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Rating Action: Moody's places Walgreen's Baa1 sr unsecured rating on review for downgrade

Global Credit Research - 06 Aug 2014

New York, August 06, 2014 -- Moody's Investors Service today placed Walgreen Co.'s Baa1 senior unsecured rating on review for downgrade. At the same time, Moody's affirmed Walgreen's commercial paper rating of Prime-2. The review for downgrade is prompted by Walgreen's announcement of a \$3 billion share repurchase program through the end of 2016. The review for downgrade is also prompted by Walgreen's reduced 2016 operating outlook. Moody's estimates that Walgreen's 2016 EPS guidance of \$4.25 to \$4.60 per share is roughly 20% below its previous 2016 operating income target.

The following ratings are placed on review for downgrade:

Senior unsecured rating of Baa1

The following rating is affirmed:

Commercial paper rating of Prime-2

RATINGS RATIONALE

The review for downgrade acknowledges Moody's view that the new \$3 billion share repurchase program represents a more aggressive financial policy than currently contemplated in Walgreen's existing Baa1 rating. Furthermore, the share repurchase program comes at a time when Walgreen's has notably reduced its operating income forecast for 2016. Moody's estimates that the \$3 billion share repurchase program will make it challenging for Walgreen to reduce its lease adjusted debt to EBITDA to 3.25 times by 2016.

The review for downgrade will focus on the impact of the new \$3 billion share repurchase program and reduced earnings guidance on Walgreen's potential debt reduction trajectory. The review for downgrade will also assess Walgreen's pro forma capital structure including the current debt at Alliance Boots, the incremental debt required to close the second half of the transaction, and the legal structure of the combined entities. The review will also focus on the level of near term earnings growth and the impact of further synergies on earnings.

Moody's anticipates the review will be concluded well before the closing of the full combination of Walgreen and Alliance Boots in the first quarter of calendar 2015. Based upon the size of the share repurchase program, Moody's anticipates that any downgrade of Walgreen's senior unsecured rating will likely be limited to one notch upon the conclusion of the review. In addition, Moody's also expect Walgreen's commercial paper rating of Prime-2 to be affirmed upon the conclusion of the review.

The principal methodology used in this rating was the Global Retail Industry published in June 2011. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

Walgreen Company, headquartered in Deerfield, Illinois, operates over 8,200 drugstores in all 50 states, the District of Columbia, Guam, and Puerto Rico. It also operates over 700 worksite health centers and wellness clinics along with home care facilities. Revenues are over \$74 billion. Alliance Boots, incorporated in Switzerland, is 45% owned by Walgreen's and is a pharmacy-led health and beauty retailer and pharmaceutical wholesaler in the United Kingdom and throughout Europe. Alliance Boots revenues are about GBP22 billion.

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