: Yes, there's always some inflation in the industry. In the past, we did see some unusual inflation on select molecules in this past quarter, which did give us a little bit of an impact. It's hard to say whether that will be ongoing or not. Certainly, we think we are very well positioned with Jeff and John Donovan team in Switzerland to make sure that we are working with both, generic and branded pharmaceutical companies to provide value and offset anything that may occur. But, yeah, we saw a little bit of unusual activity, but again our folks in Bern are on top of it and we want to work with these folks in a way that helps them create value as well as the synergies opportunities we see.

<Q – Robert Jones – Goldman Sachs & Co.>: Great. And then I guess just the last one if you guys wouldn't mind. Any update around changing view around ACA contribution as we've seen a little bit more progress, I guess, on uptake of enrollment and also around Medicaid expansion. Any thoughts you guys have there, relative to the rest of the year will be great. Thanks.

<A – Wade Miquelon – Walgreen Co.>: I would just say that it's probably too early for us to know all the implications and timings as we go forward here. I think there's lot of opinions out there and one is probably as good as the next. But right now we're not modeling in a lot from the early days, but over time obviously it's going to change the structure of the industry and how we participate with players. Maybe, Kermit, you want to -?

<A – Kermit Crawford – Walgreen Co.>: Yeah, Robert, I'd add – certainly we've seen the enrollment has been slow, but we continue to work with our healthcare partners and go help to educate these patients. We've always said that we expect the Affordable Care Act to bring more people into the healthcare system as a result of coverage, which we certainly would think will benefit from this increase in enrollment.

We have built our strategy around an access to quality care over the past decade. And we think we are well positioned to serve these patients not only from a prescription perspective, but for additional healthcare services like vaccines and immunizations and also some of the preventative services you now see in our healthcare clinic.

Operator: Thank you. And our next question comes from the line Edward Kelly of Credit Suisse. Your line is now open.

<Q – Ed Kelly – Credit Suisse Securities (USA) LLC (Broker)>: Good morning, guys. A few questions for you. Wade, I guess, first of all, related to the 2016 commentary. When do you expect to give us some update as to how these numbers are playing out? When you talk about adjusted operating income tracking a little bit lighter, does that also include now the benefit of ABC?

<A – Wade Miquelon – Walgreen Co.>: Yes, I mean, I think, we obviously did these goals before ABC and then when we announced ABC, we said that there is additional opportunity, but we wouldn't be changing our goals. That's in part because $9 billion we already believe is a very meaningful, large goal to hit and an appropriate goal, but the other thing is we also had other projects built in. If we had not gone with ABC, like project GAAP and others where we were going to change our distribution supply system internally and had meaningful benefits built in for that.

So this is really swapping out this for that and albeit a little bit better. But I think the key thing is, is we really start to reap the benefits of ABC in a meaningful way in 2015, both on the generic distribution side as well on the procurement side and even other opportunities that we're now starting to work among the two and the three parties. So there's a bit of a hockey stick here versus a CAGR. But that was always, to some extent, the case, and I think that this is really now just part of our base operating model.

<Q – Ed Kelly – Credit Suisse Securities (USA) LLC (Broker)>: Any sense just on timing of when we should – when we'll be getting an update you think?

<A – Wade Miquelon – Walgreen Co.>: Well, quarter-to-quarter, we look at it and say are these realistic based upon all the risks and opportunities we have internally, I mean, if we ever feel that's not the case, we'll certainly tell you. You can put together a glide path like we can and take our numbers and put it along that path. But we continue to do assessment and say do we think it's still possible to hit these and do we have the right bullets in the chamber, if you will, and at this point we do.

<A – Greg Wasson – Walgreen Co.>: And Ed, this is Greg. I would say that we're doing this quarter-by-quarter. Obviously, we're kicking the tires as we go to make sure that we feel that we can achieve those goals and we do. So I would somewhat consider this as an update, but at the same time, you can rest assured that we'll continue to look at those numbers and make sure that we're confident. And, I think, to Wade's point, we think that we've got ways to achieve those goals. And the CAGR on the operating adjusted income is a little bit soft, but we think the change in the mix of the business will allow us to get it.

<Q – Ed Kelly – Credit Suisse Securities (USA) LLC (Broker)>: I think when you talked about that, Wade, I thought I heard you say something about international as well as the U.S. business, is that right? And could you give us a little bit more color on that front?

<A – Wade Miquelon – Walgreen Co.>: [ph] Well that I mean it right, there's (53:08). business initiatives as well as, I think, global growth opportunities or whatever. But these are the series of initiatives that we're working with our partners, Alliance Boots, to strengthen various markets, introduce new services in some case, work with new partners like Global Pharma and create value in unique ways.

<Q – Ed Kelly – Credit Suisse Securities (USA) LLC (Broker)>: I actually meant the CAGR, when you were talking about the CAGR being a little softer, I thought you had mentioned international too.

<A – Wade Miquelon – Walgreen Co.>: Well, yeah, I mean, so – yeah, I mean, just I guess putting it simplistically, there's some markets that had been a bit challenging for AB on an EBIT basis. But on the other hand, because of their accelerated cash flow, their accelerated de-levering, excellent work on refinancing on an after tax and also some tax benefits on after tax basis, they're generating great value creation. So it's a little bit of that EBIT pressure, but actually from a bottom line impact, we're getting it back.

<Q – Ed Kelly – Credit Suisse Securities (USA) LLC (Broker)>: All right. Just one other question for you on the front-end. Can we just dig in a little bit more into the promotional strategy here because you are successfully driving better comp growth, better traffic growth. It's not up a ton, right? The traffic year-over-year and, on a two-year basis, it's better but not a huge improvement, right? And the gross margin seems to be taking a little bit of a beating. So I'm not so sure that your comparable gross profit dollar growth is up. Could you comment on that?

And then just generally, if that's all the case, is it working, right? Or do you need to make further adjustments? And is that what you're talking about, about when you talk about balancing front-end sales and margins?

<A – Greg Wasson – Walgreen Co.>: Yeah, Ed, Greg. I agree with you. I think that – the good news is, we've made investment, we've got the top-line moving. When I said I'm generally satisfied with that, that's what I mean. I'm never truly fully satisfied. With that, we did have to make more meaningful investment than we anticipated. We want to make sure that we're getting a bang for a buck for that investment. We probably had to overinvest based on what we anticipated.

I think the opportunity we have, now that we have 12 months of data coming from our Balance Rewards program, there's tremendous insights to help us get much more effective input with that investment that we're having to make. But we obviously want to make sure that the investment we're making gives us a much greater of the return than what it did this quarter.

Now, that you can't change that overnight, so a lot of the plans and activity, as I said, are in place for the next quarter. So that's the reason I say, I don't think directionally we're going to see much of a difference. But I do think as Alex and team get more and more insights, we are absolutely going to be using that to get a better return for the investment in the promotional activity we're making.

<Q – Ed Kelly – Credit Suisse Securities (USA) LLC (Broker)>: Okay. Thank you.

<A – Greg Wasson – Walgreen Co.>: Yeah.

Operator: Thank you. And I'm showing we have two more questions in the queue. Our next question comes from the line of Charles Rhyee of Cowen & Co. Your line is now open.

<Q – Charles Rhyee – Cowen & Co. LLC>: Yeah, thanks for taking the question. Hey, Greg, I think you – and Wade, you made a comment about impact from controlled substances, reduction in the volumes there. I'm not sure if I might have missed it earlier. But, Greg, did you say the impact to gross margin in the quarter was 50 basis points? And is that something that will – is sort of like a – just a step down overall because the dispensing of those drugs will just be reduced overall? Or how should we think about that? Thanks.

<A – Greg Wasson – Walgreen Co.>: Yeah, I did mention that. And, I think, we obviously as a leader in industry believe it is frankly up to us now. This is on us to make sure that we are indeed leading with best practices. We have Kermit and team, I'll let him talk about in a little bit as he has implemented Good Faith Dispensing efforts. I think, as a result, we are indeed seeing a reduction in some of those higher margin pain control substances. We want to make sure that we're getting them to patients appropriately and the patients that frankly need those medications are able to receive them and frankly those that don't, don't. And now – and it will be ongoing as far as that hit that we've talked about, that's an ongoing hit.

<A – Wade Miquelon – Walgreen Co.>: So, Charles, just to clarify, it was actually a reduction of 50 basis points in gross profit dollar growth, not in margin.

<Q – Charles Rhyee – Cowen & Co. LLC>: I see, okay. That's helpful.

<A – Kermit Crawford – Walgreen Co.>: And, Charles, I would just add that, we implemented our Good Faith Dispensing Policy back in late April of last year. And this policy is really designed to ensure that the patients get the right medication that they need, but while at the same time helping us to control abuse of these controlled substances.

<Q – Charles Rhyee – Cowen & Co. LLC>: Okay. Thanks.

<A – Greg Wasson – Walgreen Co.>: Thanks.

Operator: Thank you. And our next question comes from the line of Meredith Adler of Barclays. Your line is now open.

<Q – Meredith Adler – Barclays Capital, Inc.>: Thanks for taking my question. Most of my questions have been asked. I would like to go back and talk a little bit about expense control. You did a great job this quarter. There was some press rumors about actually shrinking the number of people in your corporate office. I know it's an awkward topic because people listen to your calls, however, it was in the press. And I was just wondering whether some of the improvement you're seeing is because you've become more efficient in reduced head count, and are there more plans to reduce head count in corporate?

<A – Greg Wasson – Walgreen Co.>: Yeah, Meredith, thanks. Yeah, I think I remember the article you're talking about. And, I think, obviously this got overstated and sensationalized maybe a little bit, but – so as we go forward, part of our Lean Six Sigma is just to make sure we've got the right projects, processes in place, we've got the appropriate people signed to those and frankly continue to look at optimizing not only our head count but our assets along the way. But the article you're talking about was extremely over-sensationalized.

<Q – Meredith Adler – Barclays Capital, Inc.>: And does Boots have – or Alliance Boots have any impact on the way you look at becoming more efficient and productive in corporate?

<A – Greg Wasson – Walgreen Co.>: Yeah, I think, there are some best practices, not only in corporate, but even out in the field. And Alex Gourlay is not on the call and, maybe the next one, I'll have him on. But one of the things I think we're doing with Mark Wagner and team is focusing on trying to get more and more work out of these stores, the AmerisourceBergen distribution agreement with daily deliveries and so forth, will help us not have to carry as much inventory and be able to diminish the workload in our stores. But we have a real focus on moving from more and more tasks to more focus on the customer. And, I think, that in itself we're able to bring some of the best practices that Alex's bringing from Boots and what they have done over the years as well.

<Q – Meredith Adler – Barclays Capital, Inc.>: And then I do actually have a question about something that Wade was saying about synergies, and I think there was a mention that you were working on making your distribution network and structure, processes, more efficient, even if you hadn't done the ABC deal. And that was included in the synergies. And that just kind of surprised me because I guess I thought synergies would be related strictly to whatever happens with Alliance Boots. Are you saying that you're learning – is it part of the best practices you learned from them? Or was that kind of a separate initiative that you were working on anyway?

<A – Wade Miquelon – Walgreen Co.>: No, actually I apologize if I confused you. What I had said was, is that, the benefit that we anticipate we'll get from ABC in distribution and in buying is part of our plan to get to our $9 billion goal. This is not included in the $1 billion AB synergies. That's just with AB. This is separate from that, but, I guess, prior to ABC, we were looking at a variety of different models that would have made us more efficient which had some savings built into our plans. These are certainly bigger, but to the extent that this is our partner and our chosen way to go to market with both generics and with our supply chain, those basically built into our base model and into our goals.

<Q – Meredith Adler – Barclays Capital, Inc.>: Thank you. That clarification is very helpful. I just – my final thing is a plea. We would love it if you would give us more data about the healthcare side of the business. It may not be material, but the forecasting that we do now is kind of weird to come up with what incremental revenues you're getting that are outside of the stores. I would love it if you give revenues and profits. Thanks.

<A – Wade Miquelon – Walgreen Co.>: Point taken, Meredith. We'll study it and consider it.

<Q – Meredith Adler – Barclays Capital, Inc.>: Thank you.

<A – Greg Wasson – Walgreen Co.>: Thanks, Meredith.

Operator: Thank you. And I'm showing no further questions at this time. I'd like to hand the call back over to Rick for any closing remarks. Thank you.

Rick J. Hans, Divisional VP-Investor Relations & Finance

Ladies and gentlemen, that was our final question. Thank you for joining us today. As a reminder, the company will report December sales on January 6. We'll also be hosting our Annual Shareholders Meeting on January 8 at Navy Pier in Chicago. We hope to see you there. Until then, thank you for listening and happy holidays.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Have a great day everyone.