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Walgreen pays \$6.7 billion for Alliance Boots stake

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By James Davey and Juhi Arora

LONDON (Reuters) - Drug retailer Walgreen Co is buying a 45 percent stake in European health and beauty group Alliance Boots for \$6.7 billion in cash and stock, creating the world's biggest buyer of prescription drugs.

Walgreen, the biggest drug chain in the United States, said on Tuesday it had an option to buy the rest of Alliance Boots in three years, making a combined business with over 11,000 stores in 12 countries and more than 370 distribution centers delivering to more than 170,000 pharmacies, doctors, health centers and hospitals in 21 countries.



It will pay \$4 billion in cash, and 83.4 million shares for the stake in the company, which was formed by the 2006 merger of Boots, a fixture on British high streets, and pan-European wholesale and retail pharmacist Alliance UniChem, now owned by executive chairman Stefano Pessina and private equity firm Kohlberg Kravis Roberts.

"Together we will be ideally positioned to expand our customer offerings in our existing markets and become the health and wellbeing partner of choice in emerging markets," said Gregory Wasson, president and CEO of Walgreen.

Both companies said they had no plans for job reductions.

Walgreen will maintain its existing headquarters in Deerfield, Illinois, while Alliance Boots is committed to its current support offices across Europe and will keep its operational hub in Nottingham, England, where it was founded by British pharmacist John Birchall in 1841.

Walgreen said the deal, which will put four of its senior executives on the Alliance Boots board, is expected to be accretive to net earnings per share in the first year following completion by \$0.23 to \$0.27.

Combined synergies across both companies were forecast between \$100 million and \$150 million in the first year and \$1 billion by the end of 2012.

Joe Ruggieri of ISI Group said there would be some synergies from procurement becoming global, but enthusiasm among Walgreen investors may be muted by the decision to expand in Europe at the current time. Walgreen shares were down 8 percent in premarket trade.

European drug prices are under intense pressure as cash-strapped governments across the euro zone make deep budget cuts, but that is increasing the incentives to boost volumes and achieve economies of scale.

Walgreen's U.S. retail business has suffered since January when it stopped filling prescriptions for members of Express Scripts Holding Co, which manages prescription drug benefits for employers and other clients. The two companies had failed to agree on terms to renew their contract.

FULL TAKEOVER IN THREE YEARS?

Alliance Boots, headquartered in the small town of Zug in Switzerland, was taken private for 11 billion pounds in 2007 by Pessina and KKR in what was Europe's biggest leveraged buyout.

Walgreen said it would finance the cash element of the deal from existing and new borrowings.

Ben Hirschler

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