

# Financial Analysis of Rite Aid Pharmacies

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## Overview

The four major pharmacy chains in the U.S. are Walgreens, CVS Caremark, Express Scripts and Rite Aid. Together, these four pharmacy chains sold over 50% of the prescription drugs purchased in the US in 2016. Walgreen corporation was expected to merge with Rite Aid in 2015, but that merger was cancelled a year later.

Walgreens pharmacies sell 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 Rite Aid is a retail pharmacy outlet that also recently began offering pharmacy benefit manager services. Express Scripts is solely a pharmacy benefit manager with a mail order prescription drug service.

All other prescription drugs in the U.S. 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 subdivisions of major health insurance companies.

## Rite Aid Pharmacies

Rite Aid is the smallest and least successful of the major retail pharmacy outlets. Rite Aid stands 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 2016 Rite Aid had only doubled in its prescription drug revenue while Walgreen and CVS had both quintupled 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 20 years for a total net loss of over \$5 billion between 1997 and 2016. It's a wonder they haven't gone bankrupt and it's easy to see why Walgreens decided not to merge with them.

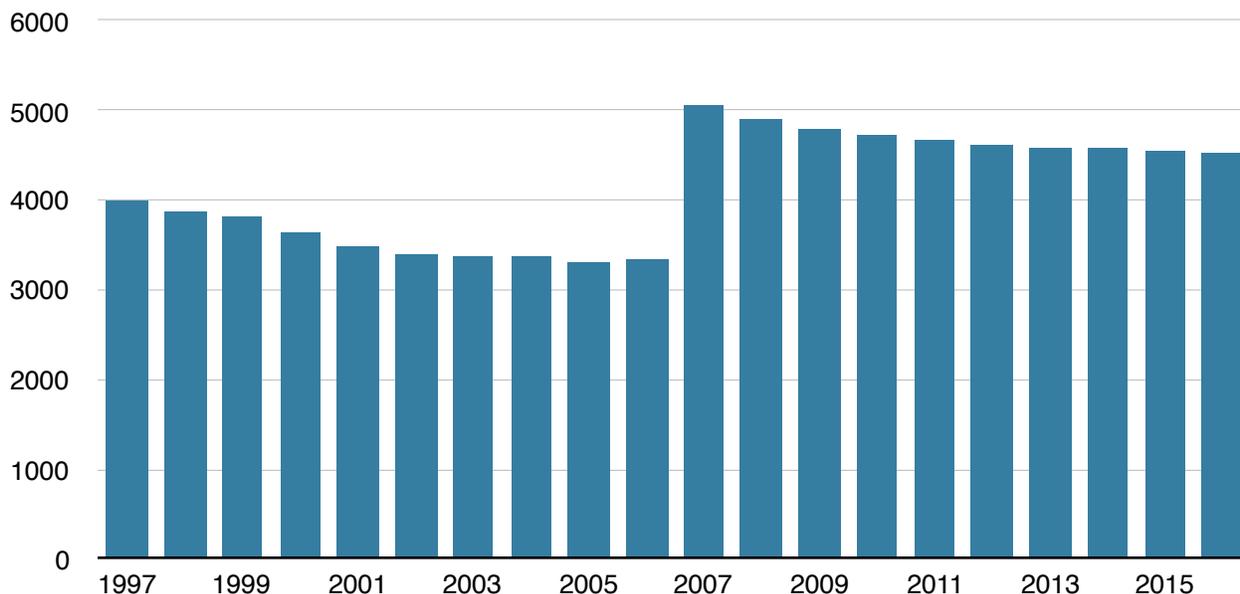
The total executive compensation for Rite Aid executives in 2017 was \$21.6 million with \$8.1 million going to their CEO John T. Standley. That's not a bad salary for running a largely failed company.

**Sources:** <http://truecostofhealthcare.net/pharmacy-financial-index/>

<http://truecostofhealthcare.org/wp-content/uploads/2018/02/LargestPharmcies2016.pdf>

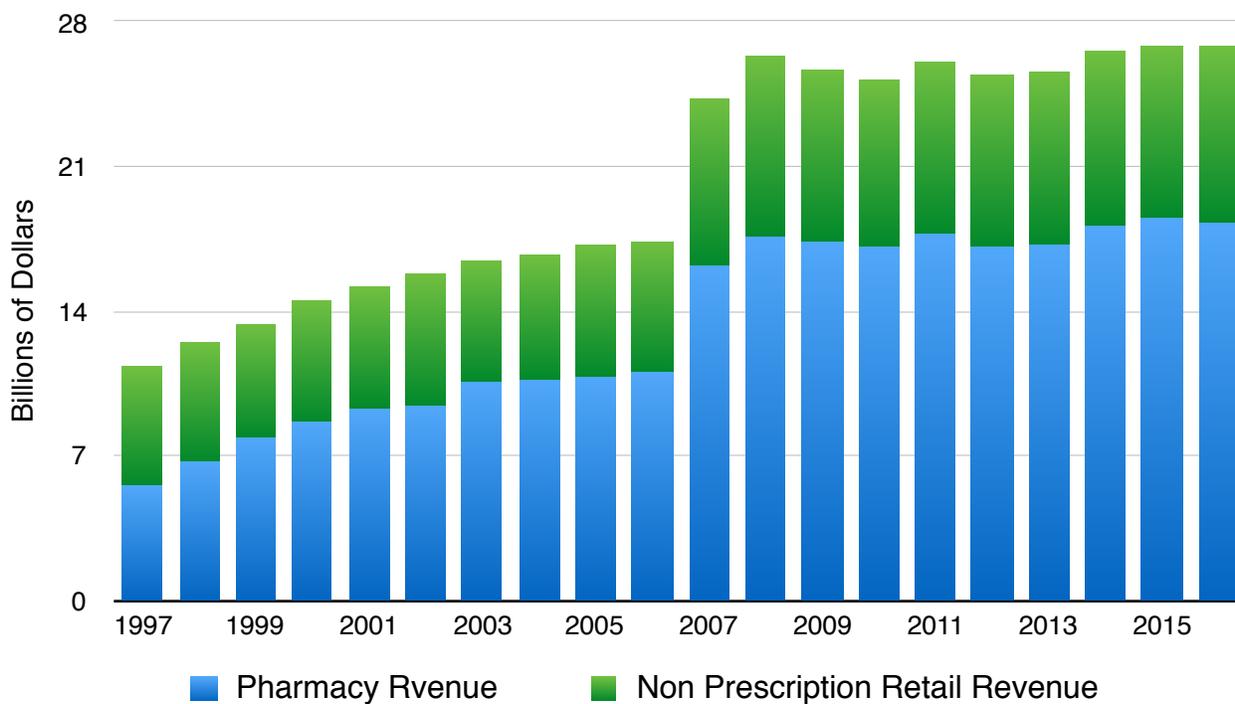
<http://insiders.morningstar.com/trading/executive-compensation.action?t=RAD>

### Total Number of Rite Aid Pharmacies in the US Each Year

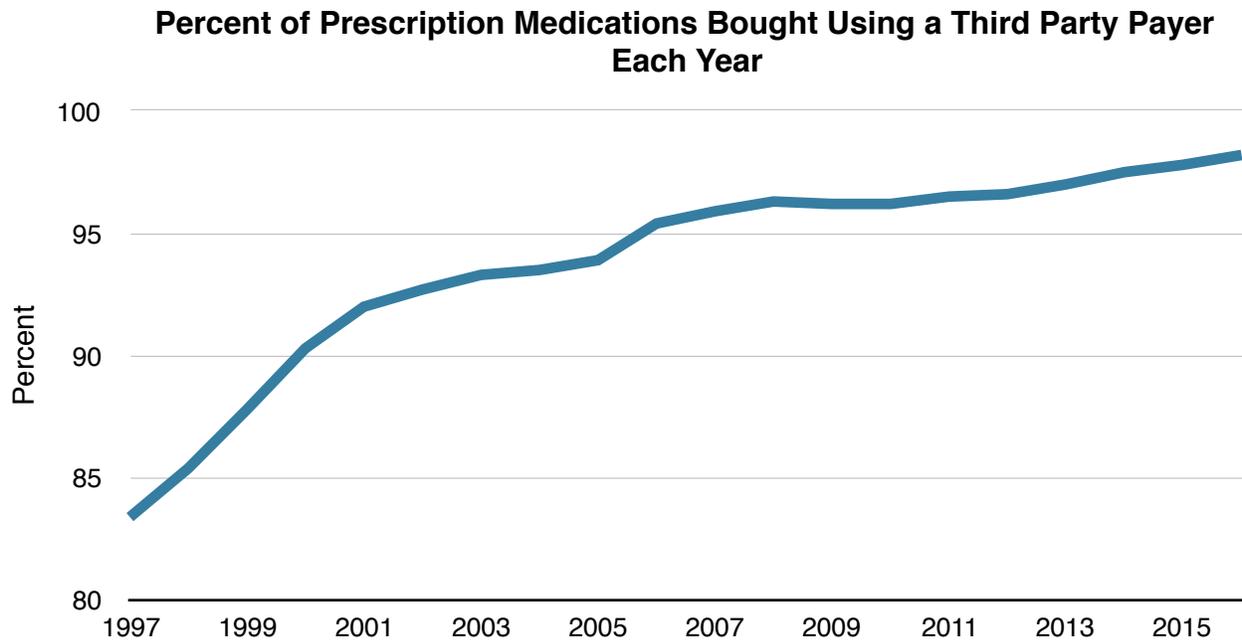


**Figure 1:** In 2007, Rite Aid acquired Brooks Eckerd pharmacies which increased their total number of retail pharmacy outlets from 3333 to 5059. Nearly every other year since 1997 the number of Rite Aid pharmacies in the US has gone down slightly from the year before.

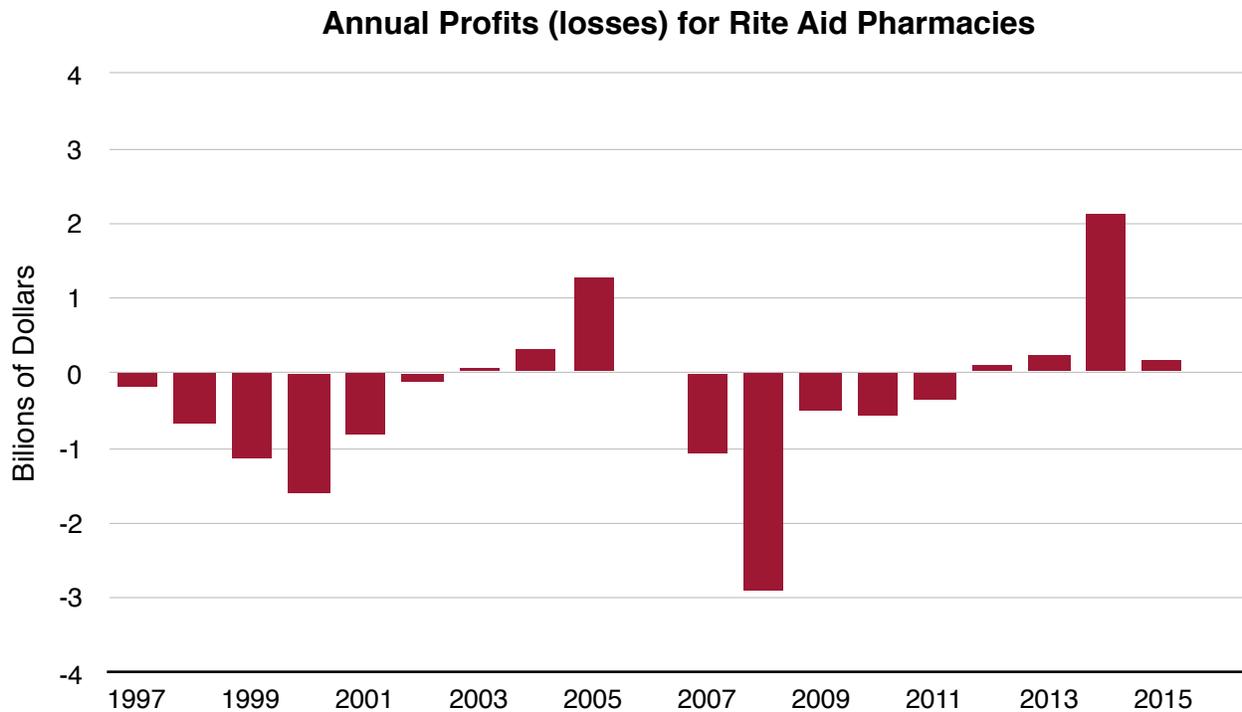
### Total Retail Revenue and Retail Prescription Drug Revenue for Rite Aid



**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.



**Figure 4:** Annual net incomes for Rite Aid have been surprisingly abysmal. Rite Aid has had net losses for 11 of their last 20 fiscal years for a total net loss of over \$5 billion during that time.