

Financial Analysis of Rite Aid Pharmacies

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Overview

In October of last year Walgreens Boot Alliance acquired Rite Aid Pharmacies. That means that only three major companies now sell the majority of prescription drugs in the US: CVS Caremark, Express Scripts, and Walgreen Boot, Alliance. Together, these companies sold 57% of the prescription drugs bought in the US in 2013.

Walgreen/Rite Aid sells prescription medications almost entirely via retail pharmacy stores. CVS Caremark provides prescription drugs through both retail pharmacies and its pharmacy benefits manager service (Caremark) and Express Scripts is solely a Pharmacy Benefits Manager with a mail order prescription drug service.

All other prescription drugs in the US are sold either by small independent pharmacies, large retail stores for whom prescription drugs sales are a small portion of their overall revenue (like Walmart) or pharmacy benefit managers that act as a subdivision of a major health insurance company.

Rite Aid Pharmacies

Rite Aid was the smallest and least successful of the major retail pharmacy outlets which was probably why Walgreens took them over. Previously, Rite Aid stood out for both in its lack of overall growth and its inability to profit from retail pharmacy sales most years. In 2000 Rite Aid had roughly \$8.6 billion in retail prescription drug sales. That same year, Walgreen had about \$11.6 billion in prescription drug revenue and CVS about \$12.6 billion. By 2014 Rite Aid had only doubled in its prescription drug revenue while Walgreen and CVS had both quadrupled in prescription revenue over the same period of time.

Rite Aid's profits were also very bleak. Rite Aid had a negative net income 11 of their last 18 years for a total net loss of over \$5 billion between 1997 and 2014. It's a wonder they weren't either acquired or bankrupt sooner.

Since Rite Aid was acquired in October, they have no financial statements after their third quarter 10 Q statement for 2015. Those finances were added to the data table for Rite Aid, but not included in this summary.

The total executive compensation for Rite Aid executives in 2015 was \$31.4 million with \$11 million going to their CEO John T. Standley. That's not a bad salary for running a largely failed company.

Sources: <http://truecostofhealthcare.net/pharmacy-financial-index/>
<http://truecostofhealthcare.net/wp-content/uploads/2014/12/LargestPharmacies2013.pdf>
<http://insiders.morningstar.com/trading/executive-compensation.action?t=RAD>

Total Number of Rite Aid Pharmacies in the US Each Year

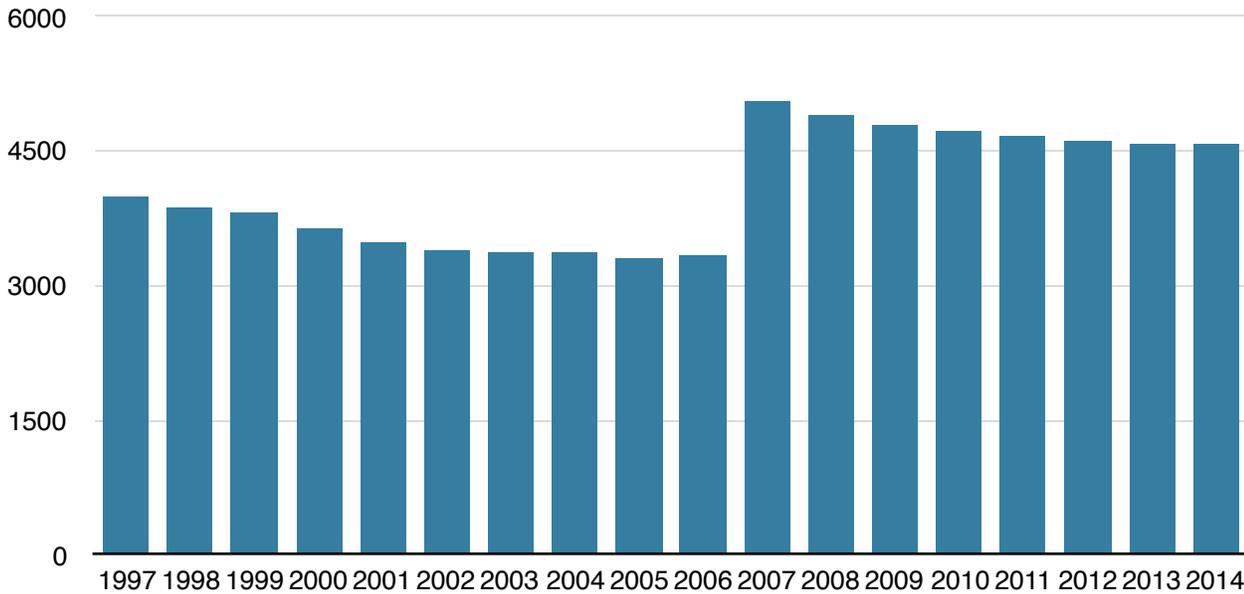


Figure 1: In 2007, Rite Aid acquired Brooks Eckerd pharmacies which increased their total number of retail pharmacy outlets from 3333 to 5059. Nearly every other year since 1997 the number of Rite Aid pharmacies in the US has gone down slightly from the year before.

Total Annual Revenues for Rite Aid Pharmacies

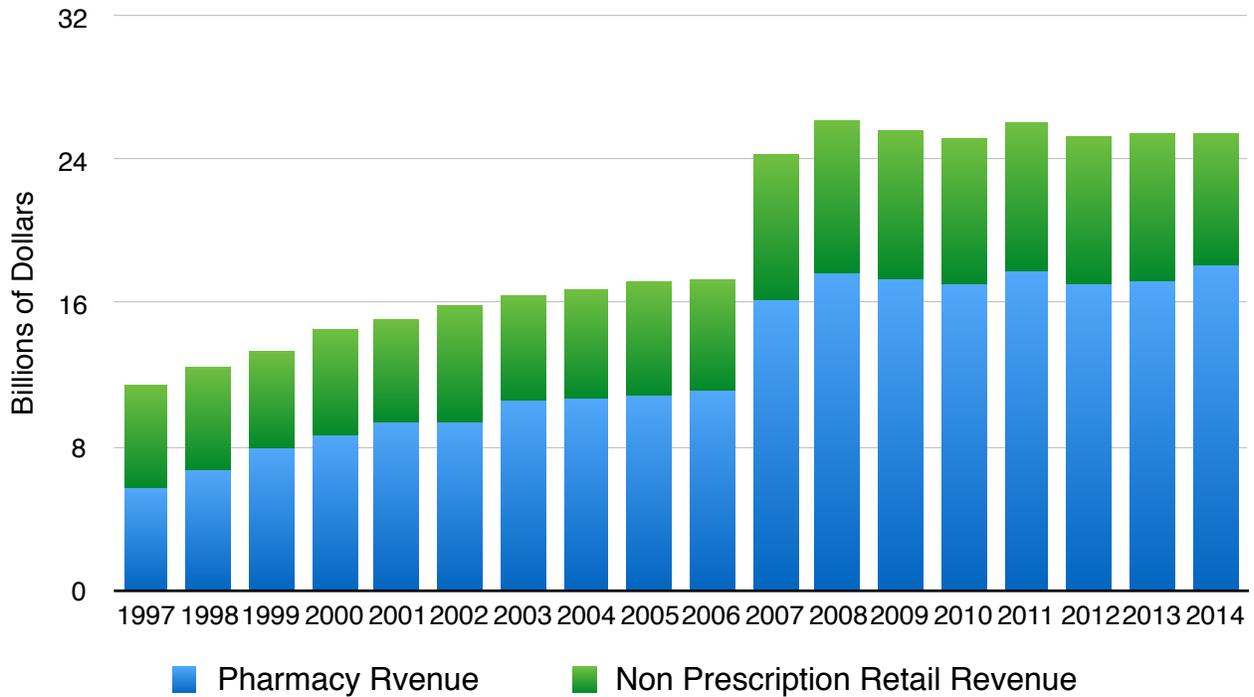


Figure 2: Both total revenues and Prescription drug revenues have been mostly flat for Rite Aid since 2008. Prescription drug Revenue was roughly 50% of Rite Aid's total revenue in 1997 but by 2014 that proportion had risen to nearly 70% of Rite Aid's total revenue.

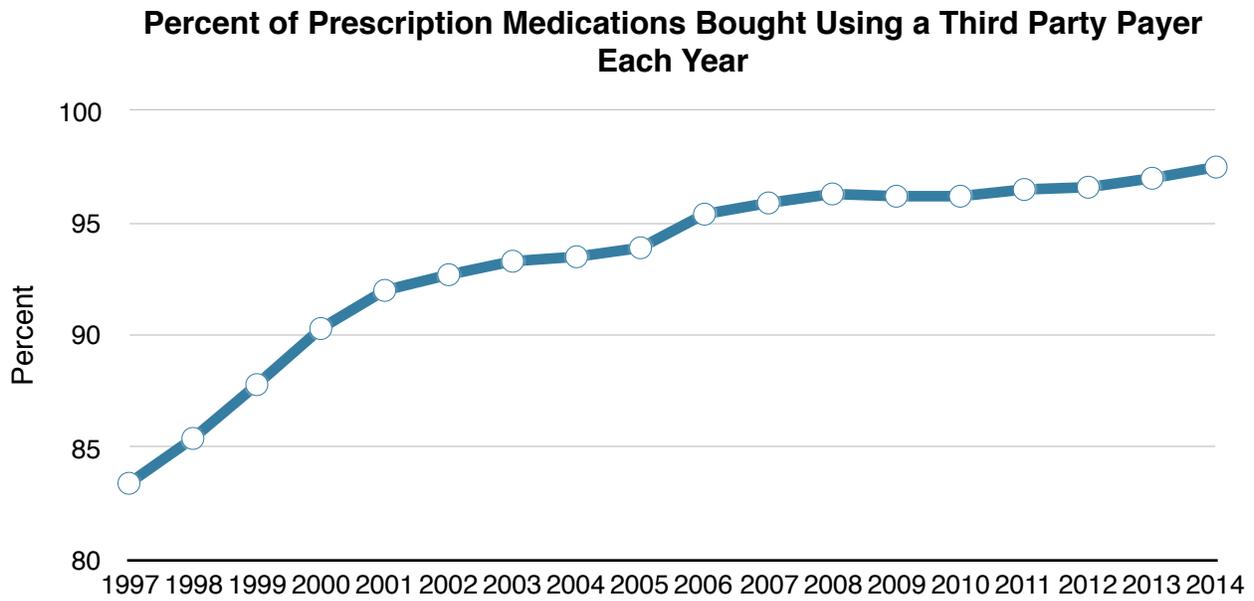


Figure 3: Since 2006, more than 95% of Rite Aid’s prescription medication sales involved a third Party (insurance of some kind). This is about the same as the proportions of third party sales for both Walgreen and CVS. In 1997, third party sales accounted for less than 85% of Rite Aid’s prescription drug revenue. Since 2012, more than 80% of prescription filled by Rite Aid were for generic Medications.

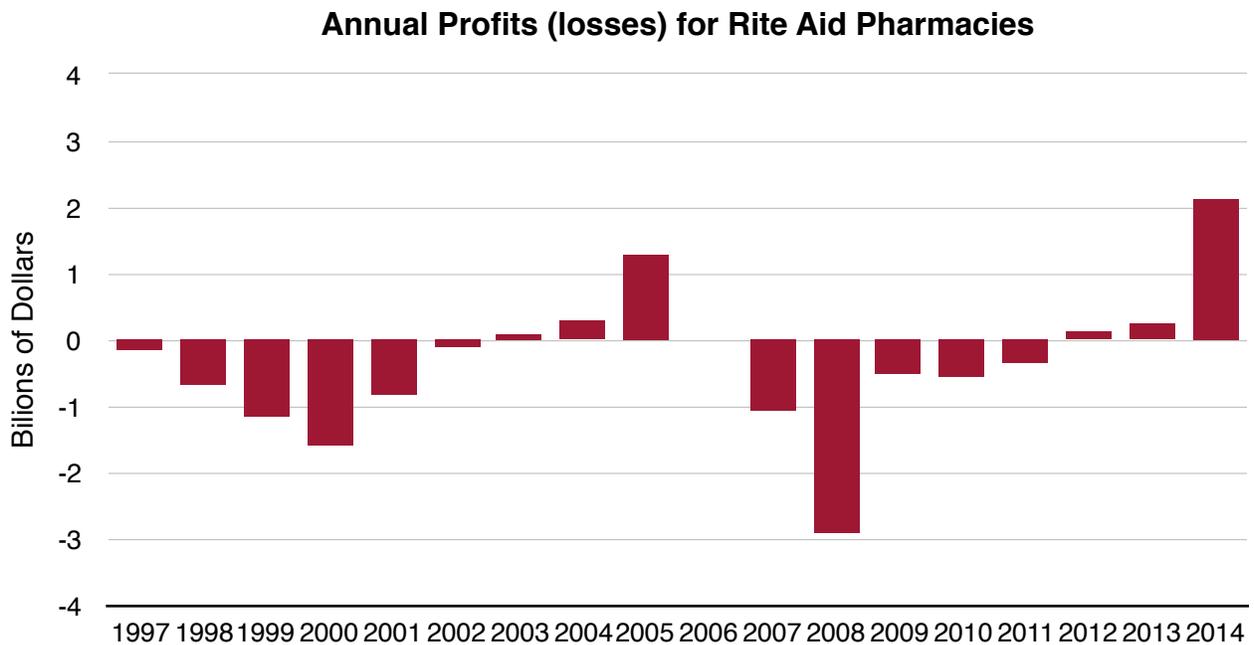


Figure 4: Annual net incomes for Rite Aid have been surprisingly abysmal. Rite Aid has had net losses for 11 of their last 18 fiscal years for a total net loss of over \$5 billion during that time.