

# CtW Investment Group

Thomas Sabatino, Jr.  
Executive Vice President, General Counsel & Corporate Secretary  
Walgreen Co.  
108 Wilmot Road, MS 1858  
Deerfield, IL 60015

July 23, 2012

Dear Mr. Sabatino,

Thank you for your letter to Bill Patterson dated June 26. Mr. Patterson is currently on vacation and asked me to respond to you.

We are glad to hear that Walgreen Company's board and management are committed to good corporate governance. In light of the financial fallout from the recently settled dispute with Express Scripts, we believe the Board should set clear performance benchmarks for growing the US business moving forward. We hope that the Board of Directors sees the recent appointment of James Skinner, as non-executive chairman of the Board, as an opportunity to show renewed leadership regarding this vital issue for our company.

In our view, such Board leadership is particularly important in light of Walgreen's recently announced foray into the global markets with its initial 45 percent ownership stake in Alliance Boots GmbH, with an option to purchase the remainder of the company before 2016. Given the European crisis and Walgreen's current low stock price, we agree with the many analysts recently quoted in the *Wall Street Journal* that called the Alliance Boots deal expensive and questioned what a U.S. pharmacy wants with exposure to Europe at this point in time.<sup>i</sup> Additionally, the *WSJ* noted that "Standard & Poor's said it would study a possible downgrade of Walgreen's corporate credit rating, due to a 'meaningful deterioration' to the company's balance sheet as a result of the deal, which includes a \$4 billion cash payment."<sup>ii</sup> Given these issues, we are concerned that Walgreen has structured the transaction in such a way that only the second step will require shareholder approval, at which point the deal may appear to be a *fait accompli*.<sup>iii</sup>

Finally, the prolonged dispute with Express Scripts appears to have at least temporarily lowered revenue. We are concerned that the willingness to forgo a substantial share of revenue, as evinced by the decline in same-store-sales for each month since the dispute began, seems to indicate a lack of strategic judgment. Even more sobering for Walgreen shareholders is the possibility that, as suggested by many analysts (as well as Walgreen's competitors), some of these losses may prove permanent.<sup>iv</sup>

We hope to meet with Mr. Skinner soon to discuss the US growth plan review. We could arrange the

meeting at a convenient time when Mr. Skinner or the appropriate Board member will be in Washington, DC later this summer.

We look forward to hearing from you soon.

Sincerely,

Richard Clayton  
Director of Research

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<sup>i</sup> "Analysts Blasting Walgreen-Alliance Boots Deal as Shares Fall," *The Wall Street Journal*, June 20, 2012

<sup>ii</sup> "Walgreen Spends \$6.7 billion on Boots Stake," *The Wall Street Journal*, June 20, 2012

<sup>iii</sup> Walgreen 8K June 19, 2012

<sup>iv</sup> "Walgreen and Express Scripts Agree to End Rate Impasse," *The Wall Street Journal*, July 19, 2012