UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10562 / September 28, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18850

In the Matter of **WALGREENS BOOTS ALLIANCE, INC., GREGORY D. WASSON AND WADE D. MIQUELON** **Respondents.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act") against Walgreens Boots Alliance, Inc. ("WBA"), Gregory D. Wasson ("Wasson"), and Wade D. Miquelon ("Miquelon") (collectively "Respondents").

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the "Offers") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Making Findings, and Imposing a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds[1] that:

Summary

1. This case involves negligent failures by Walgreen Co. ("Walgreens") and its senior leadership to adequately disclose to the market known increases in risk regarding the company's ability to achieve a financial goal. On June 19, 2012, Walgreens announced that it was entering into a two-step merger with Alliance Boots, GmbH ("Alliance Boots"), a European, pharmacy-led health and beauty company. It also announced financial goals for the fully combined entity for 2016, including combined adjusted operating income ("EBIT") of $9.0 to $9.5 billion (the "FY16 EBIT Goal"). The company intended to update analysts and investors regarding the continuing viability of the 2016 goals on a quarterly basis.

2. The FY16 EBIT Goal was challenging by design when it was announced in 2012. Within Walgreens, the 2016 goals sometimes were referred to as "challenging, stretch goals." Senior Walgreens executives, including CEO Greg Wasson and CFO Wade Miquelon, were aware of the challenging nature of the FY16 EBIT Goal when the 2016 goals were announced in June 2012.

3. Walgreens' performance toward its internal, interim EBIT targets trailed expectations in fiscal 2013.[2] Poor retail sales and lagging pharmacy prescriptions in 2013 placed pressure on Walgreens' projected 2014 and 2015 EBIT. From May 2013 forward, Walgreens' internal forecasts for 2014, 2015, and 2016 showed significant, and increasing, risks to the interim EBIT targets and to the FY16 EBIT Goal. By October 2013, Walgreens' FY16 EBIT forecast had dropped to approximately $8.7 billion, $300 million short of the low end and $800 million short of the high end of the FY16 EBIT Goal range, despite the release of $500 million of the $900 million of corporate contingency that was originally built into the Goal.

4. Despite the known gaps between the internal forecasts and the FY16 EBIT Goal, Respondents reaffirmed the full $9.0 to $9.5 billion range of the FY16 EBIT Goal on earnings calls in June and October 2013, without disclosing to the market that the company had identified a significant increase in risk to the FY16 EBIT Goal. This made Walgreens' June and October 2013 statements regarding the FY16 EBIT Goal misleading.

5. By November 2013, Walgreens had identified a source of additional risk to the FY16 EBIT Goal -- an unanticipated and industry-wide increase in the price of generic drugs, which placed additional pressure on Walgreens' already lagging pharmacy performance. By December 2013, these additional pressures led Walgreens to lower its internal FY16 EBIT

---

[1] The findings herein are made pursuant to Respondents' Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

[2] Walgreens' fiscal quarters do not follow calendar year quarters. Walgreens' first through fourth fiscal quarters end on November 30, February 28/29, May 31, and August 31, respectively.

forecast from $8.7 billion to $8.4 billion. Walgreens' executive management was aware of the additional risk prior to Walgreens' December 2013 earnings call for the first fiscal quarter of 2014.

6. On its December 2013 earnings call, Walgreens for the first time warned investors that the risk to the FY16 EBIT Goal had increased, but its disclosures failed to adequately disclose the increase in the risk. Walgreens repeated a nearly identical warning on its second quarter earnings call in March 2014.

7. By June 2014, Respondents concluded that the FY16 EBIT Goal was no longer reasonably attainable. Walgreens withdrew all of its 2016 goals on its third quarter 2014 earnings call on June 24, 2014, citing uncertainty regarding the structure of the company's exercise of step two of the Alliance Boots merger and performance issues. At the time it withdrew the 2016 goals, Walgreens' internal forecasting was showing FY16 EBIT between $7.2 billion and $7.5 billion. Walgreens told investors that it would provide an update regarding step two of the transaction and new goals on a separate call at a later date. Throughout the summer of 2014, Walgreens' FY16 EBIT forecast remained consistent between $7.2 billion and $7.5 billion.

8. On August 6, 2014, Walgreens made a number of announcements, including a new earnings per share goal for 2016 which implied a 2016 EBIT range with a midpoint of $7.2 billion. On that day, shares of Walgreens common stock fell 14.3%, from $69.12 to $59.21. Summarizing meetings with various investors after the call, including certain active institutional investors, a member of Walgreens' investor relations function wrote that the investors were "shocked at the EBIT shortfall and in particular, how quickly it happened."

Respondents

9. Walgreens Boots Alliance, Inc., is a Delaware company with headquarters in Deerfield, Illinois. WBA's common shares are registered pursuant to Section 12(b) of the Exchange Act and are quoted on the NASDAQ Stock Market (NASDAQ: WBA). Prior to its merger with Alliance Boots, Walgreens' common shares were registered pursuant to Section 12(b) of the Exchange Act and were quoted on the New York Stock Exchange (NYSE: WAG), among others. At the time of its merger with Alliance Boots, Walgreens operated the largest drugstore chain in the United States, providing customers omni-channel access to consumer goods and services, pharmacy, and health and wellness services in communities across America.

10. Gregory D. Wasson, 59, is a resident of Illinois. From February 2009 through January 9, 2015, Wasson served as the Chief Executive Officer and a Director of Walgreens.

11. Wade D. Miquelon, 53, is a resident of Illinois and Ohio. From June 2008 through August 4, 2014, Miquelon served as the Chief Financial Officer of Walgreens.

The Walgreens/Alliance Boots Merger and 2016 Goals

12. In June 2012, Walgreens and Alliance Boots entered into a two-step merger by which Walgreens initially purchased a 45% interest in Alliance Boots, with an option to purchase the remaining 55% of Alliance Boots in or around 2015. When it announced the merger,

Walgreens provided the market with a set of fiscal year 2016 financial goals in order to help investors understand the company's view of the potential benefits of the transaction. 2016 would represent the first full year of results for the fully combined company, assuming step two of the merger was consummated as expected.

13. The 2016 goals were made up of financial metrics that the company would track from the time of the announcement moving forward. The goal metrics included $9.0 to $9.5 billion in combined adjusted operating income (the FY16 EBIT Goal); $130 billion or more in combined revenue; $1 billion in synergies; approximately $8 billion of operating cash flow; and approximately $11 billion of combined net debt. At the time it announced the 2016 goals, Walgreens intended to provide quarterly reaffirmations of the goals, if reasonable and if approved through the company's regular disclosure process, which involved executives from the finance, accounting, investor relations, legal, internal audit, and business functions. As CEO and CFO, Wasson and Miquelon delivered the company's prepared remarks during each quarterly earnings call, including the four calls at issue. Wasson and Miquelon also participated in the question and answer sessions directly following each earnings call.

14. The FY16 EBIT Goal was calculated from a "deal model" formulated by Walgreens' M&A team and outside advisors. The deal model forecasted baseline FY16 EBIT of $9.9 billion, with a "severe downside case" of approximately $9.3 billion. Walgreens arrived at the FY16 EBIT Goal after reducing the deal model's baseline forecast by $900 million of corporate contingency to cover any unexpected risks to the plan, and used a range bracketing the $9.3 billion severe downside case.

15. The deal model used to formulate the 2016 goals was based on the FY 2013-2015 long range plans for the Walgreens and Alliance Boots base businesses, along with an assumption for the synergies anticipated from the merger. Because neither company had long range plans going out to 2016, the deal model used growth assumptions to extrapolate out to 2016. Moreover, because Walgreens was in the middle of its long range planning process at the time the 2016 goals were announced, the company did not have a final, Board-approved long range plan for FY 2013-2015 to which it could apply the growth rates for 2016.

16. The FY16 EBIT Goal was deliberately challenging when made. The 2016 goals were referred to internally as "challenging, stretch goals." Walgreens used the word "goals" in its proxy to describe "challenging yet achievable" targets. Although the company believed the 2016 goals were reasonably achievable when they were announced, Walgreens' executives recognized the challenging and aspirational nature of the FY16 EBIT Goal.

17. In October 2012, Walgreens' Board approved its final FY 2013-2015 LRP. At the same time, management also presented the Board with a "Glide Path to Stated Goals" that set forth interim targets for fiscal years 2013, 2014, and 2015, building to the ultimate 2016 goals. The interim 2013 EBIT target corresponded to Walgreens' budget for fiscal year 2013. As Walgreens' Financial Planning and Analysis ("FP&A") group developed internal forecasts in 2013, it would regularly compare those forecasts to the October 2012 glide path.

Walgreens' Internal Forecasts Lag Interim and FY16 Targets

18. In Spring 2013, Walgreens began developing its FY 2014-2016 LRP, for the first time building its FY16 forecast from detailed assumptions instead of extrapolated growth rates. Walgreens' lagging performance in fiscal 2013 led it to reduce revenue expectations for FY 2014-2016 as part of the 2013 LRP process. In order to achieve the FY16 EBIT Goal with the reduced revenue expectations, management included in its top-down FY 2014-2016 LRP targets $375 million of "additional cost innovation." Nonetheless, Walgreens' performance in fiscal 2013 caused the long range planning ("LRP") process in 2013 to project significant shortfalls to the October 2012 glide path targets for 2014-2016.

19. During the LRP process in 2013, Walgreens' internal forecasts lagged expectations and indicated challenges to achieving the FY16 EBIT Goal. In a May 2013 presentation for senior management, Walgreens' FP&A group explained that, "The first [bottom-up] submission [of the LRP] illustrates risk to the plan [] indicating a substantial shortfall to our goals." Wasson and Miquelon, among others, received an email describing the risk to the plan several days before the May 2013 presentation.

20. In early July 2013, Walgreens presented its preliminary FY 2014-2016 LRP to the Board for the first time. The preliminary FY 2014-2016 LRP showed gaps to each of the interim targets in FY 2013-2015, and FY16 EBIT $400 million below the low end and $900 million below the high end of the FY16 EBIT Goal range. The gap to the FY16 EBIT Goal persisted despite Walgreens' management releasing $500 million of the $900 million of corporate contingency that was originally built into the goal. The Board was also provided with a list of additional risks and opportunities that could impact the forecast in the future.

21. Walgreens' internal forecasts continued to fall short of the FY16 EBIT Goal moving forward from the July 2013 Board meeting. In October 2013, Walgreens' final FY 2014-2016 LRP was presented to the Board for approval. At the time it was approved, Walgreens' FY16 EBIT forecast remained $300 million below the low end and $800 million below the high end of the FY16 EBIT Goal range, despite the fact that $500 million of contingency had already been released. The Board was again provided with a list of additional risks and opportunities that could impact the forecast in the future.

22. By November 2013, Walgreens began to realize additional risk to the FY16 EBIT Goal, primarily as a result of recent unanticipated levels of inflation in the price of generic drugs. Walgreens' initial estimates in November and December of 2013 of the future impact of generic inflation on FY16 earnings led it to reduce its internal FY16 EBIT forecast by an additional $300 million. As a result, by December 2013, Walgreens was internally forecasting FY16 EBIT of $8.4 billion, after the cumulative release of $500 million of corporate contingency. Prior to Walgreens' December 2013 earnings call for the first fiscal quarter of 2014, Respondents were aware of the additional risk caused by their estimates to date of the impact of generic inflation on the FY16 EBIT Goal.

23. Because of the significant risk posed by the impact of generic inflation, Walgreens prepared an "LRP Refresh" in January and February 2014 to provide management

with a sense of the current forecast, as well as additional risks and opportunities. The LRP Refresh confirmed Walgreens' December 2013 forecast of FY16 EBIT of $8.4 billion, $600 million below the low end and $1.1 billion below the high end of the FY16 EBIT Goal range, despite the cumulative release of $600 million of contingency. Respondents were aware of the forecast from the LRP Refresh prior to Walgreens' March 2014 earnings call for the second fiscal quarter of 2014.

24. In early April 2014, Walgreens held a Board meeting at which management provided an update regarding the 2016 goals. At the meeting, the Board was provided with an FY16 EBIT forecast of $8.4 billion, after the cumulative release of $600 million of corporate contingency.

25. Walgreens' LRP process continued after the April 2014 Board meeting. Between the May 2014 first submission of the FY 2015-2017 LRP and the second submission in June 2014, Walgreens' internal FY16 EBIT forecast for its pharmacy business declined by more than $1 billion, resulting in an enterprise FY16 EBIT forecast of $7.5 billion being presented to the Board in July 2014 (which included $600 million of corporate contingency), leaving the company $1.5 to $2.0 billion short of its FY16 EBIT Goal. This additional deterioration in the forecast was a result of generic inflation worsening, Walgreens' increased understanding of the negative future impacts of generic inflation, and the future impact of recently negotiated Medicare Part D reimbursement contracts.

26. By June 2014, Respondents concluded that the additional opportunities that Walgreens had shared with the Board in 2013 and early 2014 were not sufficient or certain enough to offset those additional risks, and Walgreens' corporate contingency to cover unexpected risks to the plan had already been expended to cover other risks that had previously come to light, leading Respondents to withdraw the 2016 goals.

<u>Walgreens' Withdrawal of the 2016 Goals</u>

27. Walgreens hosted its third quarter 2014 earnings call on June 24, 2014. On the call, Walgreens announced that it was withdrawing its 2016 goals, saying, "As a result of the many Step 2 considerations and current business performance, the company is withdrawing its fiscal year 2016 goals that were previously announced in 2012. The company expects to provide a new set of goals and metrics for the proposed combined enterprise for fiscal 2016, and we will communicate those to you on our call, which we expect to hold in late July or early August." Regarding the FY16 EBIT Goal, Walgreens announced that it "no longer expect[ed] to reach that goal." Walgreens' LRP at the time was not yet finalized, but internal forecasts were projecting FY16 EBIT between $7.2 billion and $7.5 billion.

<u>Walgreens' Release of New 2016 Goals</u>

28. Walgreens' FY16 EBIT forecasting remained consistent throughout July 2014. On August 6, 2014, Walgreens held an investor call regarding the Alliance Boots merger. On the call, Walgreens announced, among other things, that it would be moving forward with step two of the merger early and without a tax inversion considered by the company, and it

announced a new earnings per share goal of $4.25 to $4.60, which translated to a 2016 EBIT range with a midpoint of $7.2 billion.

29. On the day of the call, Walgreens' stock price dropped 14.3%, from $69.12 to $59.21. In the days following the call, Walgreens held meetings with multiple investors, including active institutional investors, to discuss the announcement. In memoranda following those meeting, a member of Walgreens' investor relations team described the investors being "shocked at the EBIT shortfall and in particular, how quickly it happened."

Respondents' Misleading Statements

30. Respondents' June 2013, October 2013, December 2013, and March 2014 quarterly disclosures misled investors by failing to adequately disclose known increases in the risk to the company's ability to achieve the FY16 EBIT Goal. In light of the significant internal forecasting shortfalls to the FY16 EBIT Goal, Respondents' statements in June and October 2013 failed to disclose that the risk to achieving the FY16 EBIT Goal had materially increased. When Walgreens disclosed an increase in risk to the FY16 EBIT Goal in December 2013 and March 2014, Respondents failed to adequately disclose the significance and timing of the increase in risk.

1. June 2013 Disclosures

31. In June 2013, Walgreens was internally forecasting FY16 EBIT $400 million below the low end and $900 million below the high end of the FY16 EBIT Goal range, after having released $500 million of the original $900 million of contingency. Nevertheless, on the June 2013 earnings call, Respondents reaffirmed the entire FY16 EBIT Goal range without cautioning investors regarding the increase in risk to the FY16 EBIT Goal, giving investors the impression that the risk to the FY16 EBIT Goal range had not meaningfully changed.

32. While reaffirming the full $9.0-$9.5 billion FY16 EBIT Goal range, Respondents failed to disclose to investors the known, significant increase in risk to the attainability of the FY16 EBIT Goal, including to the high end of the range that the company reaffirmed. Respondents' statement reaffirming the FY16 EBIT Goal without disclosing the known increase in risk to the FY16 EBIT Goal was misleading.

2. October 2013 Disclosures

33. In October 2013, Walgreens' internal forecasting was $300 million below the low end and $800 million below the high end of the FY16 EBIT Goal, after the cumulative release of $500 million of contingency. Nevertheless, on the October 2013 earnings call, Respondents again reaffirmed the entire FY16 EBIT Goal range without cautioning investors regarding the increase in risk to the FY16 EBIT Goal, giving investors the impression that the risk to the FY16 EBIT Goal range had not meaningfully changed.

34. As with the June 2013 earnings call, Respondents failed to disclose to investors the known, significant increase in risk to the attainability of the FY16 EBIT Goal, including to

the high end of the range that the company reaffirmed. Respondents' statement reaffirming the FY16 EBIT Goal without disclosing the known increase in risk was misleading.

3. December 2013 Disclosures

35. By December 2013, Walgreens' internal FY16 EBIT forecast had fallen to $8.4 billion, $600 million below the low end and $1.1 billion below the high end of the FY16 EBIT Goal, despite Walgreens having released $500 million of contingency. This decline reflected Walgreens' recognition of a further significant increase in risk to the FY16 EBIT Goal beyond that identified in October 2013, primarily as a result of unanticipated inflation in the price of generic drugs.

36. On the December 2013 earnings call, Respondents disclosed that the risk to the Goal had increased, but failed to adequately disclose the significance and timing of the increase in risk. Specifically, discussing the FY16 EBIT Goal, Respondents stated that "[p]erformance to date with respect to our adjusted operating income goal of $9 billion to $9.5 billion is currently tracking a bit below the CAGR required to meet this goal, largely because of gross profit dollar growth pressure domestically . . . and a challenging environment in some international markets. While we recognize there are risks to achieving this goal, we remain focused on delivering it[.]" During the question and answer period, Respondents reiterated that the "CAGR on the adjusted operating income[]" was "a little bit soft, but we think the change in the mix of the business [will] allow us to get it." These statements misled investors regarding the significance of the known increase in risk to the FY16 EBIT Goal.

37. Respondents' statement that the company was "currently" tracking a bit below the CAGR required to meet the goal was also misleading regarding the timing of the increase in risk to the FY16 EBIT Goal. Specifically, given the context, an investor could reasonably conclude from the statement that Walgreens had not previously identified a significant increase in risk to the FY16 EBIT Goal. In fact, Walgreens had previously identified a significant increase in risk to the FY16 EBIT Goal by at least its June 2013 earnings call.

4. March 2014 Disclosures

38. On Walgreens' March 2014 earnings call, Respondents provided a nearly identical warning to that provided in December, saying, "As stated on our last call, our adjusted operating income goal of $9 billion to $9.5 billion is currently tracking below the CAGR required to meet this goal and below our initial expectations. We continue to recognize that there are risks to achieving this goal, however, we remain focused on delivering it." As with the statement on the December 2013 earnings call, this statement was misleading.

Violations

39. Based on the foregoing conduct, Respondents acted negligently in failing to adequately disclose to investors the material increase in risk to the company's ability to achieve the FY16 EBIT Goal. As a result, Respondents violated Section 17(a)(2) of the Securities Act. Section 17(a)(2) prohibits a person, in the offer or sale of any securities, from obtaining money

or property by means of any untrue statement of a material fact or any omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading. A violation of this Section does not require scienter, and may rest on a finding of negligence. *See Aaron v. SEC,* 446 U.S. 680, 685, 701-702 (1980).

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondents' Offers.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 8A of the Securities Act, Respondents shall cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the Securities Act.

B. Respondent WBA shall, within 30 days of the entry of this Order, pay a civil monetary penalty of $34,500,000.00 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury. If timely payment is not made, interest shall accrue pursuant to 31 U.S.C. § 3717.

C. Respondent Gregory D. Wasson shall, within 30 days of the entry of this Order, pay a civil monetary penalty of $160,000.00 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury. If timely payment is not made, interest shall accrue pursuant to 31 U.S.C. § 3717.

D. Respondent Wade D. Miquelon shall, within 30 days of the entry of this Order, pay a civil monetary penalty of $160,000.00 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury. If timely payment is not made, interest shall accrue pursuant to 31 U.S.C. § 3717.

Payments must be made in one of the following ways:

(1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondents may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondents may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Service Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341

6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying WBA, Wasson or Miquelon as a Respondent in these proceedings, and the file number of these proceedings. A copy of the cover letter and check or money order must be sent to Associate Director Melissa Hodgman, Division of Enforcement, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

E. Amounts ordered to be paid as civil money penalties in this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agrees that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

F. It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the findings in this Order are true and admitted by Respondents, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondents under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondents of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

By the Commission.

Brent J. Fields
Secretary