



Walgreens Boots Alliance

Walgreens Boots Alliance Annual Report 2021

Form 10-K (NASDAQ:WBA)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended August 31, 2021

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _____ to _____
Commission file number 001-36759

WALGREENS BOOTS ALLIANCE, INC.

(Exact name of registrant as specified in its charter)

Delaware

47-1758322

(State of incorporation)

(I.R.S. Employer Identification No.)

108 Wilmot Road, Deerfield, Illinois

60015

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (847) 315-3700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	WBA	The Nasdaq Stock Market LLC
3.600% Walgreens Boots Alliance, Inc. notes due 2025	WBA25	The Nasdaq Stock Market LLC
2.125% Walgreens Boots Alliance, Inc. notes due 2026	WBA26	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of February 28, 2021, the aggregate market value of Walgreens Boots Alliance, Inc. common stock held by non-affiliates (based on the closing transaction price on Friday, February 26, 2021) was approximately \$34.3 billion.

As of September 30, 2021, there were 865,612,358 shares of Walgreens Boots Alliance, Inc. common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for our Annual Meeting of Stockholders planned to be held on January 27, 2022 are incorporated by reference into Part III of this Form 10-K as indicated herein.

Walgreens Boots Alliance, Inc.
Annual Report on Form 10-K
Table of Contents
Part I

	Page
Item 1. Business	1
Information about our executive officers	10
Item 1A. Risk factors	12
Item 1B. Unresolved staff comments	26
Item 2. Properties	26
Item 3. Legal proceedings	27
Item 4. Mine safety disclosures	27

Part II

Item 5. Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities	27
Item 6. Reserved	28
Item 7. Management's discussion and analysis of financial condition and results of operations	29
Item 7A. Quantitative and qualitative disclosure about market risk	52
Item 8. Financial statements and supplementary data	54
Item 9. Changes in and disagreements with accountants on accounting and financial disclosure	107
Item 9A. Controls and procedures	107
Item 9B. Other information	108

Part III

Item 10. Directors, executive officers and corporate governance	108
Item 11. Executive compensation	108
Item 12. Security ownership of certain beneficial owners and management and related stockholder matters	109
Item 13. Certain relationships and related transactions and director independence	109
Item 14. Principal accounting fees and services	109

Part IV

Item 15. Exhibits and financial statement schedules	109
Item 16. Form 10-K summary	119
Signatures	120

References in this Annual Report on Form 10-K (this "Form 10-K") to the "Company," "we," "us" or "our" refer to Walgreens Boots Alliance, Inc. and its subsidiaries and in each case do not include unconsolidated partially-owned entities, except as otherwise indicated or the context otherwise requires. Our fiscal year ends on August 31, and references herein to "fiscal 2021" refer to our fiscal year ended August 31, 2021.

This Form 10-K includes forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. See cautionary note regarding forward-looking statements in Management's discussion and analysis of financial condition and results of operations in Part II, Item 7 below.

All trademarks, trade names and service marks used herein are the property of their respective owners.

PART I

Item 1. Business

Overview

Walgreens Boots Alliance, Inc., a Delaware corporation (“Walgreens Boots Alliance” or the “Company”), is a global leader in retail pharmacy, impacting millions of lives every day through dispensing medicines, and providing accessible high-quality care. With more than 170 years of trusted healthcare heritage and innovation in community pharmacy, the Company is meeting customers’ and patients’ needs through its convenient retail locations, digital platforms and health and beauty products. The Company is proud of its contributions to healthy communities, a healthy planet, an inclusive workplace and a sustainable marketplace. Walgreens Boots Alliance is a participant of the United Nations Global Compact and adheres to its principles-based approach to responsible business.

Walgreens Boots Alliance is the largest retail pharmacy, health and daily living destination across the United States (“U.S.”) and Europe with sales of \$132.5 billion in the fiscal year ended August 31, 2021. Walgreens Boots Alliance has a presence in 9 countries and employs more than 315,000 people. The Company has approximately 13,000 stores within the U.S., Europe and Latin America. In addition, Walgreens Boots Alliance is one of the world’s largest purchasers of prescription drugs and many other health and well-being products. The Company’s size, scale and expertise will help it expand the supply of, and address the rising cost of, prescription drugs in the U.S. and worldwide.

The Company provides customers with convenient, omni-channel access through its portfolio of retail and business brands which includes Walgreens, Duane Reade and Boots as well as increasingly global health and beauty product brands, such as No7, NICE!, Soap & Glory, Finest Nutrition, Liz Earle, Botanics, Sleek MakeUP and YourGoodSkin. The Company’s global brands portfolio is enhanced by its in-house product research and development capabilities. The Company seeks to drive further innovative ways to address global health and wellness challenges. Strategic partnerships with some of the world’s leading companies enable the Company to extend its healthcare solutions and convenience offerings to the communities it serves. We believe the Company is well positioned to expand customer offerings in existing markets and become a health and well-being partner of choice in emerging markets. Additionally, through its strategic partnerships, the Company will be able to dramatically enhance Walgreens Boots Alliance’s marketing effectiveness and power the Company’s strategic initiative around mass personalization - delivering the right offers and content to customers.

Walgreens Boots Alliance was incorporated in Delaware in 2014 and is the successor of Walgreen Co., an Illinois corporation, which was formed in 1909 as a successor to a business founded in 1901. Our principal executive offices are located at 108 Wilmot Road, Deerfield, Illinois 60015. Our common stock trades on the Nasdaq Stock Market under the symbol “WBA”.

Strategic Update

In October 2021, the Company announced the launch of its new healthcare strategy. The Company plans to become a leading provider of local clinical care services by leveraging its consumer-centric technology and pharmacy network to deliver value-based care. The Company also plans to continue to transform its core pharmacy and retail business. The Company’s goal is to provide better consumer experiences, improve health outcomes and lower costs. At the center of the Company’s healthcare strategy is Walgreens Health, a technology-enabled care model powered by a nationally scaled, locally delivered healthcare platform. To advance its strategy, the Company announced majority investments in Village Practice Management Company, LLC (“VillageMD”) and CareCentrix, Inc. (“CareCentrix”) which it believes will strengthen Walgreens Health capabilities in primary care, post-acute care and home care.

See Note 21. Subsequent events to the Consolidated Financial Statements included in Part II. Item 8 herein for further information.

Recent Transactions

Pharmaceutical Wholesale Transaction

On January 6, 2021, the Company entered into a Share Purchase Agreement with AmerisourceBergen Corporation (“AmerisourceBergen”). Pursuant to the terms and subject to the conditions set forth in the Share Purchase Agreement, AmerisourceBergen agreed to purchase the majority of the Company’s Alliance Healthcare business as well as a portion of the Company’s retail pharmacy international businesses in Europe (“Disposal Group”) for approximately \$6.5 billion, comprised of \$6.275 billion in cash, subject to certain purchase price adjustments, and 2 million shares of AmerisourceBergen common stock (the “Alliance Healthcare Sale”). Alliance Healthcare’s investment in China and Italy and its operations in Germany were not included in the Disposal Group, and the Company’s retail pharmacy international operations in The Netherlands, Norway and Lithuania were included in the Disposal Group. The Disposal Group met the criteria to be reported as discontinued operations.

Therefore, the related assets, liabilities and operating results of the Disposal Group are reported as discontinued operations for all periods presented.

On June 1, 2021 the Company completed the Alliance Healthcare Sale, for total consideration of \$6.9 billion, which includes cash consideration of \$6.7 billion, subject to net cash and working capital adjustments. The Company recorded a gain before currency translation adjustments of \$1.1 billion and a net gain on disposal of \$0.3 billion. The gain on sale was presented as part of results of the discontinued operations. After giving effect to the Alliance Healthcare Sale, the Company beneficially owns approximately 28.5% of AmerisourceBergen's outstanding common stock, based on the share count publicly reported by AmerisourceBergen in its most recent Quarterly Report on Form 10-Q.

In connection with the Alliance Healthcare Sale, the Company and AmerisourceBergen also agreed to (i) a three-year extension through 2029 of the U.S. pharmaceutical distribution agreement pursuant to which branded and generic pharmaceutical products are sourced from AmerisourceBergen in the U.S., (ii) a three-year extension of the agreement, that provides AmerisourceBergen the ability to access generics pharmaceutical products through Walgreens Boots Alliance Development GmbH, the Company's global sourcing enterprise, (iii) a distribution agreement pursuant to which AmerisourceBergen will supply branded and generic pharmaceutical products to the Company's Boots UK business following the closing of the Alliance Healthcare Sale and (iv) a commitment to pursue a series of strategic initiatives designed to create incremental growth and efficiencies in sourcing, logistics and distribution.

See Note 2 Discontinued operations, to the Consolidated Financial Statements included in Part II, Item 8 below for additional information.

VillageMD investment

In July 2020, the Company and VillageMD announced an expansion of their partnership and the intent to open 500 to 700 "Village Medical at Walgreens" physician-led primary care clinics over a five-year period. This expanded partnership was supported by the Company's investment in VillageMD over three years of \$1.0 billion in equity and convertible debt, which included an initial \$250 million equity investment.

On January 6, 2021, the Company and VillageMD announced the acceleration of the Company's investment in VillageMD. The Company completed the remaining \$750 million investment during the twelve months ended August 31, 2021, which will support the opening of 600 to 700 clinics in more than 30 U.S. markets over a four-year period, with the intent to build hundreds more thereafter.

The Company held approximately 22% ownership interest in VillageMD as of August 31, 2021 and accounted for it using the equity method of accounting. It was anticipated, assuming full conversion of the debt, that the Company would hold approximately 30% ownership interest in VillageMD upon conversion.

On October 14, 2021 the Company announced that it has agreed to make an additional \$5.2 billion investment in VillageMD to advance its strategic position in the delivery of value-based primary care. The incremental investment increases the Company's ownership stake in VillageMD to approximately 63% from approximately 30% on a fully diluted basis, and increases the number of co-located clinics from 600 primary care clinics to 1,000 by the year 2027. The investment will be comprised of \$4.0 billion in cash, to be paid by the Company to VillageMD at the closing of the transaction, and a promissory note in the principal amount of \$1.2 billion to VillageMD at the closing of the transaction. The Company expects to fund the cash portion of the investment through a combination of cash on hand and available credit facilities

See Note 21. Subsequent events to the Consolidated Financial Statements included in Part II. Item 8 herein for further information.

iA acquisition

On December 29, 2020, the Company acquired a majority equity interest in Innovation Associates, Inc. ("iA") for a cash consideration of \$451 million. iA is a leading-edge provider of software enabled automation solutions for retail, hospital, federal healthcare and mail-order pharmacy markets. The Company accounted for this acquisition as a business combination and consolidates iA within the United States segment in its financial statements.

Pharmaceutical Wholesale business in Germany

On November 1, 2020, the Company and McKesson Corporation closed a transaction to form a combined pharmaceutical wholesale business in Germany, as part of a strategic alliance. The Company owns a 70% controlling equity interest in the combined business which is consolidated by the Company and reported within the International segment in its financial statements. The Company accounted for this acquisition as a business combination involving noncash purchase consideration of

\$296 million consisting of the issuance of an equity interest in the combined business. See Note 3 Acquisitions, to the Consolidated Financial Statements included in Part II, Item 8 below for additional information.

Relationship with AmerisourceBergen

Walgreens is party to various agreements and arrangements with AmerisourceBergen Corporation ("AmerisourceBergen") including (a) a pharmaceutical distribution agreement under which the Company sources branded and generic pharmaceutical products from AmerisourceBergen in the United States and (b) an agreement under which AmerisourceBergen accesses generic pharmaceutical products through the Company's global sourcing enterprise, Walgreens Boots Alliance Development GmbH. These agreements have been amended multiple times, most recently in June 2021, in connection with the Company's sale of its Alliance Healthcare business to AmerisourceBergen (the "Alliance Healthcare Sale"). Pursuant to those amendments, the U.S. distribution agreement was extended through 2029 and the parties committed to pursue additional opportunities in sourcing and distribution. The parties also agreed that Alliance Healthcare UK will remain the distribution partner of Boots until 2031.

The Company also holds a substantial investment in AmerisourceBergen. As of August 31, 2021, the Company owned 58,854,867 shares of AmerisourceBergen common stock, representing approximately 28.5% of its outstanding common stock based on the share count most recently reported by AmerisourceBergen. The Company has a shareholders agreement with AmerisourceBergen, which was most recently amended and restated in connection with the Alliance Healthcare Sale (the "A&R Shareholders Agreement"). Pursuant to the A&R Shareholders Agreement, the Company has designated one member of AmerisourceBergen's board of directors. The Company is also permitted, subject to certain conditions, to acquire up to an additional 8,398,752 AmerisourceBergen shares in the open market, and thereafter to designate another member of AmerisourceBergen's board of directors. The amount of permitted open market purchases is subject to increase or decrease in certain circumstances.

The Company accounts for its investment in AmerisourceBergen using the equity method of accounting, subject to a two-month reporting lag, with the net earnings attributable to the investment classified within the operating income of the Company's United States segment.

See Management's discussion and analysis in Part II, Item 7 and Note 2 Discontinued operations, Note 6 Equity method investments and Note 19 Related parties, to the Consolidated Financial Statements included in Part II, Item 8, below for additional information.

Industry overview

The retail pharmacy industry across the globe is highly competitive and dynamic and has experienced consolidation and an evolving competitive landscape in recent years. Prescription drugs play a significant role in healthcare and constitute a first line of treatment for many medical conditions. The Company believes the long-term outlook for prescription drug utilization is strong due, in part, to aging populations, increases in life expectancy, increases in the availability of generic drugs, the continued development of innovative drugs that improve quality of life and control healthcare costs and increases in the number of persons with insurance coverage for prescription drugs, including, in the U.S., "baby boomers" increasingly becoming eligible for the federally funded Medicare Part D prescription program. Pharmaceutical wholesalers act as a vital link between drug manufacturers and pharmacies and healthcare providers in supplying pharmaceuticals to patients.

The retail pharmacy industry across the globe relies significantly on private and governmental third-party payers. Many private organizations throughout the healthcare industry, including pharmacy benefit management ("PBM") companies and health insurance companies, have consolidated in recent years to create larger healthcare enterprises with greater bargaining power. Third-party payers, including the Medicare Part D plans and the state-sponsored Medicaid and related managed care Medicaid agencies in the U.S., can change eligibility requirements or reduce certain reimbursement rates. In addition, in many European countries, the government provides or subsidizes healthcare to consumers and regulates pharmaceutical prices, patient eligibility and reimbursement levels to control costs for the government-sponsored healthcare system. Changes in law or regulation also can impact reimbursement rates and terms. For example, the Patient Protection and Affordable Care Act (the "ACA") was enacted to help control federal healthcare spending, including for prescription drugs, in the U.S. These changes generally are expected to reduce Medicaid reimbursements in the U.S. State Medicaid programs are also expected to continue to seek reductions in reimbursements. When third-party payers or governmental authorities take actions that restrict eligibility or reduce prices or reimbursement rates, sales and margins in the retail pharmacy industry could be reduced, which would adversely affect industry profitability. In some cases, these possible adverse effects may be partially or entirely offset by controlling inventory costs and other expenses, dispensing more higher margin generics, finding new revenue streams through pharmacy services or other offerings and/or dispensing a greater volume of prescriptions.

These industry dynamics and challenges are continuous and have intensified in recent years. Since the completion of the strategic combination of Walgreens and Alliance Boots in December 2014, the Company has had a continuous focus on operational efficiencies and cost reduction.

Generic prescription drugs have continued to help lower overall costs for customers and third-party payers. The Company expects the utilization of generic pharmaceuticals to continue to increase. In general, in the U.S., generic versions of drugs generate lower sales dollars per prescription, but higher gross profit dollars, as compared with patent-protected brand name drugs. The impact on retail pharmacy gross profit dollars can be significant in the first several months after a generic version of a drug is first allowed to compete with the branded version, which is generally referred to as a "generic conversion". In any given year, the number of major brand name drugs that undergo a conversion from branded to generic status can vary and the timing of generic conversions can be difficult to predict, which can have a significant impact on retail pharmacy sales and gross profit dollars. In general, in the U.S., the specialty prescription business is also growing and generates higher sales dollars per prescription, but lower gross margin, as compared to generic prescription drugs.

The Company expects that market demand, government regulation, third-party reimbursement policies, government contracting requirements and other pressures will continue to cause the industries in which the Company competes to evolve. Pharmacists are on the frontlines of the healthcare delivery system, and the Company believes rising healthcare costs and the limited access to primary care physicians present opportunities for pharmacists and retail pharmacies to play an even greater role in driving positive outcomes for patients and payers through expanded service offerings.

Segments

The Company's operations are conducted through two reportable segments:

- United States; and
- International

For fiscal 2021, our segment sales were: United States, \$112.0 billion and International \$20.5 billion. Additional information relating to our segments is included in Management's discussion and analysis of financial condition and results of operations in Part II, Item 7 below and in Note 17 Segment reporting and Note 18 Sales, to the Consolidated Financial Statements included in Part II, Item 8 below for additional information.

United States

The United States segment includes the Company's Walgreens business, which includes the operations of retail drugstores, health and wellness services, and mail and central specialty pharmacy services, and its equity method investment in AmerisourceBergen.

Sales for the segment are principally derived from the sale of prescription drugs and a wide assortment of retail products, including health and wellness, beauty, personal care and consumables and general merchandise. The United States segment (excluding equity method investments) has pharmacy-led health and beauty retail offerings in 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, each focused on helping people feel happy and healthy. The Company operated 8,965 retail stores in the segment as of August 31, 2021. The principal retail pharmacy brands in the segment are Walgreens and Duane Reade. The Company is a market leader in the U.S. and, as of August 31, 2021, approximately 78% of the population of the U.S. lived within five miles of a Walgreens or Duane Reade retail pharmacy.

The Company is focused on creating a neighborhood health destination and a more modern pharmacy aligned to a wider range of healthcare services. Significant investments in fiscal 2021 have accelerated the Company's customer-centric approach, with specific focus on transforming omni-channel capabilities and offerings across retail and healthcare. The Company's services help improve health outcomes for patients and manage costs for payers, including employers, managed care organizations, health systems, PBM companies and the public sector. The Company utilizes its retail network as a channel to provide health and wellness services to its customers and patients, as illustrated by the Company's ability to play a significant role in providing vaccinations. Additionally, through our key collaborations, we aim to develop new health care delivery models and to improve the speed, efficiency and safety of the prescription fulfillment process. We have taken further steps to develop our neighborhood health destinations, working with our healthcare strategic partners such as VillageMD to provide an integrated primary care and pharmacy model that aims to drive better health outcomes, reduce costs and provide a differentiated patient experience to the communities we serve.

The Company also provides specialty pharmacy and mail services and offers other health and wellness services throughout the U.S., most of which are operated by our strategic healthcare partners. The Company has more than 85,000 healthcare service providers, including pharmacists, pharmacy technicians, nurse practitioners and other health related professionals.

The segment provides customers with convenient, omni-channel access to consumer goods and services, including own branded general merchandise, such as NICE!, Finest Nutrition, No7, and Soap & Glory, as well as pharmacy and health and wellness services in communities across the U.S. Integrated with the Company's e-commerce platform, the Walgreens mobile application allows customers to refill prescriptions through scan technology, receive notifications when a refill is due and choose their delivery option, which includes in-store pick up, drive-through or delivery to their home.

In fiscal 2021, we launched myWalgreens, replacing the former Balanced Rewards customer loyalty program, to provide a new interface for customers to access the enhanced and growing Walgreens digital offering. The new program simplifies how customers accumulate and use rewards. Points have been replaced by Walgreens Cash, reflecting the actual value of the reward and allowing the cash benefit to be applied as the customer chooses, not just to future transactions at Walgreens but even in support of their favorite charity or community cause. The number of myWalgreens members continue to grow and as of August 31, 2021, totaled approximately 85 million.

The Walgreens Find Care platform also includes telehealth service providers, connecting patients and customers with options to access convenient and affordable care from their mobile devices. Additionally, the Company has expanded the retail functionality of its mobile application, such as extending drive-through service to include retail products, curbside collection for online orders and same day offerings including pick up orders within 30 minutes. The Company also offers on-demand delivery to its customers through its collaborations with DoorDash and Postmates. The segment is also implementing new approaches to promotions, product selection and other areas to deliver greater value to its customers in its stores, including an enhanced beauty offering.

The components of the segment's sales are Pharmacy (the sale of prescription drugs and provision of pharmacy-related services) and Retail (the sale of healthcare and retail products including non-prescription drugs, health and wellness, beauty and personal care, and consumables and general merchandise). The segment's sales are subject to the influence of seasonality, particularly the cough, cold and flu seasons and winter holiday. This seasonality also can affect the segment's proportion of sales between Retail and Pharmacy during certain periods. The components of the segment's fiscal year sales were as follows:

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Pharmacy	76 %	75 %	74 %
Retail	24 %	25 %	26 %
Total	100 %	100 %	100 %

The Company filled 827.5 million prescriptions (including vaccinations) in the segment in fiscal 2021. Adjusted to 30-day equivalents, prescriptions filled were 1.2 billion in fiscal 2021. The Company fills prescriptions under Medicare, Medicaid and other publicly financed or sponsored health benefit and prescription drug plans and programs, including the federal 340B drug pricing program. Sales where reimbursement is received from managed care organizations, governmental agencies, PBM companies and private insurance were approximately 97% of the segment's fiscal 2021 Pharmacy sales.

The Company fills prescriptions for many state Medicaid public assistance programs. Sales from all such Medicaid plans were approximately 4% of the segment's fiscal 2021 sales. Sales from Medicare Part D plans were approximately 20% of the segment's fiscal 2021 sales.

In fiscal 2021, the Company also introduced the new myWalgreens Credit Card program, featuring two industry-first retail health and wellness credit cards. The myWalgreens Mastercard and the myWalgreens Credit Card are the first ever of their kind to reward more personalized wellbeing choices and offer industry-leading rewards at Walgreens locations, Walgreens.com, Duane Reade stores, via the Walgreens mobile app, and wherever Mastercard is accepted.

AmerisourceBergen supplies and distributes a significant amount of generic and branded pharmaceutical products to the segment's pharmacies. The Company purchases its non-pharmaceutical merchandise from numerous manufacturers and wholesalers.

The segment's sales, gross profit margin and gross profit are impacted by, among other things, both the percentage of prescriptions filled that are generic and the rate at which new generic drugs are introduced to the market. Because any number of factors outside of the Company's control can affect timing for a generic conversion, the Company faces substantial uncertainty in predicting when such conversions will occur and what effect they will have on particular future periods.

The current environment of the Company's pharmacy business also includes ongoing reimbursement pressure, a shift in pharmacy mix towards 90-day at retail (one prescription that is the equivalent of three 30-day prescriptions), an increased volume of Medicare Part D prescriptions and increased consumer use of prescription discount cards. Further consolidation among generic manufacturers coupled with changes in the number of major brand name drugs anticipated to undergo a conversion from branded to generic status may also result in gross margin pressures within the industry.

The Company continuously faces reimbursement pressure from PBM companies, government, health maintenance organizations, managed care organizations and other commercial third-party payers; agreements with these payers are regularly subject to expiration, termination or renegotiation. In addition, plan changes with rate adjustments often occur in January and the Company's reimbursement arrangements may provide for rate adjustments at prescribed intervals during their term. The Company experienced lower reimbursement rates in fiscal 2021 as compared to the same period in the prior year. The Company expects these pressures to continue.

The Company has also worked to develop and expand its relationships with commercial third-party payers to enable new and/or improved market access via participation in pharmacy provider networks they offer. The prescription volume impact of new agreements and relationships typically is incremental over time.

The Company's 90-day at retail prescription drug offering is typically at a lower margin than comparable 30-day prescriptions, but provides the Company with the opportunity to increase business with patients with chronic prescription needs while offering increased convenience, helping facilitate improved prescription adherence and resulting in a lower cost to fill the 90-day prescription. Similarly, the specialty prescription business, which generates higher sales dollars per prescription, may result in gross margin pressures within the industry, as compared to generic prescription drugs. The segment's performance is also impacted by the current environment, including the uncertainty as a result of COVID-19. For more information, see Risk factors in Item 1A below.

International

The International segment consists of pharmacy-led health and beauty retail businesses outside the U.S. and the pharmaceutical wholesaling and distribution business in Germany.

Pharmacy-led health and beauty retail businesses include Boots branded stores in the United Kingdom ("UK"), the Republic of Ireland and Thailand, the Benavides brand in Mexico and the Ahumada brand in Chile. Sales for these businesses are principally derived from the sale of prescription drugs and health and wellness, beauty, personal care and other consumer products. The Company operated 4,031 retail stores in the segment as of August 31, 2021 (see properties in Part I, Item 2 below for information regarding geographic coverage) and has grown its omni-channel platform, including its online presence, in recent years. In the UK, the Company is a market leader and its retail stores are conveniently located with pharmacists well placed to provide a significant role in the provision of healthcare services, working closely with other primary healthcare providers in the communities the Company serves.

The Boots omni-channel offering is differentiated from that of competitors due to the product brands the Company owns, such as No7, Liz Earle, Soap & Glory, Botanics, Sleek MakeUp, Boots Pharmaceuticals and 'only at Boots' exclusive products, together with its long established reputation for trust and customer care. The Company's brands portfolio is enhanced by its in-house product research and development capabilities. The Company has introduced new beauty brands and beauty halls in key locations. Certain of the product brands of the Company are also sold by third-party retailers.

The Company's retail store networks are typically complemented by online platforms. In the UK, through the boots.com website and integrated mobile application, the 'order and collect' service normally allows customers to order from a range of over 37,000 products by 8:00 p.m. and collect the following day from approximately 74% of the UK's retail stores.

The Boots Advantage Card loyalty program, where customers earn points on purchases for redemption at a later date, continues to be a key element of the Boots offering. As of August 31, 2021, the number of active Boots Advantage Card members (members who have used their card in the last six months) totaled approximately 12 million.

In addition, Boots in the UK is one of the leaders in the optical market with 548 practices, of which 160 operated on a franchise basis as of August 31, 2021. Approximately 30% of these optical practices are located in Boots stores with the balance being standalone optical practices.

The components of the segment's sales are Pharmacy (typically the sale of prescription drugs and provision of pharmacy-related services, subject to variation in particular jurisdictions depending upon regulatory and other factors) and Retail

(primarily the sale of health and beauty products including beauty, toiletries and lifestyle merchandising, non-prescription drugs and, in the UK, the provision of optical services). Further, the segment also has a wholesale business in Germany with 41 distribution centers which distribute prescription medicines to pharmacies and other similar health care facilities.

The segment's sales are subject to the influence of seasonality, with the second fiscal quarter typically the strongest as a result of the winter holiday period. This seasonality affects the segment's proportion of sales between Retail and Pharmacy during certain periods. The components of the segment's fiscal year sales were as follows:

	Fiscal 2021	Fiscal 2020	Fiscal 2019
Pharmacy	19 %	25 %	24 %
Retail	30 %	41 %	46 %
Wholesale	51 %	34 %	30 %
Total	100 %	100 %	100 %

The segment's Pharmacy sales, gross margin and gross profit dollars are impacted by governmental agencies and other third-party payers seeking to minimize increases in the costs of healthcare, including pharmaceutical drug reimbursement rates. In the UK, which is the segment's largest market for Pharmacy sales, the amount of government funding available for pharmacy services is typically reviewed and agreed with the pharmacy industry on an annual basis.

The segment's Retail sales, gross profit margin and gross profit dollars are impacted by, among other things, the highly competitive nature of the health and beauty category, specifically the Company and its competitors' pricing actions, promotional offers and events and the customer's desire for value and convenience.

The segment's Wholesale sales, gross profit margin and gross profit dollars are impacted by, among other things, government actions, which typically seek to reduce the growth in prescription drug consumption, reduce reimbursement rates and increase generic drug utilization. A greater proportion of generic drugs, whether as a result of government actions, generic conversions or other factors, typically has an adverse effect on the Company's revenues.

In addition, performance as measured in U.S. dollars is impacted by the exchange rates used to translate these amounts into U.S. dollars, the exchange rate of British pound sterling being the most significant.

The segment's performance and relevant exchange rates are also impacted by the current environment, including the uncertainty as a result of COVID-19. For more information relating to these topics, see Risk factors in Item 1A below.

Intellectual property and licenses

The Company markets products and services under various trademarks, trade dress and tradenames and relies on a combination of patent, copyright, trademark, service mark and trade secret laws, as well as contractual restrictions to establish and protect its proprietary rights. The Company owns numerous domain names, holds numerous patents, has registered numerous trademarks and has filed applications for the registration of a number of other trademarks and service marks in various jurisdictions. The Company holds assorted business licenses (such as pharmacy, occupational, liquor and cigarette) having various lives within multiple legal jurisdictions, which are necessary for the normal operation of the business.

Seasonal variations in business

The Company's business is affected by a number of factors including, among others, COVID-19, its sales performance during holiday periods (including particularly the winter holiday season) and during the cough, cold and flu season (the timing and severity of which is difficult to predict), significant weather conditions, the timing of its own or competitor discount programs and pricing actions and the timing of changes in levels of reimbursement from governmental agencies and other third-party payers. See the summary of quarterly results (unaudited) in Note 20 Supplementary financial information, to the Consolidated Financial Statements included in Part II, Item 8 below.

Sources and availability of raw materials

Inventories are purchased from numerous domestic and foreign suppliers. The Company does not believe that the loss of any one supplier or group of suppliers under common control would have a material adverse effect on its business or that of any of its segments.

Working capital practices

Effective inventory management is important to the Company's operations. The Company uses various inventory management techniques, including demand forecasting and planning and various forms of replenishment management. Its working capital