MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Walgreen's sr unsecured rating to Baa2

Global Credit Research - 16 Oct 2014

New York, October 16, 2014 -- Moody's Investor Service today downgraded Walgreen Co. senior unsecured notes rating to Baa2. At the same time, Moody's affirmed Walgreen's commercial paper rating at Prime-2. The rating outlook is stable. This rating action concludes the review for downgrade that was initiated on August 6, 2014.

RATINGS RATIONALE

The downgrade acknowledges that Walgreen's debt to EBITDA will remain above 3.5 times for the next three years following its acquisition of the remaining 55% stake of Alliance Boots in early 2015, its $3 billion share repurchase program that will be completed by the end of fiscal 2016, and its reduced 2016 EPS guidance.

Moody's estimates that Walgreen's debt levels will increase from $4.5 billion currently to between $17 billion and $19 billion following the closing of the Alliance Boots transaction and the $3 billion share repurchase program. This will result in debt to EBITDA increasing in 2015 to about 4.25 times following the acquisition and Walgreen borrowing to fund the $3 billion share repurchase program. However, Moody's believes leverage will improve starting in 2016 as Moody's expects Walgreen to repay about $2.0 to $2.3 billion in debt in 2016, bringing debt to EBITDA to between 3.75 times and 4.0 times by the end of fiscal 2016. Moody's anticipates that Walgreen will make about $2 billion in additional debt repayments in 2017 such that its debt to EBITDA will remain below 3.75 times going forward.

The following rating is downgraded

Senior unsecured rating to Baa2 from Baa1

The following rating is affirmed

Commercial paper rating at Prime-2

A new holding company will be formed in connection with Walgreen's purchase of the remaining 55% stake of Alliance Boots, named Walgreens Boots Alliance Inc. ("combined Walgreens Boots").

Walgreen's senior unsecured rating reflects its strong market position as the largest drug store operator in the United States. It also acknowledges the strong market position of two of Alliance Boots three existing lines of business; Boots, Alliance Healthcare, and Farmacias Ahumada. Boots is the United Kingdom's largest drugstore retailer and Alliance Healthcare is a leading European pharmaceutical wholesaler. Farmacia Ahumada has a weaker competitive position with Farmacias Benavides being the third largest retail pharmacy chain in Mexico and Farmacias Ahumada being one of the three largest retail pharmacy chains in Chile. The rating is also reflective of the ten year contract with AmerisourceBergen which should benefit earnings over the long term. We believe the enhanced scalability of the Amerisource Bergen partnership will create further purchasing power.

The rating also indicates our favourable view of the drugstore industry. We believe the drugstore industry will benefit from the aging of the U.S., U.K., and European populations which will likely drive increasing use of prescription drugs over the long term. We also believe the demand for prescription drug medication is somewhat resilient to recessionary pressures. However, we view negatively that the Mexican economy has been struggling with weak growth.

The rating is constrained by the combined Walgreens Boots' debt to EBITDA which will remain high for the Baa2 rating for twelve to eighteen months following the close of the acquisition. We anticipate that the combined Walgreens Boots' debt to EBITDA will not return to levels indicative of the Baa2 rating until after August 2016. The rating is also constrained by our view that margins will remain pressured by reimbursement rates worldwide, competition in the European wholesale market, and selective generic drug price inflation.

The stable outlook acknowledges Moody's expectation that debt to EBITDA for combined Walgreens Boots will improve to below 3.75 times by fiscal 2017.

Downward rating pressure would develop should Walgreen pursue any further debt financed shareholder activities or acquisitions. Ratings could be downgraded should the combined Walgreens Boots operating performance falter or should the combined entity be unable to substantially reduce its debt levels over the twelve to eighteen month period following the close of the transaction such that debt to EBITDA does not approach 3.75 times by the fiscal year ended August 2016. Ratings could also be downgraded should Walgreen's choose to maintain debt to EBITDA over 3.75 times over the longer term or should EBITA to interest expense fall below 4.75 times.

Given the recent downgrade and the weakness in credit metrics after the remaining equity stake in Alliance Boots is acquired, an upgrade is unlikely at the present time. Over the longer term ratings could be upgraded should the combined Walgreens Boots operating performance improve and debt be reduced such that debt to EBITDA falls to 3.25 times or below and should EBITA to interest expense remain above 5.5 times. An upgrade would also require combined Walgreens Boots to maintain a financial policy that supports credit metrics remaining at this levels.

The principal methodology used in this rating was Global Retail Industry published in June 2011. Please see the Credit Policy page on www.moodys.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 $76 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 GBP23 billion. The combined Walgreen Boots Alliance Inc. revenues are over $113 billion.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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