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9B19M119

RITE AID CORPORATION: AN UNCERTAIN FUTURE[[1]](#endnote-1)

Ken Mark wrote this case under the supervision of David Wood solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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The shareholders for Rite Aid Corporation (Rite Aid) were frustrated and outspoken at the annual meeting on October 30, 2018. The shareholders had not only turned down a US$3 million[[2]](#endnote-2) bonus proposed for John Standley, the chief executive officer (CEO) of Rite Aid, but had also elected a new independent board chair, Bruce G. Bodaken.[[3]](#endnote-3) As the new chair of the Pennsylvania-based Rite Aid, the third largest drugstore chain in the United States, Bodaken had a difficult task ahead of him—how best to ensure Rite Aid’s survival.

For the past three years, Rite Aid had been planning to be acquired. However, regulators had dismissed a plan to sell Rite Aid to Walgreens Company (Walgreens) in 2015, and the amended plan, to sell over 2,300 stores to Walgreens in return for cash, took nearly three years to complete. A second deal to sell the remaining stores to Albertsons Companies Inc. (Albertsons), a US grocery gain, was scrapped in early August 2018 when it became clear that shareholders were not likely to approve the acquisition.[[4]](#endnote-4) Having dealt with falling sales, shrinking profits, the sale of over half of its stores, and, most recently, the news that Amazon.com Inc. (Amazon) had acquired the online pharmacy PillPack, Rite Aid seemed to be facing challenges from all sides. Bodaken needed to revisit management’s strategy for the drugstore chain if it were to survive.[[5]](#endnote-5)

THE DRUGSTORE AND PHARMACY Industry

The United States had about 30,000 pharmacies and drugstores, and the two largest pharmacies were CVS Pharmacy (CVS), with 9,778 stores in 2017, and Walgreens, with 9,560 stores in August 2018.[[6]](#endnote-6) With 2,548 stores in March 2018, Rite Aid was the third largest player; the remaining market was made up of large grocery chains and a collection of direct-to-consumer programs and smaller pharmacies (see Exhibit 1).[[7]](#endnote-7)

The health care distribution value chain was complex and involved drug manufacturers, third-party payers and health plan providers, pharmacy benefit managers (PBMs), wholesalers, and pharmacies. Drug manufacturers—for example, Johnson & Johnson, Merck & Co. Inc., and AbbVie Inc.—spent considerable resources researching and developing patentable drugs.[[8]](#endnote-8) Third-party payers included the US state-sponsored Medicaid and Medicare Part D plans, which covered the costs of a limited range of medication for eligible participants.[[9]](#endnote-9)

Health plan clients such as private and public corporations offered privately funded drug coverage for their employees. These companies typically bought plans from insurance companies or worked with PBMs, which were third-party administrators, to offer drug programs. PBMs had a variety of roles: they oversaw formularies or lists of medicines that benefit plans were willing to pay for negotiated bulk discounts with drug manufacturers, passed a portion of these savings on to their clients, and worked with retail locations—pharmacies— to ensure drugs could be widely available. Some PBMs, such as Express Scripts Inc. (Express Scripts), offered mail-order delivery for drugs. PBMs also processed and tracked drug claims.[[10]](#endnote-10)

Wholesalers such as AmerisourceBergen Corporation, Cardinal Health Inc., and McKesson Corporation (McKesson) purchased drugs in bulk and distributed them—and other products—to pharmacy chains and independent drugstores.[[11]](#endnote-11) Margins earned by each of the players in the pharmacy industry varied (see Exhibit 2).

Drugstore chains supplemented their sales of prescription and over-the-counter (OTC) drugs with other products including health and beauty care items, packaged food, and drinks. For a typical drugstore, about 53 per cent of revenues were from branded prescription drugs; 18.7 per cent from generic drugs; 5.1 per cent from OTC drugs; and 4.8 per cent from personal health supplies. The remaining revenues came from groceries, cosmetics, supplements, and other categories (see Exhibit 3).[[12]](#endnote-12)

Rite Aid

Thrift D Discount Center, founded in 1962 in Scranton, Pennsylvania, by Alex Grass, later became known as Rite Aid Corporation.[[13]](#endnote-13) By the time Grass turned over the leadership of Rite Aid to his son, Martin Grass, Rite Aid was one of the largest drugstore chains in the United States. However, under Martin Grass’s leadership, Rite Aid took on significant debt to fund acquisitions and corporate spending. In 2002, Rite Aid ran into trouble: Martin Grass and several other executives were charged and later convicted of accounting fraud.[[14]](#endnote-14)

After several failed attempts to recover from high levels of debt and a lack of investor confidence, John Standley was appointed president of Rite Aid in 2008.[[15]](#endnote-15) Between fiscal years 2010 and 2018, Standley made significant progress in helping Rite Aid to recover. Net income rose from a loss of $526 million to a net income of $943 million, long-term debt declined from $6.0 billion to $3.3 billion, and shareholders’ equity increased from −$2.2 billion to $1.6 billion during these same eight years (see Exhibit 4).[[16]](#endnote-16) After returning the business to profitability and lowering the total debt of Rite Aid, Standley began to look for a strategic partner to acquire the troubled drug retailer.[[17]](#endnote-17)

In 2015, Walgreens agreed to buy Rite Aid for $17.2 billion.[[18]](#endnote-18) However, nearly two years later, government regulators would approve only a $4.4 billion deal for 1,932 Rite Aid stores.[[19]](#endnote-19) Then, in February 2018, Albertsons, one of the largest US grocery chains, agreed to merge with Rite Aid.[[20]](#endnote-20) At the time of the announcement, Rite Aid had a market value of $2.3 billion.[[21]](#endnote-21) However, six months later, the merger was called off due to a lack of shareholder support.[[22]](#endnote-22)

Rite Aid’s stores sold prescription drugs and a wide assortment of other merchandise, also known as front-end products. In fiscal 2018, prescription drug sales accounted for 65.9 per cent of total drugstore sales.[[23]](#endnote-23) Rite Aid had a distribution agreement with McKesson to source and distribute branded and generic drugs. McKesson provided daily, direct-to-store delivery to Rite Aid stores. This agreement was set to expire at the end of March 2019.[[24]](#endnote-24) In August 2018, the issue of scale in driving purchasing efficiencies was brought to the forefront; Rite Aid announced that drug purchasing efficiencies were expected to be $80 million lower than estimated.[[25]](#endnote-25) Rite Aid, with 2,500 stores in the United States, had a smaller store footprint than its two larger rivals—CVS and Walgreens.[[26]](#endnote-26) Brian Tanquilt, an analyst for Jefferies Group LLC (an American investment company), noted: “Rite Aid sold half its stores to Walgreens. When you do that, you have less purchasing power. It’s really a reduction in purchasing scale.”[[27]](#endnote-27)

Supplementing Rite Aid’s sales of prescription drugs was its line of front-end products in various categories. These included OTC medications and other products that customers would buy in a drugstore or a convenience store. Rite Aid sold health and beauty aids, personal care products, cosmetics, household products, food, and beverages. To capture a larger share of its customers’ wallets, a growing number of Rite Aid stores had a broader range of health-related items. The average Rite Aid store was 13,600 square feet; 64 per cent of its store network had been remodelled into “Wellness Store” formats, which featured higher-end fixtures, a larger range of clinical pharmacy services, and wellness products. To build customer loyalty, Rite Aid had a “wellness+ rewards” loyalty program. The company also worked with partners to augment its offering: about 59 per cent of all Rite Aid stores had a GNC Holdings Inc. (a vitamin and mineral supplement retailer) store within its footprint.[[28]](#endnote-28)

Aside from its Rite Aid branded stores, the company had a chain of 39 retail clinics named RediClinic LLC (RediClinic). Acquired in April 2014 and run as a subsidiary, RediClinic had certified health practitioners who could treat up to 30 common medical conditions and provide medical services such as screenings, tests, immunizations, and physical exams. RediClinic aimed to support a local network of physicians who were affiliated with a health care system in a particular market.[[29]](#endnote-29)

In April 2014, Rite Aid purchased Health Dialog. This subsidiary provided supplementary health care coaching and disease management advice that health plans and employers could offer their members. These services, staffed by nurse practitioners, were accessible by plan members via telephone and a web interface.[[30]](#endnote-30)

In February 2015, Rite Aid further expanded its services when it purchased Envision Pharmaceutical Services LLC (EnvisionRx), a full-service PBM, from TPG, a private equity firm, for $2 billion in cash and stock. At the time of its purchase, EnvisionRx had $5 billion in revenues.[[31]](#endnote-31) EnvisionRX provided PBM services and had software that was licensed to other PBMs in the United States. The company offered mail, specialty, and other pharmacy services through its EnvisionPharmacies service. Through its insurance and national drug plan services, EnvisionRx was positioned to serve the fast-growing Medicare Part D market.[[32]](#endnote-32)

EnvisionRX “covered about 500,000 lives.”[[33]](#endnote-33) In contrast, CVS Caremark’s PBM had 20 million medical health plan members.[[34]](#endnote-34) Observers characterized EnvisionRX as “a small, struggling regional PBM with limited growth. Its revenues in 2017 have been declining. There also appears to be no material synergies between Rite Aid’s retail pharmacy business and its Envision PBM.”[[35]](#endnote-35)

Rite-Aid’s New stand-alone Strategy

In 2018, Rite Aid announced that it would focus on three key initiatives—expanding health care services, leveraging its PBM, and store remodels.[[36]](#endnote-36)

Rite Aid wanted to expand the role of pharmacists to include delivering wellness services that went beyond filling prescriptions—such as the wellness services offered through Rite Aid’s immunization programs. Another service for customers was OneTrip Refills, in 2017, which allowed patients to refill all of their monthly maintenance medications in a single trip to the pharmacy.[[37]](#endnote-37) Rite Aid’s wellness+ rewards was a loyalty program with 13 million customers. In 2018, over 60 per cent of transactions involved a wellness+ rewards card. As part of its efforts to offer a wider range of health clinic services through pharmacies, Rite Aid launched RediClinic facilities inside Rite Aid stores, offering health advice; care for minor illnesses such as coughs, colds, and flu; medical tests; and immunizations.[[38]](#endnote-38) Rite Aid was also expanding Health Dialog’s services to third-party payers and employers and providing automated wellness advice and medication therapy management.[[39]](#endnote-39)

While there seemed to be few synergies between Rite Aid’s store operations and its EnvisionRX PBM, Rite Aid was focused on continuing to grow the number of lives managed at EnvisionRX. To do this, it needed to offer attractive plans, administer the plans effectively, and be an expert at formulary management. Formulary management was the process of drawing up a list of medications that clinicians could prescribe to their patients. Drugs were chosen on the basis of efficacy, safety, and cost effectiveness.[[40]](#endnote-40) EnvisionRxOptions made significant progress in Medicare Part D enrolment by adding approximately 188,000 new lives, as of January 2018. For perspective, EnvisionRx had a six per cent market share in the PBM industry; the largest players were Express Scripts, CVS, and OptumRx, with market shares of 28 per cent, 26 per cent, and 19 per cent, respectively.[[41]](#endnote-41)

In 2018, the goal was to strengthen Rite Aid as a wellness destination by completing additional Wellness Store remodels. Wellness Stores had updated interior designs, lower shelves, widened aisles, and an expanded offering of clinical pharmacy services, and health and wellness products. Almost two-thirds of Rite Aid’s stores—or, 1,649 stores—were Wellness Stores by the start of 2018. For 2019, Rite Aid aimed to remodel another 132 stores to its Wellness Store format, relocate three stores, and open two new stores.[[42]](#endnote-42)

Standley indicated that Rite Aid’s new and smaller footprint included stores in 19 states, roughly situated along the East Coast and the West Coast. In four of the states—Pennsylvania, Michigan, Ohio, and Oregon—more than half of the stores were the top-ranking stores in their local markets. In another three states—California, New York, and Washington—40 per cent of the stores were first or second in their markets.[[43]](#endnote-43)

Changing Industry Dynamics

Three emerging trends were likely to have an impact on the industry’s competitive dynamics. First, there seemed to be ongoing interest in vertical integration. The latest example of this was CVS’s purchase of Aetna Inc. (Aetna), an insurance company, for $70 billion on November 28, 2018. CVS indicated that the merger would deliver savings of $750 million within two years of the deal’s closing. The addition of Aetna allowed CVS to offer additional health care services at CVS clinics, offer more coordinated care by working with hospitals and physicians, and harness the data gathered from patients to provide customers with targeted services, such as preventative counselling and health alerts via text messages.[[44]](#endnote-44)

Second, there were new and well-capitalized entrants looking to gain market share. Amazon announced on June 28, 2018, that it was buying PillPack, an online pharmacy, for $1 billion. PillPack collected, packaged, organized, and delivered drugs to consumers and was licensed to ship prescriptions in 49 states. When the deal was announced, shares of Walgreens, CVS, and Rite Aid lost a collective $11 billion.[[45]](#endnote-45) Amazon’s first move was to roll out PillPack’s services to its own workforce of 250,000 US employees.[[46]](#endnote-46)

Third, there was the threat of disintermediation of insurance and drug delivery. In March 2018, Cigna, another large US health insurer, agreed to buy Express Scripts Holding Company, the largest US PBM, for $52 billion.[[47]](#endnote-47) David Cordani, Cigna’s CEO, stated that the acquisition would allow the company to deliver savings by negotiating better drug prices and deliver better coordination of care, and that “the preponderance of all the medical and pharmacy costs savings [will] float to our clients and customers.”[[48]](#endnote-48)

Conclusion

Knowing that the drugstore industry was in turmoil and that Rite Aid had failed to secure a buyer, the incoming chair knew that he needed to review the company’s strategy and its management’s capabilities. In the face of consolidation, vertical integration, and disruption from new entrants, survival was uncertain. Could Rite Aid survive on its own? Would it be feasible to attempt a third merger agreement, or were more radical options needed?

Exhibit 1: Largest Pharmacies by Total Prescription Revenues

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Company** | **Estimated 2017 Prescription Revenues (US$ Billions)** | **Share of 2017 Prescription Revenues (%)** | **Change in Revenues versus 2016** | **Primary Dispensing Format** |
| CVS Health Corporation |  |  |  |  |
| - Retail Pharmacy | 59.5 | 14.4 | −2.1 | Chain drugstore/Long-term care pharmacy |
| - Pharmacy Services | 38.6 | 9.4 | 8.2 | Mail/Specialty pharmacy |
| Walgreens Boots Alliance Inc. | 64.3 | 15.6 | 13.9 | Chain drugstore |
| Express Scripts Inc. | 44.8 | 10.9 | 2.5 | Mail/Specialty pharmacy |
| UnitedHealth Group Inc. | 21.0 | 5.1 | 14.9 | Mail/Specialty pharmacy |
| Walmart Inc. | 20.5 | 5.0 | −0.4 | Mass merchant with pharmacy |
| Rite Aid Corporation | 15.8 | 3.8 | −17.1 | Chain drugstore |
| The Kroger Company | 13.1 | 3.2 | 6.4 | Supermarket with pharmacy |
| Humana Pharmacy Solutions | 6.3 | 1.5 | 5.0 | Mail/Specialty pharmacy |
| Albertsons Companies Inc. | 5.0 | 1.2 | −2.0 | Supermarket with pharmacy |
| Diplomat Pharmacy Inc. | 4.5 | 1.1 | 2.6 | Mail/Specialty pharmacy |
| Cigna | 3.0 | 0.7 | 0.4 | Mail/Specialty corporation |
| Costco Wholesale Corporation | 2.6 | 0.6 | 0.5 | Mass merchant with pharmacy |
| Ahold Delhaize | 2.2 | 0.5 | −1.4 | Supermarket with pharmacy |
| PharMerica | 2.3 | 0.6 | 11.8 | Long-term care pharmacy |
| Publix Super Markets Inc. | 2.0 | 0.5 | 0.5 | Supermarket with pharmacy |
| **Subtotal (top 15)** | 305.5 | 74.0 |  |  |
| **Total pharmacy industry** | 412.6 | 100.0 |  |  |

* Many of the largest pharmacies were now central-fill mail and specialty pharmacies operated by such pharmacy benefit managers as Express Scripts Inc., Caremark, and UnitedHealth Group Inc.’s OptumRx. This reflected the growing role of specialty drugs in the pharmacy industry. Specialty drugs were estimated to account for one-third of the pharmacy industry’s revenues in 2017.
* Amid the ongoing growth in specialty revenues, dispensing revenues from traditional (non-specialty) drugs declined in 2017. Retail pharmacies that focused on traditional drugs accounted for a majority of the industry’s dispensed prescriptions but a decreasing share of the industry’s revenues.
* CVS Health Corporation’s retail and long-term care business declined in 2017, due largely to the company’s non-participation as a preferred pharmacy in many plans. For 2018, these trends would likely reverse because CVS altered its strategy and aimed to become a preferred pharmacy in payer networks.
* Walgreens Boots Alliance Inc.’s (Walgreens) US prescription revenues grew in 2017. Its same-store prescription growth was much higher than its peers’ growth. This reflected its aggressive participation in commercial and Medicare Part D narrow networks. Three notable transactions boosted Walgreens’ pharmacy revenues in 2017 and affected 2018 figures: its acquisition of Rite Aid stores, the formation of AllianceRx Walgreens Prime, and its minority investment in PharMerica.
* The Kroger Company had been an active acquirer of competing supermarket chains and specialty pharmacies. Consequently, it was the country’s second-largest supermarket and seventh-largest pharmacy.

Source: Adam J. Fein, “The Top 15 U.S. Pharmacies of 2017: Market Shares and Key Developments for the Biggest Companies,” Drug Channels, February 21, 2018, accessed August 23, 2018, [www.drugchannels.net/2018/02/the-top-15-us-pharmacies-of-2017-market.html](http://www.drugchannels.net/2018/02/the-top-15-us-pharmacies-of-2017-market.html).

Exhibit 2: Sample Drug Economics For a $612 EpiPen

|  |  |  |  |
| --- | --- | --- | --- |
| Actual Value Retained by Channel | | % | Comments |
| Wholesaler margin | $15.20 | 21 | Industry consolidation led to pricing power |
| Retailer margin | $26.14 | 37 | Still a healthy margin |
| PBM margin | $29.75 | 42 | Will vary on per cent of rebate retained |
| **Total value retained by channel** | **$71.09** |  |  |

PBM = pharmacy benefit manager.

Source: George Hill and Stephen Hagan, RBC Capital Markets, *Healthcare Distribution*, 9, September 18, 2017.

Exhibit 3: Industry Ratios

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Industry Financial Ratios** | | | | |
|  | **April 2013–March 2014** | **April 2014–March 2015** | **April 2015–March 2016** | **April 2016– March 2017** |
| Current ratio | 1.8 | 1.7 | 1.7 | 1.7 |
| *Days’* *receivables* | 16.3 | 15.6 | 16.2 | 17.8 |
| *Days’* *inventory* | 30.4 | 26.6 | 27.2 | 26.6 |
| *Days’* *payables* | 21.7 | 20.2 | 20.9 | 20.6 |
| Sales/working capital | 16.0 | 21.7 | 20.8 | 17.7 |
| Fixed assets/net worth | 0.4 | 0.3 | 0.3 | 0.4 |
| Debt/net worth | 2.1 | 2.6 | 2.5 | 2.5 |
| Profit before taxes/net worth (%) | 32.5 | 40.9 | 42.4 | 46.7 |
| Profit before taxes/total assets (%) | 9.5 | 11.8 | 12.9 | 13.0 |
| Sales/net fixed assets | 64.5 | 83.2 | 91.8 | 83.8 |
| Sales/total assets (asset turnover) | 4.7 | 5.0 | 5.3 | 5.0 |
| Interest coverage (operating cash) | 7.5 | 8.2 | 9.4 | 5.4 |
| Net cash after operations/sales (%) | 3.1 | 3.2 | 2.9 | 3.7 |
|  | **2013** | **2014** | **2015** | **2016** |
| Industry revenues (US$ millions) | 255,113.9 | 266,624.9 | 277,320.8 | 282,591.7 |
| Industry revenues (growth rate, %) | 0.8 | 4.5 | 4.0 | 1.9 |

Source: Christopher Lombardo, “Pharmacies & Drug Stores in the US – Market Research Report,” 40, IBIS World, May 2019

Exhibit 4: Rite Aid Corporation, Financial Statements (US$ Thousands)

|  |  |  |  |
| --- | --- | --- | --- |
| **As Reported—Annual Balance Sheet** |  |  |  |
|  | **02/27/2016** | **03/04/2017** | **03/03/2018** |
| Cash & cash equivalents | 124,471 | 245,410 | 447,334 |
| Accounts receivables, gross | 1,633,828 | 1,802,017 | 1,894,234 |
| Less: allowances for uncollectable accounts | 32,820 | 30,891 | 25,134 |
| Accounts receivable, net | 1,601,008 | 1,771,126 | 1,869,100 |
| Inventories, net | 2,697,104 | 2,837,211 | 1,799,539 |
| Deferred tax assets, current | - | - | - |
| Prepaid expenses & other current assets | 128,144 | 211,541 | 181,181 |
| Current assets held for sale | - | - | 438,137 |
| Total current assets | 4,550,727 | 5,065,288 | 4,735,291 |
| Land | 221,409 | 217,112 | 138,768 |
| Buildings | 764,497 | 754,289 | 528,026 |
| Leasehold improvements | 2,245,307 | 2,353,066 | 1,567,635 |
| Equipment | 2,416,316 | 2,512,748 | 1,795,337 |
| Software | 6,111 | 16,316 | 25,944 |
| Construction in progress | 153,236 | 71,954 | 59,635 |
| Gross property, plant & equipment | 5,806,876 | 5,925,485 | 4,115,345 |
| Less: accumulated depreciation | 3,551,478 | 3,673,793 | 2,684,099 |
| Property, plant & equipment, net | 2,255,398 | 2,251,692 | 1,431,246 |
| Goodwill | 1,713,475 | 1,715,479 | 1,421,120 |
| Other intangibles, net | 1,004,379 | 835,795 | 590,443 |
| Deferred tax assets | 1,539,141 | 1,505,564 | 594,019 |
| Other assets | 213,890 | 219,934 | 217,208 |
| Total assets | 11,277,010 | 11,593,752 | 8,989,327 |
| Current maturities of long-term debt & lease financing obligations | 26,848 | 21,335 | 20,761 |
| Accounts payable | 1,542,797 | 1,613,909 | 1,651,363 |
| Accrued wages, benefits & other personnel costs | 457,135 | 426,097 | 360,179 |
| Accrued interest | 65,729 | 66,352 | 65,210 |
| Accrued sales & other taxes payable | 155,999 | 141,420 | 125,289 |
| Accrued store expense | 231,900 | 202,599 | 155,354 |
| Accrued reinsurance | 166,238 | 145,904 | 183,418 |
| Other accrued salaries, wages & other current liabilities | 350,249 | 387,632 | 342,286 |
| Accrued salaries, wages & other current liabilities | 1,427,250 | 1,370,004 | 1,231,736 |
| Deferred tax liabilities | - | - | - |
| Current liabilities held for sale | - | - | 560,205 |
| Total current liabilities | 2,996,895 | 3,005,248 | 3,464,065 |
| Long-term debt, less current maturities | 6,914,393 | 7,263,288 | 3,340,099 |
| Lease financing obligations, less current maturities | 52,895 | 44,070 | 30,775 |
| Other noncurrent liabilities | 731,399 | 667,076 | 553,378 |
| Total liabilities | 10,695,582 | 10,979,682 | 7,388,317 |
| Common stock | 1,047,754 | 1,053,690 | 1,067,318 |
| Additional paid-in capital | 4,822,665 | 4,839,854 | 4,850,712 |
| Retained earnings (accumulated deficit) | −5,241,210 | −5,237,157 | −4,282,471 |
| Accumulated other comprehensive income (loss) | −47,781 | −42,317 | −34,549 |
| Total stockholders' equity (deficit) | 581,428 | 614,070 | 1,601,010 |

Source: Rite Aid Corporation, “Company Financials,” Mergent Online, accessed December 26, 2018.

Exhibit 4 (continued)

|  |  |  |  |
| --- | --- | --- | --- |
| **As Reported—Annual Income Statement** |  |  |  |
|  | **02/27/2016** | **03/04/2017** | **03/03/2018** |
| Revenues | 30,736,657 | 32,845,073 | 21,528,968 |
| Cost of goods sold | 22,910,402 | 25,071,008 | 16,748,863 |
| Selling, general & administrative expenses | 7,013,346 | 7,242,359 | 4,651,262 |
| Lease termination & impairment charges | 48,423 | 55,294 | 58,765 |
| Goodwill impairment | - | - | 261,727 |
| Interest expense | 449,574 | 431,991 | 202,768 |
| Loss (gain) on debt retirements, net | −33,205 | - | - |
| Walgreens Boots Alliance Inc. merger termination fee | - | - | 325,000 |
| Gain (loss) on sale of assets, net | −3,303 | 4,024 | 25,872 |
| Total costs & expenses | 30,458,253 | 32,796,628 | 21,572,513 |
| Income (loss) from continuing operations before income taxes | 278,404 | 48,445 | −43,545 |
|  |  |  |  |
| Income tax expense (benefit) | 112,939 | 44,392 | 305,987 |
| Net income (loss) from continuing operations | - | - | −349,532 |
| Net income (loss) from discontinued operations, net of tax | - | - | 1,293,002 |
| Net income (loss) | 165,465 | 4,053 | 943,470 |
| Weighted average shares outstanding—diluted | 1,042,362 | 1,060,826 | 1,049,628 |
| Total number of employees | 88,000 | 87,000 | 59,000 |
| Number of common stockholders | 19,480 | 18,240 | 11,432 |
| Number of stores at year end | 4,561 | 4,536 | 2,550 |
| Number of states with Rite Aid stores | 31 | 31 | 19 |
| **As Reported—Annual Cash Flow** |  |  |  |
|  | **02/27/2016** | **03/04/2017** | **03/03/2018** |
| Net income (loss) | 165,465 | 4,053 | 943,470 |
| Net income (loss) from discontinued operations, net of tax | - | - | −1,293,002 |
| Net income (loss) from continuing operations | - | - | -349,532 |
| Depreciation & amortization | 509,212 | 568,231 | 386,057 |
| Lease termination & impairment charges | 48,423 | 55,294 | 58,765 |
| Goodwill impairment | - | - | 261,727 |
| Loss (gain) from lease termination | - | - | - |
| LIFO charges (credits) | 11,163 | −6,620 | -28,827 |
| Loss (gain) on sale of assets, net | 3,303 | −4,024 | -25,872 |
| Stock-based compensation expense (benefit) | 37,948 | 23,482 | 25,793 |
| Loss on debt retirements, net | 33,205 | - | - |
| Changes in deferred taxes | 79,488 | 35,038 | 260,411 |
| Excess tax benefit on stock options & restricted stock | −22,884 | −543 | - |
| Accounts receivable | 291,659 | −166,765 | −349,481 |
| Inventories | 181,958 | −133,543 | 18,835 |
| Accounts payable | −21,187 | 29,528 | 211,511 |
| Other assets & liabilities, net | −320,351 | −178,268 | 42,083 |
| Net cash flows from operating activities | 997,402 | 225,863 | 511,470 |
| Payments for property, plant & equipment | −541,347 | −424,289 | −185,879 |
| Intangible assets acquired | −128,648 | −56,822 | −28,885 |
| Acquisition of Health Dialog & RediClinic LLC, net of cash acquired | −1,778,377 | - | - |

Exhibit 4 (continued)

|  |  |  |  |
| --- | --- | --- | --- |
| Proceeds from insured loss | - | - | 4,239 |
| Proceeds from sale-leaseback transactions | 36,732 | - | - |
| Proceeds from dispositions of assets & investments | 9,782 | 16,852 | 27,586 |
| Proceeds from lease termination | - | - | - |
| Proceeds from insured loss | - | - | - |
| Net cash flows from investing activities | −2,401,858 | −464,259 | −182,939 |
| Proceeds from issuance of long-term debt | 1,800,000 | - | - |
| Net (payments to) proceeds from revolver | 375,000 | 330,000 | −265,000 |
| Principal payments on long-term debt | −672,717 | −21,239 | -9,882 |
| Change in zero-balance cash account | −62,878 | 43,080 | 35,605 |
| Net proceeds from issuance of common stock | 11,376 | 6,951 | 5,796 |
| Payments for the repurchased of preferred stock | - | - | - |
| Financing fees paid for early debt redemption | −26,003 | - | - |
| Excess tax deduction on stock options & restricted stock | 22,884 | 543 | - |
| Deferred financing costs paid | −34,634 | - | - |
| Payment for taxes related to net share settlement of equity awards | - | - | −4,103 |
| Net cash flows from financing activities | 1,413,028 | 359,335 | −237,584 |
| Operating activities of discontinued operations | - | - | −245,126 |
| Investing activities of discontinued operations | - | - | 3,496,222 |
| Financing activities of discontinued operations | - | - | −3,140,119 |
| Net cash flows from discontinued operations | - | - | 110,977 |
| Increase (decrease) in cash & cash equivalent | 8,572 | 120,939 | 201,924 |
| Cash & cash equivalents, beginning of year | 115,899 | 124,471 | 245,410 |
| Cash & cash equivalents, end of year | 124,471 | 245,410 | 447,334 |
| Cash paid for interest expense, net | 403,727 | 409,692 | 405,579 |
| Cash payments (refunds) from income taxes, net | 4,856 | 17,081 | 87,087 |

Note: LIFO = last in, first out.

Source: Rite Aid Corporation, “Company Financials,” Mergent Online, accessed December 26, 2018.

endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Rite Aid Corporation or any of its employees. [↑](#endnote-ref-1)
2. All dollar amounts are in US dollars. [↑](#endnote-ref-2)
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