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# EDITED TRANSCRIPT

RAD - Rite Aid Corp Corporate Analyst Meeting

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## CORPORATE PARTICIPANTS

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**Dan Robson** *Rite Aid Corporation - President of EnvisionRxOptions*

**Heyward Rutledge Donigan** *Rite Aid Corporation - President CEO & Director*

**James J. Peters** *Rite Aid Corporation - COO*

**Jocelyn Zazyczny Konrad** *Rite Aid Corporation - Executive VP & Chief Pharmacy Officer*

**Justin L. Mennen** *Rite Aid Corporation - Executive VP & Chief Information Officer*

**Matthew Schroeder** *Rite Aid Corporation - CFO & Executive VP*

## PRESENTATION

**Byron Purcell** - *Rite Aid Corporation - Senior Director of Treasury Services & IR*

Good morning, everyone. My name is Byron Purcell, Vice President of Investor Relations and Treasurer of Rite Aid. I'd like to welcome you to our Analyst Day webcast, where we will outline the company's strategy and growth plan. During our presentation, you will hear from various members of our executive team, who will be introducing themselves in a moment. After the financial portion of the presentation, we will take a short break and then answer any questions that were submitted from analysts.

At the conclusion of today's event, we will provide the material used in our presentation on our website, [www.riteaid.com](http://www.riteaid.com), under the Investor Relations Information tab.

Before we start, I'd like to remind you that today's webcast includes certain forward-looking statements. These forward-looking statements are presented in the context of certain risks and uncertainties that can cause actual results to differ. These risks and uncertainties are described in our press release in Item 1A of our most recent annual report on Form 10-K and in other documents that we file or furnish to the Securities and Exchange Commission.

Also, we will be using certain non-GAAP measures in our presentation. The definition of the non-GAAP measures, along with the reconciliation to the related GAAP measure are described in our accompanying materials.

With these remarks, I'd now like to turn it over to Heyward.

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**Heyward Rutledge Donigan** - *Rite Aid Corporation - President CEO & Director*

Good morning. I'm Heyward Donigan, President and Chief Executive Officer of Rite Aid. It's a position I've held since August of 2019. I have over 30 years of experience in the health care industry, most notably in the health insurance business with companies such as Cigna and the Blues. I've also had a broad range of growth, operational and P&L roles. Most recently, I was the CEO of ValueOptions, which was a behavioral health care company and then also CEO of Sapphire Digital, a technology company.

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**James J. Peters** - *Rite Aid Corporation - COO*

Good morning. I am Jim Peters, and I joined Rite Aid as Chief Operating Officer in October 2019, just over 5 months ago. I lead Rite Aid's pharmacy and clinical strategy development and execution, health plan, health system and corporate partnerships, marketing and merchandising, consumer experience and e-commerce, corporate development, corporate strategy and PR and communications. I have over 25 years of broad health care and technology experience, most recently serving as CEO of Skyward Health, a health care advisory firm. Prior to that, I spent over 12 years at Geisinger Health system, where I was part of the leadership team that established Geisinger's national reputation for health care innovation.



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### **Dan Robson** - Rite Aid Corporation - President of EnvisionRxOptions

Good morning. I'm Dan Robson. President of EnvisionRxOptions, a role I was appointed to in December of 2019. Prior, I was President of EnvisionRxOption subsidiary, MedTrak. I have more than 20 years of health care experience focus on business development and have held senior leadership roles with organizations, including Physicians Reference Lab, Pfizer and Bristol-Myers Squibb, all prior to joining Rite Aid.

### **Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Good morning. I'm Matt Schroeder, the Chief Financial Officer for Rite Aid, a position that I've held since March of 2019. I've been at Rite Aid for 20 years, and have held leadership positions in the accounting, treasury, finance and Investor Relations functions. I'm excited to be here to discuss our strategies to drive shareholder value, while continuing to improve our leverage profile and capital structure.

### **Justin L. Mennen** - Rite Aid Corporation - Executive VP & Chief Information Officer

Hello. I am Justin Mennen, and I joined Rite Aid in January 2019 as the Chief Information Officer. I am focused on delivering a seamless and differentiated customer experience across Rite Aid's physical and digital touch points, while streamlining operations and increasing associate productivity across the company. I've had the opportunity and fortune of leading technology organizations for the last 21 years across a number of industries and companies such as Dell, Estée Lauder and CompuCom before joining Rite Aid.

### **Jocelyn Zazyczny Konrad** - Rite Aid Corporation - Executive VP & Chief Pharmacy Officer

Good morning. I'm Jocelyn Konrad, Rite Aid's Chief Pharmacy Officer, a role I've held since October 2019. I am responsible for pharmacy operations, clinical services, managed care, pharmacy purchasing and the in-store customer experience. I also oversee RediClinic, government and regulatory affairs and the development, implementation and management of new pharmacy initiatives. I am a registered pharmacist and a retail pharmacy veteran with more than 25 years of experience, and I came to Rite Aid through the acquisition of Eckerd Pharmacy in 2007.

### **Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

So there you have it. This is the team you'll be hearing from today, who will outline our vision for the future of Rite Aid. And more importantly, these are the leaders who are making everything we discuss today possible. I'm thrilled to be a part of this team and to be speaking with you today.

We have a lot of exciting plans to share, but one thing we don't want to share is the flu or coronavirus. We're really disappointed that we had to do this via webcast because we had a lot of physical models of our new store plans and pharmacies to show you, but we'll try to make it a terrific presentation instead, so use your imagination.

Today, you'll hear about Rite Aid's vision and mission, especially the importance of our pharmacists as they are the front line of defense in America's health care delivery system, and never will you see it more than in these particular times. You'll also hear about the high level of engagement our pharmacists have with their customers and the foundation of trust and goodwill our customers have for their pharmacists. And given the geographic density of our retail pharmacies, we will now demonstrate the critical role we can and will play on the front lines of the COVID-19 emergency. We are all hands on deck to serve our communities, our Rite Aid customers and our EnvisionRxOptions, employer and health plan clients.

We happen to be the leading retail pharmacy chain in our nation's hotspots today, Washington, California, New York and Pennsylvania. So we, more than many are dealing with the critical issues America faces today, school closures, demand for hand sanitizers, urgent need for general household supplies, bars closing down, an urgent need for flu shots, medications and soon COVID-19 testing.

In order to serve our customers, we have to have healthy associates. Our primary goal is to keep our associates healthy, so we can keep our stores open and staffed, keep our call centers open and operating, and keep our mail order facilities and distribution centers open and operating.



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Our teams are rallying hard around these goals. Our pharmacy teams understand our expectations that they are and will be on the front lines and will fulfill their health care responsibilities. We are emergency responders after all.

So far, despite school closures and infected customers, we have not had pharmacists or technicians call out. Of course, this will be an increasing challenge, but one we're up to. To keep our customers safe, we're doubling down on cleanliness. We have daily cleaning crews in hotspot locations and across all locations. Our associates are also trained and responsible for cleaning our retail pharmacies themselves. That includes all surfaces, in particular around checkout counters, checkout keypads and the pharmacies and bathrooms. We're going above and beyond to take care of our associates. For example, we're sending each associate a free health kit to ensure that they have adequate supplies themselves. And we're also compensating them for time off due to quarantine or illness. In addition to our regular policies offering time off and sick pay, Rite Aid has established specific guidelines relative to the COVID-19 virus, including a pandemic pay policy for those confirmed with or exposed to the virus. We're taking every step to keep our stores operating. We're also being as flexible as possible with our associates, who are unable to come to work by adding extra-administrative leave options. We're also a participant in the newly formed White House task force with a focus on helping our nation prepare for and respond to this emergency in our local communities. And states are now allowing us and asking pharmacies to offer testing and additional clinical services that were previously only available from physicians and physician extenders.

On the retail side of the business, we are stretched to the limit. We actually have our distribution center associates going directly to manufacturers to pick up supplies for our customers. And we have waived any penalties for our manufacturers in terms of shipment load size, so as to remove any barrier from getting us products so desperately desired by our customers. It has even been more challenging to continue fulfilling our online sales, which peaked this weekend to 10x our historical demand levels. Over the weekend, we bulked up on our digital technology infrastructure to allow us to handle this unprecedented transaction volume, and we haven't missed a beat. The good news is also our generic drug supplies are sufficient, so we see little immediate risk there.

As importantly, we're focused on business resumption and business continuity plans. We already had good plans in place including pandemic business resumption plans, which we've updated and against which we're executing. This includes call center work at home and redundancy planning as well as mail order and central fill redundancy planning, and we'll be moving corporate employees to work at home this week. I'm very proud of our teams who are literally working 24/7 on behalf of our customers and key stakeholders, to dispense medications and vaccines, to test for the virus and the flu, to protect our communities, to keep our associates safe, to do our best to stay open, to get our teams up and running to work at home, to stay in stock, and to ensure our customers have good health and service in this time of need.

In closing and on the subject of coronavirus, if you look at the situation in Italy, it's worth noting and reflecting on the mission of our company. We have heard reports that in Italy, citizens have put candles in their windows to show support for those people who are putting their lives at risk for them. These are the pharmacists and emergency responders. And I think that says it all.

Now let's get into our Analyst Day presentation. Today, we operate as a stand-alone go forward organization. Rite Aid has \$22 billion in revenue. We're a pharmacy services and retail pharmacy company. We employ over 6,400 pharmacists and have cover over 2,400 stores and have 50,000 associates. Our retail pharmacies are now in 18 states, and we are heavily penetrated in key markets in these states. We fill \$500,000 -- 500,000 scripts per day, and that number is growing. We own EnvisionRxOptions, which generates almost \$7 billion in revenues per year and covers 3.7 million lives with 85 million claims per year and serves over 1,500 clients. We also own Health Dialog, a population health management business and RediClinic, which operates convenient care clinics in Texas and Pennsylvania. Our plan is to double down on the business of pharmacy to deliver on the promise of the trusted pharmacist as the first line of defense in health care, as we're seeing in this crisis today. To help our customers not just get healthy, to get thriving.

We will spend most of today laying out our vision to dramatically and visibly change our business. We call this our Rx evolution. Now we have a clear plan for the future, but be assured, we haven't spent the last 7 months just planning; no, we've been moving with great urgency to turn this company around, reduce our debt, free up cash, reduce expenses, get our business growing again, while also planning for the future.

Let me outline some of the changes we've already made that will ensure that Rite Aid will be here for the long term. First, we've reduced expenses at Rite Aid corporate by \$55 million on an annual run rate basis. We extended 35% of our 2023 bond maturities out to 2025. We reduced our debt and improved our leverage ratio by more than a full turn. We handily beat our FY '20 pharmacy plan, and we also beat our EnvisionRxOptions



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EBITDA plan while also controlling expenses. We stabilized our retail business. We implemented Lean to reduce working capital tied to inventory and leveraged our Lean toolkit to improve our pharmacists productivity. And all of this is important, crucial, of course, but at the end of the day, these turnaround activities alone will not be adequate for Rite Aid to be an independent and successful company, fulfilling its purpose to our stakeholders. To get this company really thriving, it is time for a radical change. This is our Rx Evolution.

So it's not business as usual here at Rite Aid. We have a unique opportunity to serve a growing customer base and unlock an iconic brand with a deep legacy. Our promise is to leverage the power of our organization, including our trusted pharmacists to deliver on the promise of real consumer engagement. Pharmacists engage with consumers more than any health care provider in America. Pharmacists are also among the most trusted health care professionals in America. 90% of consumers trust their pharmacists. This means we can really help consumers get healthy and beyond healthy to get thriving. We are doubling down on our pharmacy business, and it's not just our successful retail in-store pharmacy experiences, but we're innovating across all pharmacy channels, including our pharmacy benefit management company and suite of pharmacy service solutions, whether they be online, specialty, drive-through, home, delivery, mail order or buy online pickup in store. And we're working with a White House task force, exploring the potential to offer testing in our parking lots, believe it or not. And it's not just prescriptions and testing, it's clinical services also, such as vaccines and an array of over-the-counter and alternative healing and wellness solutions. Curated for our customers, focused on helping them thrive, it's time to reintroduce Rite Aid to our markets and produce a compelling offering that will generate increased customer satisfaction and new customers.

Moving forward, our strategy is going to be focused on 3 areas: 1, becoming the dominant mid-market PBM; 2, unlocking the value of our pharmacists; and 3, renewing our retail and digital experience. Innovations in each of these areas are key to reengineering our business. Watch us in 12 months, we will be a visibly different company.

Shortly, Dan Robson will provide a deep dive on our PBM strategy, but I'd like to provide a high-level overview of how we're going to improve this business. As I've said before, EnvisionRxOptions is one of our most important assets, and we're bullish on its growth potential. The PBM total addressable market is \$400 billion and growing. So the numbers speak for themselves. We have much work to do to position EnvisionRxOptions to maximize this opportunity. For example, EnvisionRxOptions has largely operated as separate entities. We have multiple organizations and offerings even within EnvisionRxOptions, and they have multiple brand identities.

Moving forward, EnvisionRxOptions will offer and operate a suite of integrated offerings with a new modern and cohesive brand. We have already started to integrate the multiple entities that constitute EnvisionRxOptions today as well as integrating EnvisionRxOptions further into Rite Aid where synergies apply.

We will also be very focused on the Medicare Part D business, not as much on membership growth going forward, but rather on how it supports our bigger enterprise, makes us more competitive and how it drives enterprise EBITDA. We must balance the need for EnvisionRxOptions to have the freedom to operate independently with the obvious synergies that Rite Aid EnvisionRxOptions bring to the table. And further, by better leveraging EnvisionRxOptions and Rite Aid together, we can drive more prescription volume to Rite Aid. We estimate that we can increase Rite Aid share of EnvisionRxOptions commercial prescriptions from 13% to 30%, which would grow our scripts by 3 million and our pharmacy margin by \$40 million. Given this -- given all of this, we're investing in the expansion of EnvisionRxOptions, particularly, its services, technologies and clinical offerings to drive financial value for all stakeholders. This will provide us with the scale to deliver enhanced customer experience and heightened consumer engagement. And watch out for our new digital offerings later this year.

The key metric of success for EnvisionRxOptions going forward will be the number of covered lives in our PBM business. I'm confident in our ability to grow EnvisionRxOptions organically in the short-term and both organically and through M&A activity in the longer term.

Now let me talk about the retail pharmacy business. As mentioned, Rite Aid is doubling down on pharmacy across all delivery channels. Our Chief Pharmacy Officer, Jocelyn Konrad, will share full details of our Pharmacy First vision and what it means for our business. But I would like to comment at a high level on a few aspects. For decades, the health care industry and I've seen this firsthand has struggled to engage consumers in their health care. And this is partly because the system is opaque and complicated. It's also because there aren't enough touch points with the consumer to actually be able to engage them and also because consumers aren't sure who to trust, never has this been more apparent than in this environment

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today. We know that consumers have great trust in their pharmacist and believe the pharmacist is key to creating that missing consumer engagement and trust.

And here are some really compelling stats 90% of consumers trust their pharmacists as their health care advocates. 98% of our own Rite Aid pharmacists indicate that they would like to spend more time with consumers. And we engage with consumers on average, and this is the truth and unbelievable, in fact, upwards of 25 to 30x per year, which is unbelievably 12 to 15x more than they engage with the primary care physician. So the good news for Rite Aid is that not only do we engage with consumers multiple times a year, we also know that consumers have great trust in their pharmacists. So the time is now for our pharmacists to drive consumer engagement to levels not seen before in health care. And engaging with consumers, we will be able to drive both script growth and retail growth. We know that overall prescriptions will continue to grow from 4.4 billion to 5 billion. Just our fair share of that growth would be 30 million scripts, which would add several hundred millions of dollars in pharmacy gross profit. And the value of the curated over-the-counter products that our pharmacists will be recommending as well alongside the prescriptions would lift retail sales by as much as \$700 million.

In terms of loyalty, Rite Aid pharmacists and our pharmacy offerings are at the heart of our consumer experience, and we're making real changes that will drive both tangible health outcomes and deep loyalty as consumers recognize their pharmacist as more than just a dispenser of medication, but as a valuable and accessible extension of their care team. We are evolving Rite Aid to become a destination for holistic health, where pharmacists are out from behind the production counter and are trained to advise customers on health and wellness beyond just prescription medication.

We are leveraging Lean tools and processes to significantly increase the productivity of our pharmacists and our technicians, so that they will be able to take on additional scripts and advocacy work, clinical services and drive overall retail growth. And we will leverage our patented workflow tool, Rite Care. This will allow us to execute on our vision and bring this vision to life. We are targeting multi-generational families now centered on women between the ages of 25 and 49. These women have a hard time thriving because they're so busy taking care of their children, their parents, and their pets and even sometimes their spouses. Our job is to help these women and their families thrive. And thriving customers are loyal customers. And by attracting the segment, we're not only going to pick up the target customers' business, we're also going to take care of their family's needs starting with their children's medications, their over-the-counter needs, vaccinations, flu and strep testing, and now, of course, coronavirus solutions. And as a part of supporting the entire family, Rite Aid will further penetrate the pet business, which represents a sizable and growing opportunity. In the U.S. nearly 70% of households own a pet, including many of you listening today. And more Americans have pets than children. So moving forward, we're keenly focused on capturing a greater share of the country's \$75 billion pet care market, which continues to grow at 5% CAGR.

We'll also do more to support our target customer, who also happens to be among the 44 million unpaid caregivers. These caregivers, we call them the sandwich generation, have a significant challenge in helping their parents manage the timeliness and accuracy of taking medications. This is the front line of defense to reduce hospitalizations and help our caregiver customer manage their parents chronic and acute illnesses. Rite Aid will now offer new and unique packaging, organizing prescriptions and supplements together in an easy-to-use dispenser for different days and times of day, along with photos of each of the pills. This will make it easier for the caregivers parents to take the right medications at the right time. And we can mail, deliver or offer pick up for prescriptions to make it easy for this busy caregiver. Caregivers are going to want to use Rite Aid for their parents for this service, as well as using Rite Aid for other clinical services for their parents such as vaccines.

The pharmacy first approach is key to Rite Aid's Rx evolution and critical to growing prescriptions, growing our basket size, increasing customer loyalty and improving our market penetration. Our key metric for success in pharmacy will be script growth.

Now looking at retail. Our COO, Jim Peters; and CIO, Justin Mennen, will share with you all the many exciting innovations we're bringing to the business. However, I'd like to briefly touch on several topics to help set the stage and begin by busting a common myth, retail isn't dead, brick-and-mortar is growing 2% per year, and online retail is seeing double-digit growth. However, as we know, retail that isn't relevant or on trend that doesn't target the growth market, is dying. Our mission is to make Rite Aid relevant to our core customer target of middle to upper income caregivers, particularly women, ages 25 to 49, who are seeking not only personal health and wellness solutions, but also solutions for their children, aging parents and even their pets.



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As consumers continue to shift from traditional health to a holistic health and wellness mindset, Rite Aid will become known as a whole being health destination that treats the mind, body and spirit.

Multi-generational customers expect a cohesive, curated retail experience with merchandise that is delightful, reflective of trend, safe and updated seasonally. We're eliminating unproductive merchandise that does not resonate with our customers or turn enough to even warrant placement on our shelves. This has the additional advantage of freeing up significant working capital to allow us to invest in a product assortment that is consistent with our strategy of holistic health and wellness. Our evolving merchandise will be based on continual customer input, and we will begin product sampling to both increase sales volume and collect valuable customer feedback. Rite Aid's merchandise chains will be complemented by a staged and capital-efficient physical and digital refresh. We will also be focused on our ability to grow and scale our e-commerce merchandising capability to support our growth.

So our key metrics to watch here are front-end sales growth and inventory turns. Also, as we know, digital and omnichannel engagement is table stakes our target consumer demands and outstanding experience, both virtual and physical. We are working quickly and diligently to integrate our in-store experience with our online channels to digitize our entire customer experience end-to-end and create true omnichannel platform. This will create a more personalized and fluid interaction with customers even when they are not physically in our stores. We will attract customers through preshopping targeting, geo-fencing, a new intuitive app, custom offers and more. Our in-store experience will include digital signage and kiosks as well as convenient digital checkout, including self-serve checkout and pay-and-go solutions. Our key metrics to watch here will be active app users and digital sales and watch out for the launch of our new Rite Aid app and website late this April.

We're also really excited to introduce our new store of the future model. Later this year, Rite Aid will be introducing a compelling omnichannel, health care and retail experience that offers whole being health and attracts customers from current and emerging competitors. Our Store of the Future will be completely remodeled with a fresh, updated and inviting look and feel and feature curated health and wellness brands, products and services to meet our customers' personal, family pet and caregiver needs. Our pharmacists will no longer be walled off and underutilized. Instead, they will be front and center of the pharmacy and be repositioned as chief whole being health advocates. Our consumers will have unprecedented on-demand access to pharmacists, setting a new standard for the industry. We're confident our consumer will view our Store of the Future as a destination, a place they want to go, a place that makes them feel good about themselves and ultimately, a place that helps them thrive. Watch out for our Store of the Future, coming this fall, starting with 9 pilots across the country and another 65 remodels in Norfolk, Virginia, and Boise, Idaho later this year. Our key metric to watch here will be improvements in traffic, especially with our target customer segment.

So I know that's a lot. And with all of this, I want to recognize that our existing brand is outdated. Our new branding will highlight Rite Aid's role in delivering personalized ways to thrive. From prescriptions to skincare and yup, ice cream, to help consumers, their families and their pets actually radiate wellness. This September, we will unveil to the world, our new brand, our new merchandising, our new digital experience and our Store of the Future concept.

In summary, we're planning to become the dominant mid-market PBM to unlock the potential of our pharmacists and to revive our retail and digital experience. So I know many of you in the audience are asking yourselves exactly how do we plan to pay for these dramatic changes we're implementing. I'll let our CFO, Matt, share specific details and numbers, but I will let you know, Rite Aid can accomplish this plan without incremental outside investment while continuing to reduce our leverage ratio. We're also committed to leveraging Lean as a tool that will drive efficiencies, reduce working capital and generate record levels of associate engagement.

In closing, we are energized and committed to make these changes happen. We believe these initiatives will grow our revenue, drive efficiencies in our business, improve our working capital and drive significant EBITDA growth.

So now I'd like to introduce Jim Peters, who will walk you through our health care strategy.

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### **James J. Peters** - Rite Aid Corporation - COO

Thank you, Heyward. I think it's important to reinforce the key point that Heyward communicated earlier. It is a new day at Rite Aid. I've been at Rite Aid for just about 5 months now. And in just a few months, we've accomplished quite a bit: we have done our research, we have made a number



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of changes at the leadership level, we have developed a differentiated strategy and we set in motion a new course that will separate us from our competitors. And that's just in a handful of months. Look, I knew Rite Aid faced challenges when I decided to take on this role. In fact, in many ways, that's exactly why I decided to come on board. I want you all to know that today I stand here before you, invigorated about Rite Aid's future, our team and the amazing opportunity in front of us. It's not often we get to totally redefine what an entire industry looks like, but that's exactly what we're doing.

As Heyward mentioned, our new strategy looks to fundamentally change Rite Aid's role in health care, notice I said health care, not retail pharmacy. This is actually a step function change, not an incremental one. You will begin to see our bold pharmacy-first strategy unfold as we reintroduce Rite Aid to the world. Arriving at this new strategy required a deep understanding of our markets, our competitors, stakeholders and most importantly, our customers. This involved extensive quantitative and qualitative research, consumer panels, testing and surveys, along with an in-depth market assessment. What resulted was a deep and nuanced understanding of what consumers want from us. What needs were not being met in the market, and how potential new and existing customers view Rite Aid versus our competitors. These learnings help shape our strategy, which is a bold one aimed at unleashing the full power of the new and revitalized Rite Aid across all parts of our business.

Today, you will hear about the key initiatives that make up the strategy and see how Rite Aid is well positioned to deliver.

Before we dive into our strategy, let's first consider the state of our U.S. health care market with some brief historical context. As you may or may not know, next week, the Affordable Care Act actually turns 10. Over a decade ago, the unsustainability of our health care system as we knew it, led to a national focus on health care reform, which became and has since remained front page news. A health care system whose perverse incentives rewarded health care providers like doctors for quantity of care instead of quality of care and which incentivize them to deliver care in high-cost care settings like hospitals. All leading to our country's spending far more money on health care than other wealthy nations, often with far worse outcomes.

Those of us in the health care industry rallied around a framework known as the triple aim, which set 3 goals to optimize our health system: 1, improving health; 2, enhancing care experience for individuals; and 3, reducing the cost of care. These were the early seeds of health care reform and some real change followed. Lower cost care settings like retail clinics emerged and proliferated, self-help technology apps did, too. But consider our society today: obesity rates, out of control; anxiety, depression, mental health, pervasive; lack of sleep, a true health barrier; opioid abuse, a national crisis. And while there is no single reason for falling well short of the triple aim objectives, it's become increasingly clear that some of the care model innovations designed to help cure our country's broken system have actually had the opposite effect, by further fragmenting care and detaching people from their coordinated care teams, causing health care consumers to fall through the cracks. And we see market forces that will exacerbate the issue and create further complexity. Consumer expectations are increasing, driven by interactions with other industries. People expect a Starbucks or Genius Bar experience when shopping our stores, not just a slightly elevated drugstore experience. And higher insurance deductibles have people care shopping, prioritizing care and even avoiding it. For consumers in our larger metro areas, it takes 25 days to schedule a doctor's appointment. In Boston, it takes about 109 days to get an appointment with a family physician. Wait times that can actually be even worse in some of our more rural communities. Clearly, high consumer expectations are hardly being met. And health plans. Health plans are not just payers anymore, they are key stakeholders in ensuring quality outcomes are delivered at lower costs and are taking on more financial risk-based on their performance. And health plans, and regional health plans, in particular, are challenged to keep up with the rising consumer expectations I spoke of earlier. Growth in B2C markets, employer sophistication, and increase of risk-bearing arrangements and the new market reality of their critical PBM service providers becoming aligned or owned by their direct competitors, are necessitating new capabilities and partnerships. And health care providers, the doctors and health systems that take care of us, they, too, are facing significant pressure stemming from insurance mix, site of care shifts and reimbursement model changes. These providers too struggle to meet the demand for care from aging baby boomers and more insureds, resulting in a norm that shows family doctors having little time to help their patients, less than 2 primary care office visits per year, as you know, often at a mere 15-minute per visit.

So consumers and the health plans and providers that serve them are being increasingly squeezed and isolated and left to fend for themselves. We are on a mission to change this by supporting consumers, supporting health plans and supporting health care providers, not by competing with them, establishing disconnected care silos that tend to fragment care, but as a true partner that helps guide and bind it all together.



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So why is this relevant to Rite Aid? Because Rite Aid is a health care company, a health care company with a deliberately positioned retail footprint. More than 80% of our organizational revenue comes from dispensing medications and delivering pharmacy services. The scale of our health care activities is significant. We have nearly 6,400 pharmacists. We are involved in 175 million pharmacy transactions per year. That's 500,000 transactions each day and growing. And we are doubling down on offering a more progressive and expansive set of solutions that enhance the overall well-being of those we serve.

In our retail pharmacy footprint, our pharmacist served consumers within roughly 2,500 stores across 18 states. If considering the national geographic footprint of larger national chain drug stores, one might be tempted to consider our more limited footprint as a defining headwind for Rite Aid. But as a health care company, we view it completely differently. And as a health care leader, I don't see 18 states versus 50 states. In fact, in my 12 years as part of the leadership team, at an integrated health system, I learned firsthand to interpret maps like this, not as 18 states versus 50, but rather thousands of local communities within each of those 18 states, and within each of those communities, Rite Aid has every right to win. Every right to win in those communities because as you all know, health care is local.

When it comes to footprint, it's local density, not national breadth that matters most to consumers. For a mom in Kent, Washington, her choice in pharmacy will be driven by how well we can serve her and her family within her home community of Kent. And within our local markets, we have the local density and credibility we need to win. We are top 2 by footprint density and more than half of the CBSAs we serve across the 7 states where we have a majority of our stores. And we have more density than any other retail pharmacy in over 100 CBSAs nationally.

Later, you'll hear how we intend to wow consumers within those areas with a fresh, elevated experience. But we're also locking in on a newer type of customer base that will benefit greatly from our local trusted relationships, health plans and health systems. We will go deep with regional health plans in our markets and in our communities. These health plans face heightened pressures to deliver on the real promise of consumer engagement, offering better choices, integrating care journeys across a wider spectrum of care settings, and delivering at a lower cost. And by regional health plans, to be clear, we don't mean small ones. In fact, there are over 50 regional health plans alone, with 10,000-plus members where we have at least 75% geographic overlap, representing approximately 35 million consumers. Assuming a conservative estimate of \$7 to \$8 PMPM spent on medical and quality management, these high overlap regional plans are spending \$3 billion to \$4 billion annually to improve the cost and quality of their membership.

In addition, these regional health plans have an additional \$1 billion-plus at risk, depending on how well they overcome these pressures and deliver improved HEDIS and CAHPS performance in Stars ratings. And they recognize that traditional fragmented solutions will not work, because consumers no longer tolerate disconnected technology, unwanted mailers and cold phone calls from their health plan. In personal, telephonic disease management programs will continue to see engagement levels wane. Even health plan's best designed care management and engagement efforts rarely reach full potential. As health plans suffer from the ultimate access problem, they almost never actually see their members, which significantly impedes their ability to build trust with their members.

But as Heyward mentioned, our community pharmacists are among the most trusted in health care, 90% trust them. And our pharmacist see these very members upwards of 25 to 30 visits per year, in the very communities we serve, the communities in which they live.

So we will help the health plans, help their members, leveraging our trust and frequent interactions our pharmacists already have with their members, which will deliver results that help these individuals and enhance economics for both Rite Aid and our health plan partners. We will provide a full suite of pharmacist led solutions that fit naturally in the flow of the consumer lifestyle, and equally important, the workflow tools already established by and for our pharmacists, take Right Care, our proprietary workflow engine that triggers intervention opportunities real-time on the front lines. We will clarify care journeys, identify and close care gaps, educate members on prescription and nonprescription remedies that can supplement traditional ones and connect them virtually to traditional and nontraditional providers.

Partnering with health systems that serve our communities is a logical complement to our health plan strategy. Health systems, like the one I came from, continue to expand through consolidation and either own or strengthen ties with health plans. We want to help these providers keep their patients thriving. During the 99.99% of the time, they're simply not with them. How? By our pharmacists immunizing on the front lines of flu, shingles, pertussis, screening for blood pressure, cholesterol, diabetes, counseling for obesity, tobacco cessation, nutrition, educating, managing medications and side effects, positioning our pharmacists as first movers as scope of practice continues to expand and connecting people to their



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overall care teams. Serving as the everyday glue that connects, not severs, the critical ties people have to their health system providers, who struggle increasingly to integrate their care. We do not seek to own primary care or specialist care by proliferating our own in-house clinics. By doing so, we would simply be adding to the problem of disconnected care leading to poorer outcomes and higher costs. Rather, we will do the opposite. By partnering with health systems and providers and payers, we will reinforce connections back to their broader care teams. Fostering a more connected holistic care experience via our Wellness Rooms, distinctly different from retail clinics and with a distinctly different business model. Jocelyn will speak more to this shortly. Filling in the cracks in the system versus doubling down on deploying care models that we've learned only serve to widen those cracks, which improves outcomes and lowers costs. Good for our consumers, our provider partners that deliver the care and our health plan partners that finance it and good for Rite Aid.

But while these efforts will help drive better health, we will not stop there. Sure, we'll aim to keep them healthy. But our real goal is not simply to get and keep them healthy, it's to get and keep them thriving. By educating them on product and service choices that complement traditional prescription therapies, emphasizing not only a focus on their physical health, but delivering whole being health solutions and experiences that elevate mind, body and spirit. We firmly believe, and have market feedback to support, that retail pharmacies are among the most underleveraged in the health care value chain, given their existing touch points and trust levels with consumers. We believe that we are the best suited among retail pharmacies to serve our partners across our footprint. As I mentioned, we're deep in the communities that our health partners serve and have every right to win. We have empowered our pharmacists and used Lean to free up time, they will devote to exactly what they want to do, guide hold being health. Our proprietary pharmacy workflow system Right Care allows us to feed prioritized interventions to these pharmacists, which has already shown meaningful improvement across areas such as immunizations and adherence initiatives. Importantly, we are not beholden to or owned by an insurance entity or a competitor, which leaves Rite Aid as the preeminent, independent and neutral alternative. Think about it. A regional health plan recognizing the value of a pharmacy partnership will increasingly object to partnering with a national chain drug company that's owned by a national insurance company competitor that threatens their very existence. And with this partnering strategy and given our footprint, we don't feel an imperative to go deep into national limited networks and unnecessarily trade price for volume. On a regional level where we are strong and deep in the communities and in the markets we serve, we can continue to opportunistically enter regional limited networks when economically sensible. But use the health plan and health system strategy outlined above as another currency to drive consumers to our stores while delivering value to our partners.

Of course, I can't talk about regional health plans, health systems, pharmacies and the importance of independence or neutrality without introducing our PBM business. As Heyward emphasized, a growth engine for us at Rite Aid. A key asset we commit to integrate, grow and scale. A critical part of Rite Aid that going forward, is top of mind, not an afterthought as we deliver on our promise of the new Rite Aid.

In summary, Rite Aid is a health care company with a retail footprint. We are deep in our communities with the local density required to win. We offer a unique combination of trust, access and independence or neutrality, characteristics increasingly and strategically important to health plans. We will partner with, not compete with, health plans and providers by guiding and coordinating, not fragmenting our consumers' care journeys. We will focus on whole being health solutions, including prescriptions, but well beyond.

Thank you. And now I would like to introduce Dan Robson, who will expand upon the new strategy of EnvisionRxOptions.

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**Dan Robson** - Rite Aid Corporation - President of EnvisionRxOptions

Thank you, Jim. Hello, everyone. It is a pleasure to meet all of you. And it's also a pleasure to be in this role as President of EnvisionRxOptions. Our business is strong, and at the same time, we have the opportunity to take things to a new level and grow this company. I'm excited to tell you more about our plans to drive profitable growth through what we believe is a unique and multifaceted pharmacy care platform. The names in front of you represent a few of our clients across our different lines of businesses. Some of our major health plan clients include Boston Medical Center, Bright Health and Virginia Premier. We also manage employer accounts, some that you may recognize like Waffle House, Ruth's Hospitality Group and Avis. In addition, we manage labor groups, state and local government clients, for instance, UFCW Northern California, City of Phoenix and State of Kansas. Over the years, EnvisionRxOptions has expanded our capabilities in the PBM space. We've added mail and specialty pharmacies with elite accreditations and launched a national Medicare Part D plan. The EnvisionRxOptions of today is able to optimize the full pharmacy care experience for both members and better control spending for clients. We are now at a natural point in our evolution where it makes sense to integrate our businesses, improve our efficiencies and offer best-in-class solutions. The country's nearly \$400 billion PBM market represents a



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significant opportunity, and we are acutely focused on our organic growth in the short term. We will do this by winning more mid-market clients, including employers, labor unions and regional health plans. The PBM market is expected to grow by 9.2% CAGR. Combined with the overall increase in prescriptions, we believe we can achieve an annual double-digit PBM revenue growth over a multiyear period. This slide represents a breakdown of the \$400 billion PBM market by entity. As you all know, the big 3 PBMs manning 75% of the share of the market. These PBMs are -- which are all owned by major health plans tend to serve large and price sensitive customers. The next 3 largest PBM players are Medimpact, Humana and Prime Therapeutics, all of whom serve a particular niche. Medimpact mostly focuses on health systems. A large part of Humana's business is serving its own MAPD plan and Prime Therapeutics is owned by a collection of Blue Cross Blue Shield plans.

As you can see, EnvisionRxOptions market share is only 1%. We believe there is a significant opportunity to improve the share by focusing our offering to small and midsized employers, regional health plans -- in addition, regional health plans want to partner with a PBM that's not owned by a competitor. By growing our share by an additional 1%, we will drive revenue improvements by \$4.5 billion. We are developing a market strategy to do just that.

Our go-to-market strategy is aligned with the needs of our target payer and our member segments. EnvisionRxOptions is focused on serving that small- to mid-market employer, which ranges from 150 to 20,000 lives, as well as labor unions and regional health plans, specifically provider-led health plans and government-sponsored plans. Our target market comprises as many as 20,000 employers and a large number of health plans across the country. As we target large health plans, we know that they may not be as likely to buy our full PBM offering, but they would buy ala carte products as an alternate to the big 3. And we also know that large health plans place a high-value on integration with the member experience across both medical and Rx for true systems integration and analytics. We knew that as Rx spend increases as a share of the total medical cost, health plans are seeking a greater level of control to maintain relevance. We have the ability to integrate EnvisionRxOptions with their systems while delivering to them a more tightly controlled PBM offering without spending millions to build their own PBM. As we target regional and provider-led health plans, we know there's a value in EnvisionRxOptions full PBM offering. There's also significant value in providing health plan support for white labeling our PBM offering that is fully integrated with their systems. Regional health plans have fewer resources versus the big competitors, and they don't want to feel that they're advancing their competitors. Our offering provides PBM independence from their health plan competition. EnvisionRxOptions Medicare Part D plan has been an important avenue of growth for our business. In fact, we grew over 200,000 lives in 2019. We will continue to focus on a value-driven offering order in order to drive profit. As we refine our overall strategy for Medicare Part D, we will focus on improving member mix and enterprise profitability. As a true end-to-end company, EnvisionRxOptions is uniquely positioned among the mid-market PBMs. In that, we own and operate our own mail and -- mail order and specialty pharmacies. We own and operate our own adjudication platform. We contract directly with pharmaceutical manufacturers, and we control the administration of our rebate program. And we own and operate a national Medicare Part D plan. In short, all of the attributes of a full-service PBM.

As we move forward, EnvisionRxOptions will rebrand as a new business called Elixir. Elixir reflects a new integrated story, not just within our own organization, but our parent company, Rite Aid. We believe we can position Elixir as the dominant mid-market pharmacy benefits and services company. Our rebrand is not just a new name, but a true integration that will offer more options, more capabilities and efficiencies that our clients and members expect. Our fully integrated PBM offering includes technology solutions, mail order delivery, specialty pharmacies, network and rebate administration and claims adjudication as well as prescription discount programs and groups. Our most differentiated integration point is our connection to the more than 2,400 Rite Aid stores, positioning us as the only payer agnostic PBM with a retail pharmacy footprint. We are uniquely positioned among the mid-market PBMs in our ability to offer this breadth of services. With stronger, more efficient offerings, we are positioned for strong growth and improved profits. We believe Elixir will be a unique PBM offering that represents the largest potential growth for Rite Aid.

As I just stated, but important to reiterate, our goal of Elixir is to position ourselves as the dominant mid-market player. We can utilize our diverse capabilities to provide a fully integrated suite of solutions for our customers or on an ala carte basis. Elixir will be a great fit for this segment because of our focus on service. Service to our clients and a best-in-class consumer experience. Our expertise, providing expertise in pharmacy network contracting, clinical outcomes that are driven by Omnichannel consumer engagement, including in-store engagement across Rite Aid footprint. And we have a full range of solutions enabling health plans to license our technology platform in order to allow payers to integrate with their portal, helping them with complex plan designs and formularies. So the question is this. How will we get to this integrated company? It starts from within. Our efforts towards operational integration company-wide are well underway. As we work towards a more streamlined, collaborative organizational design, we will reduce redundancies and develop an optimal operating model. As Elixir comes together as one company, we will



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invest in our systems to continually improve our clinical and customer services, and provide those customers with high touch, digitally enabled best-in-class experience and great service levels. Similarly, Elixir is investing in our core systems and technology. We will integrate and deploy a common full suite PBM platform for which we will serve all clients. And over time, Elixir will be better aligned with our business model to deliver greater value to both our clients in our organizational bottom line, including increasing Rite Aid's share of our business. Elixir will focus on superior best-in-class consumer experience that will orchestrate the patient experience across all channels, with a priority on driving adoption of digital and upgrading our toolkit. This, we believe, will be one of our major differentiators for our clients. In addition, to what Elixir brings to the table, our value proposition is amplified in areas where plans have a high degree of overlap with Rite Aid's retail footprint, and we will double down in these high overlap areas. Because Elixir is the only independent pharmacy owned national PBM, we have a high degree of vertical integration with these community pharmacists. We know the top 3 PBMs are owned by health plans. Our independence allows us to avoid the conflict of interest that are inherent in being owned by a health plan. We are agnostic to all health plans, and we can work with all of them across the board, which allows us to be more flexible with our members to beat their needs and improve care. Thus, putting the customer first. Our payer agnosticism cannot be overlooked in the regional health plan space. We are uniquely positioned to focus solely on the enabling clients to grow their membership by delivering RX and medical cost savings. We at Elixir are very excited to integrate with Rite Aid to provide a strong option and a solution for clinical as well as pharmacy offerings to our health plan and employer customers. These overlap plans represent a significant opportunity for both Elixir and Rite Aid.

While our integration in rebranding will take time, we expect to begin seeing the fruits of our labors in revenue growth, margin improvement and profitability as we implement. Overall, financial savings, best practices, streamlined workflows, customer satisfaction to name just a few, will mean great things for the company. By rebranding our company, improving our service and enhancing our technology capabilities, we will have a much stronger value prop for both existing clients as well as prospects in our pipeline. When completed, alongside all the enhancements we are working towards behind the scenes, Elixir will be in a great position to establish a clear market identity and become the dominant mid-market pharmacy benefits and services company. We believe Elixir will be a unique PBM offering that represents the largest potential growth opportunity for Rite Aid.

And now I'd like to turn it over to Jocelyn Konrad, our Chief Pharmacy Officer.

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### **Jocelyn Zazyczny Konrad** - Rite Aid Corporation - Executive VP & Chief Pharmacy Officer

Thanks, Dan. Good morning, everyone. As I previously shared, I am a registered pharmacist with more than 25 years of retail pharmacy experience. And I'd like to provide some of my perspectives on what becoming a pharmacist is all about and why I went to school to become a pharmacist. But before I do that, I feel it is my responsibility today to be sure that I fulfill my role and responsibility as a pharmacist and provide counseling to you to ensure that you are staying healthy and safe during these challenging times, as we are all trying to prevent exposure and spread of COVID-19.

The best way to protect yourself is to avoid being exposed to the virus. The virus can transmit from person-to-person who are in close contact with each other and is transmitted through droplets when an infected person sneezes or coughs and lands in the mouth or nose of anyone who is nearby. So protect yourself by cleaning your hands often with soap and water for 20 seconds and use hand sanitizer to avoid infecting yourself by touching your face and nose while the virus is possibly on your hands. Use a tissue if you sneeze or cough and throw it directly in the trash. Don't forget to clean those phones and disinfect frequently used surfaces. And lastly, my advice is, if you feel sick and have a fever or coughing, stay home and separate yourself from others. If your symptoms worsen, call your doctor, please stay well.

So as you can tell, what excites me most about the opportunity to become a pharmacist was the prospect of being a hands-on on the ground health care provider, supporting consumers' health care needs daily. I also love that a pharmacy career requires multifaceted confidence in science, time management skills, teamwork and people skills. You might think of pharmacists as those people behind the counter, who just count pills and dispense medicine, and the industry has given you reason to believe that. But there is so much more to our roles. We are advisers to consumers, helping them combat and prevent disease, advising on prescription drugs and complex polypharmacy, supporting them and helping them navigate through their health care journey, answering questions and making appropriate recommendations for OTC products and overall whole health guidance. My goal in becoming a pharmacist was to help people live better, healthier lives and deliver the highest quality team based patient-centered care. And this requires much more than just dispensing medicine. In other words, I view my role to be a health care provider on the front lines. All pharmacists take an oath upon graduation, and this is the essence of what that oath represents. Pharmacists are highly educated, knowledgeable,



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trusted and accessible. However, their full potential is not always being utilized or valued. This is a critical issue that we are proactively addressing to unlock the potential and value of our pharmacists, and most importantly, deliver improved health outcomes. Across the industry, pharmacists are in production mode, and their time is being used to complete many tests that do not allow them to work at the top of their license. Or as I like to say, to the top of their education. Rite Aid's leadership is improving the model represents a continued evolution of the pharmacist's role. We are implementing and leveraging technology to digitally enable our pharmacists to better provide holistic health and wellness services. Rite Aid Rx evolution is centered around ensuring that the products and services we offer speak to the brand positioning of radiating wellness and positioning Rite Aid as a destination for health and wellness, as opposed to a place to go only when you're sick.

Our solution includes better equipping family caregivers to achieve whole being health for themselves and their families, including their children, their parents and their pets.

Our strategy hinges on 2 essential ingredients that will present Rite Aid as the pharmacy of tomorrow, empowering pharmacists with tools and resources they need to proactively engage with consumers and be whole health advocates. And being a gateway for family caregivers and consumers to a personalized health care experience with a comprehensive wellness base to address their health and wellness needs.

Our 6,400 pharmacists are our greatest resource and are being repositioned as whole health advocates by enhancing their traditional pharmacist role to encourage a holistic approach to health. At Rite Aid, we are focused on bringing pharmacists front and center in the store and out from behind the counter, so that they can have more personal interactions and engagement with consumers to support their health and wellness goals. Pharmacy is 70% of Rite Aid's retail business, and we believe our approach of repositioning our pharmacists will drive more growth by making our greatest resource more accessible to the consumer. We are flipping the current model completely on its head. Today's pharmacist is spending about 70% to 80% of their time on non consumer-facing activities. Our overall goal is to flip this so that they're spending 70% to 80% of their time proactively engaging with consumers in the pharmacies, in the aisles, in wellness rooms via telehealth and even connecting to consumers using our 24/7 chat. Our research tells us that 98% of Rite Aid pharmacists would love to interact with consumers more, and have embraced being part of direct-to-consumer care through the expansion of the role in more recent years. We are enabling more of this interaction by implementing changes to their workflow. Enhancing their roles and responsibilities and providing more technician help or the right technician help, freeing up pharmacists' time so that they can proactively engage with consumers in the store. Changing their physical workspace, including an open counter to enable our pharmacists to easily step out and help by removing those physical barriers. This is a photograph of a concept model of our future pharmacy that I was really looking forward to sharing with you in New York City. Our pharmacists will play a key role to ensure that each prescription undergoes a quality assurance process that includes review for appropriateness of therapy, drug interactions and other clinical checks. Our model, however, will allow our pharmacists to spend significantly less time in the production area as we reengineer how the entire pharmacy team works. Our goal is to empower and energize pharmacists to deliver on demand guidance in the store. Our pharmacists are well positioned to empower whole being health.

As we said, our research shows that 90% of consumers trust their pharmacists as health care advocates. 26 annual visits are made by the consumer to the retail pharmacy versus 2 to primary care office. As mentioned, 98% of Rite Aid pharmacists would like to spend more time with consumers. And we have an unbelievable pool of qualified candidates especially recent graduates, who have shown that they want to embrace utilizing their education to provide clinical services. Provision of immunizations, diabetes education, and numerous other services help pharmacists take care of consumers and support their overall well-being, not just dispense medication. We are implementing welcoming changes that will shift them from inaccessible faceless nameless or walled off and underutilized counting pills and filling bottles. We will empower them to be front and center and act as a whole health advocate for our communities and perform at the top of their license and education, serving as trusted advisers helping consumers with all of their health needs. And we will equip our pharmacists with the technology, reference the consumer's profile on the go in the aisles, and we will also educate our pharmacists to refresh their knowledge of natural homeopathic remedies plus many preventive measures. Our goal at Rite Aid is go beyond healthy to help our consumers thrive. Rite Aid's wellness concierge approach gives our consumers 24/7 access to a team of professionals trained in both traditional and alternative therapies, who constantly provide new personalized ways to flourish. Many of our pharmacists will keep our consumers up-to-date on the latest remedies available from tips on nutrition, exercise and better sleep to natural curated remedies like aromatherapy, clean and holistic skin care and essential oils as alternatives or complements to their medications. Our approach means no more assembly line pharmacy, no more confusion over whether a wellness trend is truth or hype. No more wondering who to call in the middle of the night. By empowering our pharmacists as whole health advocates who are truly passionate about their mission, we can enable our consumers to improve health and wellness every day.



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Development is underway for these initiatives with milestones delivered throughout the year. For example, home delivery is now available upon request at all stores. And effective immediately, we have waived the traditional delivery service fees. Delivery services are extremely important, especially during the COVID-19 emergency and a very important part of serving our consumers. For those consumers who would like to pick up their medications quickly and conveniently, we offer a drive-through pickup option at over 50% of our stores. And we'll be working on our family caregiver support in Petmeds focusing on all family members with the goal of launching in the fiscal year. Our pharmacists are highly educated professionals. For our ongoing plan, we will augment our existing knowledge with targeted strategies and resources to improve our consumers' balanced life with a focus on mind, body and spirit. We will support this evolution by providing our pharmacists with clinical and service protocols for key areas to support our consumers, like anxiety, sleep and smoking cessation to name a few. We will also provide enhanced clinical content to support our pharmacists efforts, including the use of more digital and mobile technologies. We will deploy new design technologies for existing processes like home delivery, right care, mobile app and others that will enable us to grow in these spaces. Additionally, we will leverage technology to provide telehealth support to support consumers' whole being health.

Using Lean principles, we are identifying existing opportunities to streamline the work that our pharmacy teams conduct in order to free up additional time for our pharmacists to perform valuable clinical services. In addition, we will be improving the quality and quantity of our support staff to provide greater levels of support to our pharmacists. We want our pharmacists to love being there, doing what they were trained to do, and we need to free them from the tasks that are distracting them. This will allow pharmacists to recognize the consumer in the aisle and proactively go to them to consult with them, answer questions and help them navigate through many challenges. We are freeing up the pharmacist so that when a consumer is coming into the store to pick up a prescription, our pharmacists can then provide additional recommendations and deliver services such as immunization, diagnostic testing and other services that address ailments, illness and improves our consumers' overall health and wellness.

Our model is reengineering the way the entire pharmacy team works. Technicians can perform many of the prescription filling tasks, except those that require professional judgment, which has to be done by the pharmacist. In some cases today, pharmacists are doing too much work that the technician should be doing, such as data entry, counting pills and other nonprofessional tasks. This is not necessary. Through Lean and automation, such as our central fill facility, which fills maintenance prescriptions and by streamlining our processes wherever we can, we are freeing up the technician, so that we can free up the pharmacist to proactively engage with the consumer.

Our wellness rooms will facilitate delivery of some of these services. Our store of the future will include a reimagined pharmacy that includes wellness rooms, which will be modular and flexible spaces that expand the scope of health and wellness services we can offer. Wellness rooms will be modular and multipurpose to serve a wide array of conditions. They'll be warm and inviting to create a pleasant environment. They'll be equipped with telemedicine capabilities to deliver remote care and locally relevant and tailored to the needs of the local communities. Imagine a stigma free safe space where consumers can feel free to have honest dialogue about their health care concerns with their pharmacists or other health care providers via telehealth without sitting in a waiting room feeling uncomfortable or anxious. We will create an environment where our pharmacists are empowered to deliver consumer specific care that allows them to work at the top of their education and capabilities. We will also provide our pharmacists with additional tools to help support the consumer, whether it is self-guided education in the store or specialized support via another health care provider using our telehealth solution so that they can truly meet the health care needs of their customers.

I'm truly excited about the role of the pharmacists at Rite Aid and the role pharmacy is playing in Rite Aid's RX evolution. Our 6,400 pharmacists are our greatest resource, and we are empowering and energizing them to maximize their potential and improve the consumer experience. Millions of consumers have a choice of where they go for prescriptions, and we want to be that choice. This represents a significant opportunity for Rite Aid. We look forward to keeping you apprised of our pharmacy evolution and its impact on Rite Aid's positioning as a health and wellness destination.

So before we hear about our retail strategy from Jim Peters, our COO, let's take a 5-minute break. Thank you.

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**James J. Peters** - Rite Aid Corporation - COO

Welcome back, everybody. And now for retail, extensive consumer research over recent months highlighted the tremendous opportunity we have to evolve the Rite Aid brand. Modern consumers expect not only good products at fair prices, but also convenience and an elevated experience.



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They want to interact with brands however and whenever they want, not just how retailers think is best. We took a hard, honest look with a critical eye toward responding, repositioning and radically elevating our brand. Our strategy centers around pivoting our brand from one that's indifferent to one that's warm and welcoming, patient-focused to one that's consumer and caregiver focused. Dispensing medication only to dispensing whole health guidance, selling everything versus wholesome curation, old stodgy to fun and fresh, and single generational to multigenerational.

So moving forward, we are focused on growing households, and we believe the best way to do that is to give those that most greatly influence care and everyday purchase decisions, in particular, millennial and Gen X women, a reason to fall in love with Rite Aid. These women care not only for themselves, but also for their families, children, aging parents, pets. We are positioning Rite Aid as a whole being health destination that elevates mind, body and spirit, with broad-based consumer appeal throughout these families. But look, we can't rely on a legacy brand identity, product assortment, and services that were designed in the past without this growth target consumer or what she stands for, top of mind. So we are rebranding Rite Aid with a fresh new identity which will complement our merchandising overhaul and physical and digital refresh initiatives I will discuss shortly. This rebrand will be comprehensive and driven by the deep research and insights we glean from our growth target, those who represent our largest opportunity to grow households and drive net new business from a consumer segment, we just haven't paid as much attention to historically. We will keep the familiar Rite Aid name and certain key elements of its iconic identity, but refresh it through a new logo inspired by an enhanced purpose that aligns with what is most important to this growth target consumer. We believe our changes to the brand will resonate and appeal to millennial and Gen X women as well as their children as well as their aging parents and even their pets. And we have the right plan in place for building multigenerational long-term brand affinity and loyalty. Consumers of all ages want to be wowed, not just with an excellent in-store experience but digitally with an experience that transcends the 4 walls of the store. And because attention spans continue to grow shorter and shorter, we need to more nimbly respond to changing consumer preferences, anticipating and responding to trends and consumer preferences at a pace that's expected in 2020. This brand relaunch is far more than a new logo. It's truly a transformation deep to our core, not a superficial one. We're overhauling our approach to merchandising to align to the broader strategy, curating an assortment that supports the whole being health needs of our growth target consumers and those they care for. We have rigorously evaluated every single product category and determined which will be expanded which will be enhanced, which will be reduced, which will be eliminated based on an approach that considers financial impact and consumer preferences. We are expanding or shifting to better-for-you products with an emphasis on products that promote health and wellness, are better for the environment and create a point of differentiation and purpose in a way that we haven't in the recent past. We plan to show you these physical merchandising concepts in person, but we at least wanted to show you photos of what we had created for you. Our merchandising refresh will show a product assortment that is relevant with a broad multigenerational consumer base, especially our growth target, clean and holistic skin care, healthy beverages, low in sugar, healthy snack alternatives. Fresh refrigerated products, vitamins and supplements, including CBD, aroma therapy, natural bath brands, holistic sleep remedies, natural stress reducers.

And we are reducing or eliminating items that aren't relevant to today's consumer and are unproductive, products that do not turn enough to warrant placements on our shelves. And deemphasizing categories such as hardware, electronics and home entertainment, which are just less relevant as we move from convenience to destination.

In line with this strategy, we are building out our assortment of private label own brands. Own brands are a significantly higher margin opportunity for us. And today's consumer are buying more on specific product attributes and less on overall brand, especially consumers in our growth target segment. We see a significant opportunity to drive margin with own brand products with key attributes such as natural, organic, clean, cruelty free, fair trade and chemical free. If Rite Aid grows own brand percentage to 23% by the end of FY '23, margin benefit would be just shy of \$100 million from FY '20. By investing in our expansion of a new assortment focused on health, beauty and better-for-you products and enhancing our assortment with a focus on healthier product attributes, we are building the foundation for executing our health and wellness strategy.

And look, better-for-you does not mean no fun. In fact, fun is actually a big part of our strategy. We will be a destination for the overworked, taxed family caregiver. We aim to provide an oasis for this target audience, which includes beauty, skin care, sleep and anxiety solutions, but also local wines, hard seltzer, chocolate and treats and, of course, meds for their pets. We are excited about this vision. However, a significant overhaul in merchandising, and it is an overhaul, does take time. Expect to see changes, both incremental through radical over the next 18 months. So during the research phase of our strategic planning process, we asked questions to a variety of consumers across all demographics, including what do you expect from a drugstore? What needs are not being met in the marketplace? This work was critical to informing our strategy and prioritizing the improvements we are bringing to the stores themselves. You've already seen Rite Aid make progress through our wellness store remodels.



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We use this interim reset to help inform our Store of the Future strategy and have begun to implement changes. For example, we are undertaking widespread light touch efforts in the near term, including stopgap physical improvements such as exterior cleanup, new signage, initial merchandising changes, refreshed end caps and where needed gondola changes. We have begun to introduce the realigned merchandise assortment consistent with whole-being health in our strategic growth areas such as pet care. And as we roll out these changes, we are elevating guiding principles for how we display products in-store.

In the past, we placed products on end caps based on vendor incentives, not consumer preferences. We are migrating to filling our prominent end caps, not with unhealthy snacks and shoe polish, but rather higher margin health and wellness-focused products. We have begun to deemphasize tobacco in the store. Tobacco will not be a part of the Store of the Future offering. Additionally, we were the first major drugstore to completely remove vaping products from our inventory. And no longer do we consider in-store and online to be 2 separate offerings.

We are building a team, a strong team, dedicated to the consumer experience, serving as voice of the customer across all channels, online and in-store. We are introducing a rich and compelling experience with digital underpinnings at all customer touch points to create a seamless online and offline experience they deserve. Early data seems to suggest that even these relatively simple changes can actually deliver improved comps, mainly in core categories that revolve around health and wellness. This further reinforces that our strategy of doubling down in core health and wellness and delight categories such as ice cream and hard seltzer will deliver a great experience to our consumers and result in a continued positive trend in revenue and EBITDA growth.

I'm extremely excited about our Store of the Future, which you heard referenced earlier, as I believe it will be fundamental in truly transforming the Rite Aid brand experience. With a completely remodeled store, including an entirely new exterior and interior, the Store of the Future will embody the Rite Aid DNA. Our new brand will serve as a visual and physical representation of Rite Aid's evolution. The Store of the Future allows us to reposition the brand, put the pharmacist out into the front of the pharmacy with an entirely new pharmacy experience, establish relevance and credibility with our new growth target consumer, while supporting our current loyal customers, serve our local communities by becoming the destination for enhancing mind, body and spirit, not just a convenient location and not simply health and make whole-being health fun.

Consumers overwhelmingly gravitated towards whole-being health in our market research, particularly when framed in a fun way. It is critical for our merchandising, front end and pharmacy to work together to establish our dominance in delivering a whole-being health experience through the products, customer service and services we offer. Consumers expect a compelling integrated overall experience, both physical and virtual, that fits seamlessly into the flow of their daily lives.

Fundamental to our Store of the Future will be to deliver a compelling omnichannel experience of the future by: revolutionizing how our associates engage with and serve our customers; enhancing our digital, mobile, social and other virtual capabilities to target personalized messages to different consumer segments; integrating the in-store experience with our digital channels for a seamless omnichannel experience that meets and exceeds the consumer wherever they are in-store, at home with their families or in our drive-through. We are investing in omnichannel capabilities, including digitally enabling the in-store experience, to create more personalized and fluid interactions and engage consumers even when they are not physically in our stores. Justin will expand on this in a bit. Making our Store of the Future vision a reality will be a multiyear process and focused on completely redesigning and overhauling existing stores, inside and out, structures and products and services. Our goal for FY '21 is to introduce 75 Stores of the Future, starting with a set of pilots to test and learn and followed by a staged market approach.

In summary, we have identified millennial and Gen X women as our new growth target consumer. We are targeting growing households. We are relaunching the Rite Aid brand. We are overhauling merchandising to support whole-being health, and we are taking a staged market approach to rolling out the Stores of the Future. We have examined every area of our retail business to build a stronger, more cohesive value proposition with consumers, one based on guiding our consumers to desired states of whole-being health. We believe these changes will lead to a positive and seismic shift in how net new and existing Rite Aid consumers interact with our brand.

Moving forward, consumers will see Rite Aid as a revitalized resource and a destination of choice. As you can see, the Rite Aid Rx evolution is well underway, and we are determined to bring these changes to life in a way that unlocks the full potential of Rite Aid for our consumers, our partners and our shareholders. I believe in this strategy, and I believe that we will not just survive. We will thrive.



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Thank you very much, and here's Justin to give you an overview of our digital strategy.

**Justin L. Mennen** - Rite Aid Corporation - Executive VP & Chief Information Officer

Thanks, Jim. As you heard from Heyward earlier, Rite Aid is a business that requires a radical change, and this includes how we are leveraging technology to connect with our customers and partners. We will profoundly change and modernize the technology platforms that power our company with a relentless focus on customer experience and design. Rite Aid customers soon will see a significant shift in how technology is utilized to provide a seamless and connected experience in-store, online and through mobile. These digital initiatives aren't in the distant future. They are underway now and on our delivery road map over the next 12 to 18 months.

Incremental changes are not what we're interested in at this point. We are driving step changes in our business with the digital solutions that will position Rite Aid as a leader, centered on exceptional experience. Leveraging lessons learned from the best experiential companies in the world, the Apple, Starbucks, et cetera, we are confident the road map we've outlined will position Rite Aid to leapfrog our competition and change our industry. The digital experience initiatives we've outlined with our PBM, in our pharmacy and our stores, online and through mobile, will revolutionize how Rite Aid engages and serves customers, members and partners. Leveraging a deep understanding of our customer and member behaviors, needs and motivations, we will launch a truly innovative user experience in personalized digital platform that will transcend the typical competitive solutions in our space.

I'd like to start with the PBM. Currently, Envision and MedTrak run as separate PBMs with unique systems and processes. And moving forward, Elixir will bring together the best systems and processes from each organization to create a single, consistent PBM platform focused on providing an optimized member, client and partner experience. Like consumers, our corporate customers desire a seamless end-to-end technology experience. We will be delivering new and innovative mobile and online solutions for our members that provide an exceptional user experience and unique capabilities to lower the cost of medication and ultimately provide better outcomes, a member experience above all others in the industry.

By implementing a differentiated, best-in-class digital member experience with new services and capabilities, Elixir will ultimately win new PBM business. Additionally, as we enter new markets to include health plans, we will bring to market a new Software-as-a-Service model. Product suites will be designed and built to meet market needs for our commercial customers and health plans in a modular API-based way, providing ultimate flexibility to our partners. We will introduce these new capabilities over several quarters and use continuous process improvement and design thinking to drive incremental improvements as we test and learn.

Enabling the Pharmacy of the Future is central to our strategy. Our 6,400 pharmacists are our greatest resource and require solutions that allow them to freely move throughout the store and interact with customers. By digitally enabling our pharmacist with the information they need at their fingertips, we can create a much better user experience not only for customers but for our pharmacist. And by leveraging technology, we will disrupt the standard pharmacy solutions of the past. Our future pharmacy experience meets the customer in their need state and provides an optimal and convenient interaction across our digital solutions in the pharmacy, in the drive-through, online and mobile and in our telehealth-enabled wellness rooms.

Our wellness rooms will allow us to provide more complete care to customers by connecting with qualified partners and providers based on each customer's wellness journey. This end-to-end approach allows us to provide more cohesive care that's easier to schedule, benefiting our customers and business. Providing customers with on-site telehealth connections to leading professionals and leveraging a network of best-in-class partners, we are simplifying and expediting the care process. Our wellness rooms will be connected to regional providers, both alternative and traditional, providing the best and most complete local care available.

Our drive-through locations will be enhanced through digital innovations, including pay-and-go, digital menu solutions and much more. Pharmacy drive-throughs have served the same function for 30 years to facilitate prescription pickups. By leveraging digital menu solutions and other innovations at the drive-through, we can offer to customers products that complement their prescriptions, all completely personalized to that customer need. We have robust data on the products consumers buy when they pick up prescriptions in our pharmacies. And by leveraging this data at a macro level with digital menu solutions and online with pay-and-go, we can deliver custom offerings for holistic care.



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With the launch of pay-and-go and our enhanced drive-through, Rite Aid customers will have the ability to pay in advance and have their prescription delivered, pick up in-store or pick up at the drive-through and curbside, eliminating an unnecessary waiting in line and at the drive-through. It will also be able to add OTC and retail items to their prescription order. These changes will unlock significant market basket increases and a heightened level of convenience.

Consumers expect a convenient and seamless experience from retailers. Our Store of the Future will deliver a seamless omnichannel experience that will help Rite Aid increase foot traffic, enhance the in-store and drive-through experience and facilitate convenient checkout. Through technologies, including geo-fencing with custom incentives, digital signage and end caps, scan-and-go checkouts and much more. Buy Online, Pick Up in Store and ship room store have great potential, especially in connection with our pay-and-go technology at the pharmacy.

Technologies, including endless aisles and digital kiosks, will create more opportunities for Rite Aid to deliver products on demand while optimizing inventory. In the future, consumers will be able to browse a virtual shelf and have items shipped directly to their homes, where selection will no longer be limited to what's in the store. These technologies will also create significant efficiencies across the business. Expanding on the convenience of Rite Aid self-checkout, we will introduce mobile scan and checkout capabilities to drive additional convenience and operational efficiencies, streamlining wait times for our customers and associates.

We will deliver to customers a completely new and personalized web and mobile experience by leveraging a full stack of digital cloud solutions that include analytics, digital asset management, advertising, e-commerce products and services. Leveraging best-in-class partner solutions from Adobe, Rite Aid's personalized experience will elevate the relevance of our offers and content and provide a heightened level of service for our customers. Our website and our app will focus on getting customers the information and services they need in a manner that's completely personalized to them. We won't simply facilitate transactions, but rather provide customized educational content, services and products that customers need to thrive. Keep an eye out for these exciting web and mobile changes launching by the end of April.

Rite Aid is radically transforming its digital landscape with an acute focus on customer experience. We want to provide the best experience possible across our digital and physical touch points in the pharmacy and our retail footprint. With our PBM, Elixir, our new digital platform will provide a truly differentiated member experience that increases engagement in a convenient and connected way, driving lower cost drug alternatives and better outcomes for our members. In doing so, we will open new revenue streams, while providing much greater holistic care to our customers. The changes we are implementing around personalization provide solutions that make interaction with our stores and associates more efficient and convenient, which we believe will prove to be a competitive advantage. Now while we've already started to roll out these initiatives, we've only just begun.

And now, I'd like to introduce Matt Schroeder, our CFO.

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### **Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Good morning, everyone, and thank you, Justin. I hope everyone is as excited as I am about our strategy and the opportunities for our company. Now that you've heard about some of our key initiatives, I'm here today to present what the execution of our strategy means for our financial performance in the near term and into the future as we strive to increase shareholder value. Some of the questions that I'll address are how soon will we see the benefits from this strategy manifest themselves in improved adjusted EBITDA and free cash flow? What will it cost to execute our initiatives and how will we fund them? And where will the returns from these initiatives be applied, reinvestment versus reducing leverage?

Before I get to a summary of the financial impact of our strategic initiatives on a go-forward basis, I'd first like to discuss some of our achievements over the past several months. Although this is the first time that our new management team has gone into detail on the go-forward strategy, we have not been idle. We've improved our business performance steadily over the year, highlighted by the following: strong script comp growth and improving front end sales, expansion of our PBM margins through better network management, and strong expense control.

While we still have to close the books for fiscal 2020, we have enough visibility into our performance to narrow our fiscal year 2020 adjusted EBITDA guidance range from \$530 million to \$535 million. We've also been hard at work on reducing our debt and improving our capital structure. Some of the steps we've taken include: the repurchase of certain bonds at a discount earlier this year, which resulted in a debt reduction of \$60 million;

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the recently announced securitization of our 2019 CMS receivable, which freed up \$450 million that we used to pay down debt; and improvements in inventory and payables management. As a result of these actions, we've improved our pro forma leverage ratio from 6.8x at the end of the second quarter of fiscal 2020 to an expected year-end pro forma leverage ratio of 5.3x.

We've also begun to address our 2023 maturities. On February 5, we closed an exchange of \$600 million of our 6.125% Senior Notes due 2023 for newly issued 7.5% Senior Secured Notes due 2025. This meaningfully improves our maturity profile by extending the maturity date of 35% of the 2023 notes by 2 years. We also ended fiscal 2020 with over \$2 billion in liquidity, which is more than enough to manage our business. These achievements have put us in a more stable financial position as we move into fiscal 2021. We expect our strategic plan to deliver meaningful value and grow adjusted EBITDA through driving revenue growth, particularly in our PBM and pharmacy businesses. We will also look to reduce cost, become more efficient and improve working capital, which will enable us to fund the investments needed to execute our strategy. We will also look to reduce our debt and improve our leverage ratio over the next 3 years, even as we invest in the business.

Our strategic initiatives are designed to drive organic growth, but we also have opportunities to be more efficient, including: improving our own brand penetration and reducing our reliance on promotional sales, both of which will improve our front-end margins; the consolidation of supporting functions at Rite Aid and Elixir into one corporate office; our renewed focus on driving down cost of indirect procurement, including using an outsourced vendor to help us better leverage scale and achieve a better line of sight into market cost; the expansion of our central fill capabilities, which will drive further labor efficiencies, which we can reinvest into freeing up pharmacists' time to engage with our customers; expansion of self-checkout to drive labor efficiencies and improve traffic in high front-end volume stores; rationalization of our call center facilities in both the retail and PBM business; and further reduction of high-cost circular advertising, which will reduce print and distribution costs. We will look to reinvest some of those savings into more efficient digital marketing.

As you can see, we have many initiatives that we are focused on to drive incremental value and grow efficiently. We expect these initiatives to drive cumulative savings of over \$300 million over the next 3 years. We expect to incur capital investments of \$700 million over the next 2 years. We will be disciplined in our investments, and we'll focus on initiatives that we believe will generate the greatest return. We will perform physical refreshes on all our stores, which will address the exterior look of our stores, including updated signage. We will also invest in fixtures and displays to support our merchandising initiatives. We plan to complete 75 Store of the Future remodels by the end of fiscal 2021, and we'll roll these out to additional markets over the next few years. We expect the average cost of these remodels to be \$600,000 per store. Our internal hurdle expectations for these remodels are 15% or more, and we will rigorously monitor our returns on these investments to ensure that we are investing our capital wisely.

We will also make investments in technology both in stores and at the PBM, as Justin described just a few minutes ago. And we will continue to aggressively spend on prescription file buys as they are an effective way to grow our script volume. Taken together, we expect our strategic investments to drive strong returns and enable us to grow our business. And despite our increased level of capital spend, I am confident that we can improve our leverage ratio over the next 36 months. While we will move forward to aggressively to implement our strategic plan, fiscal 2021 will be an investment year as many of the initiatives will take time to take hold. We do expect strong prescription count growth and a growth in revenues into PBM, driven by an increase in Med D lives and the addition of 300,000 new commercial lives, partially offset by cycling the loss of a couple of large customers.

We will look to control costs through the measures I've already noted. However, we will continue to feel the impact of reimbursement rate declines and will not be able to offset all that impact with drug purchasing savings. For fiscal 2021, we expect total revenue to be in the range of \$22.5 billion to \$22.9 billion. For our Retail Pharmacy segment, we expect same-store sales increases to be in the range of 1.5% to 2.5%. For our Pharmacy Services segment, we expect PBM revenue to be in the range of \$6.75 billion to \$6.85 billion. We expect adjusted EBITDA to be between \$500 million and \$540 million, and adjusted net income per share to be between a loss of \$0.22 and income of \$0.19 per share. The decline in adjusted EBITDA compared to 2020 will be primarily due to reimbursement rate pressure and the loss of \$38 million in TSA fees, partially offset by revenue growth and the cost savings initiatives that I described earlier.

We also expect to incur restructuring charges of approximately \$60 million in fiscal 2021, which will not be included in adjusted EBITDA. These charges include cost to relaunch the brand and the transition out of certain merchandise lines. We expect to generate cash flow from operations of \$400 million to \$450 million, which includes a working capital benefit of approximately \$200 million from our initiatives to reduce inventory and



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replenish more efficiently. We expect to incur \$350 million in capital expenditures to reinvest in the business, and we'll use the remainder to reduce debt. Please note that this guidance for fiscal 2021 does not take into any account any impact from coronavirus.

Over the next 3 years or by the end of fiscal 2023, we expect to achieve revenue growth in the PBM segment between high single digits to low double digits per annum. In our Retail segment, we expect to grow same-store scripts in the mid-single digits and front-end sales in the low single digits. We expect to improve margins in our front-end business through improved promotional effectiveness and own brand expansion. We expect to improve PBM margins as we better align our business model to deliver both value to our clients and to our bottom line. We will continue to reduce SG&A through back-office consolidation, finding additional labor efficiencies and becoming more aggressive and innovative in lowering our indirect spend. By achieving these growth levels and controlling expenses, we expect to grow adjusted EBITDA over the long term, even in a challenging reimbursement rate environment.

Our growth in adjusted EBITDA and our initiatives to improve working capital will enable us to generate free cash flow over the next 3 years. We also have the opportunity to monetize some of our own distribution centers and stores, which could generate proceeds of between \$200 million to \$300 million over the next few years. As a result, we expect our leverage ratio to improve to around 4x adjusted EBITDA by the end of fiscal 2023. While our immediate focus will be to invest in our strategic initiatives and pay down debt, we are open to using targeted M&A as a way to drive growth in the long term. It's important to remind everyone that while we're focused on reducing debt and improving our leverage ratio that we have no debt due until 2023. And as I stated earlier, we recently completed a bond exchange where we extended \$600 million of our debt due in 2023 until -- to 2025. We will take additional steps to address our remaining 2023 maturities over the next 12 to 18 months.

Before I conclude, I'd like to spend a few moments talking about our initiatives on the environmental, social and governance front. We recognize the importance of these issues to our customers, our associates and our shareholders. We have made a tremendous improvement in a short amount of time. We issued our inaugural corporate social responsibility report last June, basing it on the framework of the Sustainability Accounting Standards Board. We also substantially improved our ISS sustainability scores in all 3 categories: environmental responsibility, social responsibility and governance.

Our programs to expand the use of energy-efficient LED lighting in stores and upgrade of the refrigeration system in our ice cream plant are reducing electrical usage by 33 million kilowatt hours annually. The solar panels at our Lancaster, California distribution center produced 2.5 million kilowatt hours annually, which account for approximately 30% of the usage in that facility. Our waste reduction and resource conservation initiatives are diverting roughly 150,000 tons of recyclable material from landfills annually conserving more than 400,000 trees, reducing energy, water consumption and greenhouse gas emissions.

Our initiative to remove chemicals of concern from consumer products has achieved national recognition. Our commitment to raise awareness about drug abuse prevention and prescription drug safety is well documented. To-date, we placed 550 medication disposal kiosk in law enforcement facilities and in our stores. And we've removed 932 tons of unused medications by participating in DEA National (sic) [National Prescription Drug] Take Back Days. Our stores have also distributed some 163,000 disposed Rx packets that allow patients to safely dispose of unused prescriptions at home, and we have dispensed more than 77,000 doses of naloxone.

In addition, we've rolled out an innovative digital Prescription Drug Safety program that will reach more than 400 high schools in the communities we serve. In 2018, the Mind the Store Campaign named Rite Aid one of the most improved retailers in this area. And last year, they named us the #1 pharmacy retailer and fifth among all major retailers. We've made a lot of progress here, and we are just getting started. We recognize that ESG issues are important to customers, associates and shareholders. And we'll look to make further progress this year, whether it's with a focus on reusable bags, further emphasis on products with clean ingredients, a reduction in circular distribution or other initiatives.

In summary, we are confident in our strategy and our ability to execute our plan. While it is going to take time to execute our turnaround, we believe that our strategy is the right one to drive shareholder value through PBM revenue growth, script count and front-end sales growth, expense control and working capital management. This will allow us to invest in the business, reduce debt, generate free cash flow and grow our adjusted EBITDA.

Now I'll turn it back to Heyward for some closing remarks.



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**Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

First, I just want to say that I am personally committed to our environment, to our communities, and to being on the front lines of helping reduce addiction. It just so happens that our customers care about that, too. So thanks, Matt.

You've heard a lot today, and I hope you're as excited as we are about our strategy and plans to help our company, help our customers thrive and increase shareholder value. The key takeaways from today are our plans to become the dominant mid-market PBM, unlock the potential of our pharmacists and revitalize our retail and digital experience. Now I want to remind you of what I said earlier about the importance of revitalizing our brand, retaining its iconic elements but making it relevant for our new target growth demographic. So I'm really excited to share with you the first step in relaunching Rite Aid to the world. It starts with our new logo that reflects whole-being health and now for the big reveal.

(presentation)

**Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

Rite Aid, don't just get healthy, get thriving. This modern logo reflects the relaunch of Rite Aid as a fresh, reinvigorated brand, focused on whole-being health. Now before jumping into Q&A, we're going to take a 5-minute break to compile questions. Be back in 5.

(Break)

## QUESTIONS AND ANSWERS

**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Okay. We're back, everybody. This is Matt Schroeder. We are ready for questions and have a few coming in via e-mail. Please feel free to send some more in as we're going along here.

Our first question comes from Carla Casella at JP Morgan. The question is, how has traffic been faring even with social distancing? Would have expected a spike as people stock up, but has that tapered off? Do you have any plans for store closings or altered store hours?

**Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

Well, as I said earlier, we are up and running in all of the hotspots. So we're really on the front lines of understanding the impact of this. Our traffic is up significantly across the board. We did expect that. It's not only up in the stores, but as I mentioned before, we're up 10x our peak levels online. We do not currently have any plans for store closures or altered store hours.

**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Our next question comes from Lisa Gill at JP Morgan. The 30% of scripts for your PBM that you believe you could capture. Where are those scripts filled today? Do you have any preferred or narrow retail network offerings for your PBM today?

**Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

Lisa, I presume you're referring to the Envision 13% to 30% that we talked about, and -- Elixir, I should say. This is going to be a habit. We'll have to change. And so we think that this is a very doable number. Because when we look at the -- look at CVS Caremark, we believe that something like 40% of Caremark's prescriptions are filled through CVS retail. So we, as an organization, as I mentioned earlier, haven't historically done the

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integration work between Rite Aid and EnvisionRxOptions, now Elixir, that you would have expected just there's a lot of reasons for that. So we're really taking the opportunity to dig deep and really use the synergies that are available between the 2 organizations. Synergies in terms of administration, we talked about that before, but maybe, more importantly, synergies around what Rite Aid can do for Envision's customers. And so we think through a combination of preferred network, narrow network designs and custom solutions that really encourage people to go to Envision, not just because -- I'm sorry, to Rite Aid, not just because we want the scripts, but because we believe that the clinical offerings, the pharmacy-first strategy that we just talked about today, the new retail stores and the digital experience are going to be a really excellent customer solution for Elixir to offer in the market that has the added benefit of driving Rite Aid script share and clinical services as well.

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**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Another question from Lisa Gill at JP Morgan. Do you have any regional health plan relationships today? What is the size of this opportunity? And what would the relationship entail?

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**James J. Peters** - Rite Aid Corporation - COO

Lisa, thanks for the question. The reality is we have a number of very good relationships with regional health plans and have for some time. As far as the size of the opportunity, it's early days, but I can tell you this, that our strategy that you just heard was largely -- at least on the health care side that I presented in the beginning was largely driven and shaped by those numerous relationships and conversations and discussions we've been having with them. So we believe that as we position ourselves on those front lines, we will be in a unique position to increase health care value as a function of increasing quality and decreasing costs. And clearly, health plans are a major beneficiary of that effort. So in terms of economics, we have a business model that allows us to share in that economic benefit that we help create for those plans.

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**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Another question from Lisa Gill at JP Morgan. You're rolling out more home delivery with COVID-19. How much of that will stick post pandemic?

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**James J. Peters** - Rite Aid Corporation - COO

Well, thanks. I think it's important to note that we already offer delivery in nearly half of our pharmacies well prior to COVID-19. We do believe that the consumer will continually want more options for delivery, both in terms of delivery partners, delivery time frames and obviously, doing that at a cost that's satisfactory and market par. So as we further explore the impact of COVID-19, which is a day-to-day thing, the reality is our delivery strategy that's already in-flight is well supportive of it.

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**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Next question comes from Elizabeth Anderson at Evercore ISI. Focus on profitable Part D, what are you doing to change the strategy? Could you share more details?

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**Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

Sure. Thanks, Elizabeth. Personally, I have looked really, really hard at this business since I got with the company, mostly and initially because of my focus on leverage ratio reduction and our debt levels. And the reason being that there was a substantial receivable tied to this business. We -- now that we have sold that receivable or we have now looked at the business, putting this receivable aside as a business going forward and have concluded that the Medicare Part D business is very important to our business, particularly our growth in our commercial market sales with groups. And the shift, I think, that we're referring to is that it will be less on just pure membership growth and more on the right membership growth, the



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right mix, more choosers and fewer less members, as we call them. And then that will also drive geography selection as well and, most importantly, on how that business actually drives our enterprise EBITDA, enterprise meeting Rite Aid and Elixir.

**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Second question from Elizabeth Anderson. What does it mean to be going more into pet care? Is that prescription, pet foods, clinics?

**James J. Peters** - Rite Aid Corporation - COO

We're committed to taking care of the health and wellness of the entire family, including our 4-legged friends. Because we'll be offering services to support the whole family, getting medications in other limited pet products from us will actually allow for convenient one-stop shopping, both in-store and in line. So what we are doing is working to expand our selection of both prescription and over-the-counter products to support pets. Now look, we're not looking to become a petco. What we are looking to do is not only expand the pharmacy offering, but update our front-end selection for things like, as you mentioned, pet food that are limited, but very consistent with the very types of product attributes that we'll put out for humans, right? So organic, whole. Also, we already have in place an own brand that we feel will fit this niche perfectly. We will not be opening up wholesale pet clinics. So that is not something that we're looking to do.

**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Third question from Elizabeth Anderson. How has the coronavirus been impacting the different parts of your business, specifically broken out for PBM, pharmacy and front end?

**Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

So I mentioned the retail pharmacy and online. It has driven record levels in terms of sales and activity. In terms of our focus right now, our focus is customer first and keeping our associates healthy and building out contingency plans for the PBM business to ensure that they can continue to run their call center, mail order and specialty operations. We have not -- it's really too early to know what's going to happen even a month from now right now. So we are hunkered down on making sure that we can continue to serve all of our customers and keep our associates healthy. That's job one right now.

**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Yes. I would just add to that as to reiterate. This is Matt. As Heyward said, it's way too early to really say where this is going to lead us. Expect us to give more color on the impact of coronavirus on our financials when we report our fourth quarter earnings in mid-April.

Next question is from Karru Martinson at Jefferies. How are you looking at the 2023 maturity wall and the bigger picture of the capital structure?

Karru, this is Matt. I'll take this one. As we talked about -- I talked about in my part of the presentation, the 2023 maturity wall and handling that is one of my highest priorities, and we've already taken some steps to push that out. I do think we have the benefit of some period of time here in a 12- to 18-month range, where we can really think -- be thoughtful about how we handle the rest of that wall and how we get those maturities extended and taken care of in a cost-effective manner for us. As far as the bigger picture of the capital structure, we laid out a target leverage ratio of 4x by the end of fiscal 2023. I'm very comfortable with that leverage ratio. I think that is a leverage ratio that we can certainly manage through as a business. And that's really the focus for the longer term, and we'll work toward a capital structure that supports that leverage level.

Another question from Karru is why did you opt to sell the CMS AR?



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I'll take this one as well. Our Med D business is a really good business for us, as Heyward talked about, but it generates a significant receivable that builds during a calendar year and then it doesn't get monetized by CMS until the end of October or the next year. That receivable this past year build up to a level of almost \$500 million. And it's something that we had to finance through our revolver. The benefit of selling that receivable is twofold. One, it just frees up. It's a better -- in my mind, kind of a better financing of receivable because we're not using a revolver to handle it. And secondly, it gives us the opportunity over the next 10 months, while we're waiting for payment from CMS, to actually use those funds to either invest in the business or get our debt down. So I think the dual purpose of improving our liquidity and also getting debt paid down faster was the reason for doing so.

Next question is from George Hill at Deutsche Bank. We're a little surprised the company did not announce a big cost-cutting or reorg initiative. Does the company think it is rightsized? Or was there no big bucket of savings that could be identified and called out?

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### **Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

I'll start by answering this, and then I'll let you give some more specifics. This company has been cost cutting and reorganizing for a long time. I came here and I think I was chosen by the Board to grow the company, to -- this -- to grow it organically. And in order to grow this company organically, we do have to invest in the business. My job is to free out -- figure out how to free up the resource to invest in the business. And this can't come from new capital. It has to come from within, and we have to reduce debt at the same time. We can't save our way out of this situation. Now that said, we have saved a lot of money over the last few months and over the last year. And I believe that there is a lot more money to be freed up as we integrate the organization, as we continue our work on lean and as we continue to look at just the significant amount of what I would say is sort of low-hanging fruit in terms of cash, especially. But I just want to -- I'll let Matt talk about the cost cutting that is going on, but I don't believe that that's the cornerstone to the future of this company.

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### **Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Thanks, Heyward. Yes. I think I would just reiterate what Heyward said in that. We have cut a lot of cost out of this business over the last few years. We want -- in the retail side of the business, we run already a pretty lean labor model at the stores. I think if you were to look at kind of our cost per store on an SG&A basis, we're actually lower than the 2 larger chain drug players in the space. But we did -- we have laid out quite a few cost reduction initiatives that we're going to be working on, whether it's consolidation of our back offices, whether it's repurposing the call centers, whether it's a real focus on cutting indirect procurement cost. And the number I put out in the -- in my presentation of \$300 million over a 3-year period, I think, for a company our size is a pretty substantial number. But as Heyward said, this -- we have a strategy. It's a growth strategy. And we need to grow volume in all parts of our business for us to achieve the shareholder value that we think we can.

Another question from George Hill at Deutsche Bank. Given the rate cuts that are going on, does the company have an opportunity to refi some of its debt? If so, what is the opportunity there? Would the company think about a capital raise given the move in share price to address the capital structure?

So I'll take this one, George. I'll answer the second part of your question first. We believe that we can do the things we need to do to invest in the business and reduce our debt without having to do an outside capital raise. And we think that's important message to give to our existing shareholders. We don't believe there is a need to dilute the shareholder base to raise capital. As far as opportunity to refi some of its debt, I think the exchange we did back in February shows there's an appetite for our debt in the marketplace. And I think we have -- certainly have the ability over the time frame that I talked about to refi. Obviously, the last couple of weeks in the market and recent Fed rate changes, things are happening real time. So I don't want to focus or comment so much on near-term opportunities as more to say, we think over this 12 to 18-month period that we have to get this 23 maturity refi'd in we'll have plenty of opportunity to do so on good terms.

Next question from George Hill. What is your long-term outlook for pharmacy reimbursement rates? Is it down 100 basis points a year, a right way to think about it? Does the company see a reimbursement floor?



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George, this is Matt. I'll take this one, too. I don't want to, on this call, give a specific outlook for reimbursement rate declines. I would tell you that for fiscal 2021, we have a good line of sight into our rates. I think the levels of decline will be pretty consistent with what we saw in fiscal 2020. But beyond that, we aren't contracted. We believe that we can generate, through our growth initiatives and our expense reduction initiatives enough momentum here to more than offset the impact of reimbursement rates kind of past fiscal 2021. But I think it would be premature for me to sit here and tell you what I think the rate decline is going to be on a per annum basis long term.

Another question from George Hill. Can you talk more about what you see as differentiating characteristics for Elixir? Why will it win in the market?

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### **Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

Well, I've never been a PBM CEO before, but I have worked for 35 years with PBMs, reselling PBMs, negotiating with PBMs or wholesaling PBMs. And so I do have a fair sense for how this market has evolved, and I have a very talented team who are experts in the PBM business. From our point of view, we see the current state of the market as a bit of a dustup, in the sense that there are 3 very, very large dominant PBMs who are now owned by health plans, and there are -- there's this wide swath of middle market employer, commercial clients and regional health plans that have historically used the big 3 and are now looking for an alternative. And why are they looking for an alternative? Well, everyone's always looking for an alternative because it's good competition, better for our client to have choices.

Mid-market and regional health plans, in particular, want to feel appreciated and understood like everybody. And they want to feel appreciated and understood, in particular, with their PBM. And we think that -- well, first of all, let me say that we're one of the few mid-market PBMs that has the entire platform. We have the ability to offer completely the full set of solutions for a client. The adjudication platform, we have specialty pharma, mail order, Medicare Part D, the whole 9 yards. We negotiate our own rebates for -- in the Envision business. And so we have the ability to really control our destiny, and we have the scale to be competitive. So we see our abilities to develop, in particular, a leading platform, integrated and digital for our clients, allowing us to be innovative and nimble. And the thing that I personally think is most important at the end of the day is going to be how we demonstrate deep consumer engagement on an omnichannel basis to really move the needle on having our consumers, the members, picking the right low-cost, most effective drug. And at the end of the day, that's really the win-win for our clients.

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### **Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Next question is from Bob Jones at Goldman Sachs. The prescription growth expectations seem higher than what you've been able to achieve for some time. What specific actions of payers will lead to this acceleration of Rx growth?

So I'll start with this, Bob. This is Matt. First of all, I do think -- we do believe that there is some opportunity within the markets that we're in to think about how we can get more penetrated into preferred networks kind of on a regional basis where it makes sense of our density. But the other thing that I think they'd keep in mind is there are millions of patients today that have a choice of where they can fill scripts. And we are really focusing our clinical initiatives and our pharmacy initiatives on capturing those patients. And I think there's even more -- that number is only going to expand as you get into more high deductible plans, more people out there prescription shopping, using potentially more discount card programs that have more of an open network. So I think there's a combination of being smart about which regional preferred networks we get in, but also going after that large pool of patients that isn't restricted to where they can fill a script today.

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### **James J. Peters** - Rite Aid Corporation - COO

And Matt, I agree, and I would also add this, that often, we focus on script growth, which is critically important. But my view is often one of pharmacy growth with kind of a lower case p. And what I see there is that we've got really good, good traction already with extremely strong growth last year, over the past year with our focus on adherence, immunizations, MTM, and we'll build on that trajectory going forward, especially as we get our pharmacists much more involved. Further, as we expand into the model that we talked about before, being that frontline accessible, highly trusted care guide for our health care partners, including health plans, we will expect to create value and do expect to get paid for part of that value that we create.



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### **Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Another question from Bob Jones. How should we be thinking about the cadence of \$300 million in cost savings over the next 3 years? Should we expect all this will net to the bottom line?

Bob, this is Matt. I'll take this one. I would expect that, that we should start seeing some good cost savings this year, but I expect some -- that \$300 million to be somewhat back-end loaded because it's going to take a little bit of time for some of our initiatives to take hold. As far as all of it netting to the bottom line, we do have wage rate increases and benefit rate increases that are inherent in our SG&A. So I think the answer to that would be, I would expect a good portion of that to net to the bottom line, but there are inherent cost of our business in SG&A that we have to offset.

Next question is from Lisa Gill at JP Morgan. What does the Teladoc acquisition of InTouch mean for your relationship?

### **James J. Peters** - Rite Aid Corporation - COO

Lisa, yes, thanks. Teladoc, as you've stated, acquired InTouch, and we've had a very strong relationship with InTouch over the years. And we see this as a natural progression of our relationship. So for us, having InTouch, which we have ourselves vetted to be the technology partner of choice for our existing needs, having that acquired by Teladoc, which is certainly a broader, more national company, will truly be -- position us to be able to deliver on our promise at a scale that we expect to.

### **Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Next question is from Carla Casella at JP Morgan. Regarding the timing and ability to roll out the new stores and really the new remodels, I believe, how many can you do in a year? How long does it take to get to all stores? How does this differ from wellness+ remodels?

### **James J. Peters** - Rite Aid Corporation - COO

So it's really the question of not how many can we do, but how many will we do. And we're taking a very staged, phased, calculated approach to making sure that early days of Stores of the Future we give ourselves the opportunity to rapidly test and learn and then reincorporate those learnings into our market deployments, phase by phase. And certainly, over the next several years, we will look to deploy across markets throughout our entire footprint.

As far as wellness store remodels, look, they were terrific for us, because they provided learnings within those wellness store remodels, which in and of themselves are going to be incorporated into our initial pilots, what had worked, what didn't work. And by the way, as you may know, those wellness store models themselves did provide a positive hurdle rate for us. So what we did learn is that physical refreshes are actually a very important component to the remodels, and they do drive positive return. We also learned that we actually now going forward -- we have a great opportunity to take much bolder and substantive steps along the lines of redesigning our pharmacy and the pharmacy workflow. Because in the wellness remodels, we touched up the pharmacy, but that -- it was a superficial touch up. We did not change workflow. And frankly, we're now sitting here in 2020 with opportunities to incorporate things that are just much more every day factors in workflow, like e-prescribing. We will incorporate those new changes that, frankly, were not as much sensitive variables when we started these wellness remodels.

Second of all, we're going to not just refresh or touch up our merchandising, it truly is a merchandising overhaul. And I can't emphasize enough the impact of the overhaul on our long-term business, which I'm excited about. We know that we have to go beyond the physical store. We have to consider a really critical component of our Store of the Future to be the digital underpinning that makes it all work from a consumer experience standpoint. So that is a differentiated and much more elevated commitment from us on the Stores of the Future. And I guess, lastly, look, we have a lot of space, and we look forward to not using that space by filling it with more product necessarily, but by finding the actual partners within local markets that can fill a void for our consumers. And so you think about lease opportunities for us. It's a perfect opportunity to explore those partnerships.



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**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Next question is from Carla Casella. When should we expect the last WBA DC sale to be completed? And are we calculating it correctly that remaining value is \$97 million?

So Carla, the -- this is Matt. The TSA agreement with Walgreens ends in September of this year, and they are obligated to take the last DC before that time. The value of that DC and the proceeds we'll get for that distribution center is \$97 million. There is an inventory peg adjustment that comes at the end of the agreement as well that could -- that will probably net against that numbers a little bit, but we don't know what that number is yet. So more to come as we kind of finalize that work.

Next question comes from Carla Casella. You talked about a \$4 billion PBM market. How much of that do you see as addressable by a mid-market PBM like yours? Are there scale advantages or disadvantages?

**Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

Yes. Carla, the \$400 billion PBM market, I would say, the size of the prize is really somewhere in the neighborhood of 30% of that, making some broad stroke assumptions. Large health plans are in our target. They own these other PBMs. And even though some of these large PBMs are, I think, somewhat vulnerable to us and others from a competitive perspective, it's not likely that we will, nor is it our intent to or plan to take significant share from them. So what we're really trying to go after is the very large, let's call it, 25% of that market where there are a lot of smaller competitors, where the larger PBMs aren't particularly as focused or at least haven't been, that is still, obviously, a really huge market for us. And I do think that there are scale advantages for us of some significance. One, we will be very focused on this market. As I mentioned earlier, we have the full scale to compete. We don't have to -- we're not currently needing to utilize any other resources or partnerships for us to be able to offer this product to the market. We are very focused on creating our new integrated and upscaled technology platform and all of the other resources that we have internally. We're also happen to be partnered with a pharmacy -- a retail pharmacy, which additionally is an advantage. So I think for those that are going to go after the mid-market, the union business and the regional health plans, they will need scale. We do have it. So that's kind of how we view it.

**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Next question comes from Mike Minchak at JP Morgan. As it relates to the government's focus on drug pricing, PBMs have been criticized as being part of the problem of rising drug costs. How do you see potential regulatory changes impacting the PBM business model, whether it is on the state or federal level? How reliant is your EnvisionRx or Elixir business on rebates and spread pricing? Are you seeing any interesting contracting changes among your existing customers?

**Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

That's a lot of questions. Okay. Let me start by saying that -- and, Jocelyn, you can correct me if I'm wrong. There's been a lot of focus on drug pricing, but ironically, over the last 3 years, putting specialty drug aside, which is a whole different story, drug prices have been pretty flat. So it's kind of interesting that with all the health care cost trends going on in America, that the focus would be on drug pricing. Now I get it. Specialty drug is a whole another thing, and that is something that we all have to be worried about. So it's a mystery why PBMs have been criticized. Because, in fact, I mean, I'll never forget when there was really no generic dispensing in the United States. It wasn't so long ago -- I'm not a spring chicken, but it wasn't so long ago that I remember the first time we ever offered generics free in order to try to get people to use generics and now something like 90% of prescriptions that are filled are generics. So to me, really, I don't anticipate any potential regulatory changes impacting our PBM business model at this point, nor really just in general, so whether it's the state or the federal level.

We see more changes that would advantage us. We see changes now in the middle of coronavirus, where people -- where states are actually asking us to provide services that we were not even allowed to provide in the past. So if anything, there might be upside. So in terms of our Elixir business,

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Elixir is broken into 2 different PBMs right now, med impact -- I'm sorry, MedTrak, that was a Freudian slip. MedTrak and Envision are the 2 PBMs that currently operate within our EnvisionRxOptions or Elixir product portfolio today. And so MedTrakRx has largely been a more traditional PBM and has taken in rebates and offered and priced with spread pricing kind of functionality. Envision, the PBM, has historically been transparent, passing on the rebates and really just charging an admin fee. Going forward, ironically, we believe that our customers trust and want a more traditional PBM. So we will be migrating our business over time and offering new products that are on a more traditional type of platform and product offering.

**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Our last question comes from Carla Casella at JP Morgan. Do you see the need for M&A to grow the PBM or retail?

**Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

I do not -- well, let's say, I was going to say, I do not, in the short term, believe that we need to do any M&A activity to grow and nor are we counting on it in our projections. However, I have always viewed M&A activities as opportunistic and have never really sought them out aggressively because my focus is and always has been to grow organically. However, I do think that in the longer term, when we have our capital structure in a place where we're very comfortable, that we would use M&A to grow the PBM potentially and use file buys as our primary vehicle of growing our retail pharmacy.

**Matthew Schroeder** - Rite Aid Corporation - CFO & Executive VP

Well, thank you, everybody. We appreciate everyone joining us today, especially given all the disruption in the markets and in the world over the past 2 weeks. We are really apologetic that we could not be in New York for obvious reasons. But before I turn it over to Heyward, just want to say that when things kind of get back a little more to normal from a travel standpoint, we look forward to getting out on the road and meeting with more of you.

**Heyward Rutledge Donigan** - Rite Aid Corporation - President CEO & Director

Thank you. Thanks, everyone, for taking the time and joining us today. We really are disappointed because we had some great stuff to show you, and we had some merchandise to hand out, some really fun, on trend, safe and good for you merchandise to help you all get thriving. So we look forward to speaking to you on our fourth quarter and fiscal 2020 earnings call in April. We also look forward to serving you, and in the meantime, keeping our communities healthy. Thank you.

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