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RAD - Q1 2020 Rite Aid Corp Earnings Call

EVENT DATE/TIME: JUNE 26, 2019 / 9:00PM GMT

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PRESENTATION

Operator

Good afternoon. My name is Kelly, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Rite Aid First Quarter Fiscal 2020 Earnings Conference Call. (Operator Instructions) I would now like to turn the call over to Byron Purcell. Please go ahead.

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

Thank you, and good evening, everyone. We welcome you to our first quarter earnings conference call. On the call today with me are John Standley, Chief Executive Officer; Bryan Everett, Chief Operating Officer; Ben Bulkley, Chief Executive Officer of EnvisionRxOptions; and Matt Schroeder, Chief Financial Officer.

On today's call, John, Bryan and Ben will provide an update on the business, Matt will provide an update on our first quarter results and review guidance for fiscal 2020, and then we will take questions.

As we mentioned in our release, we are providing slides related to material we will be discussing today. These slides are provided on our website, www.riteaid.com under the Investor Relations Information tab. We will not be referring to them in our remarks but hope you'll find them helpful as they summarize some of the key points made on the call.

Before we start, I'd like to remind you that today's conference call 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 other documents that we file or furnish to the Securities and Exchange Commission. Also, we will be using certain non-GAAP measures in our release and in the accompanying slides. The definition of these non-GAAP measures along with the reconciliation to the related GAAP measure are described in our press release and slides.

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

John T. Standley - Rite Aid Corporation - CEO & Director

Thanks, Byron, and thanks, everyone, for joining us on today's call.

While first quarter results did not meet our expectations due to prescription reimbursement rate pressure in the Retail Pharmacy Segment and margin compression in the Pharmacy Services Segment, we are pleased with improvements in our top line growth and operating efficiency in the Retail Pharmacy Segment and Medicare Part D revenue growth in the Pharmacy Services Segment. We believe that enhancements made to the McKesson supply agreement, generic purchasing improvements, revenue growth and the benefits of actions we have taken to reduce costs should drive improved results in both segments for the remainder of the year. In addition, we recently formed 2 strategic partnerships that will help us better meet the needs of our customers heading forward. The key element of our strategy is to drive a digital transformation that delivers personalized and seamlessly connected experiences to our customers across all in-store and online touch points.

Last week, we announced an exciting new partnership with Adobe to leverage the Adobe Experience Cloud and helping us bring this vision to life. Through this partnership, we'll gain access to real-time personalization, deep customer journey analytics, content management and advertising capabilities to enhance our digital and marketing solutions while forming deeper relationships with our customers. This partnership will allow us to a combined Rite Aid health and wellness expertise with strategic guidance and operational support from Adobe specialists as we seamlessly connect our pharmacy, retail stores and online customer journey. We also know that expanding our own brand offering present a tremendous opportunity to grow our business while delivering outstanding value to our customers.

To help make the most of this opportunity, we've partnered with UNFI to introduce their Wild Harvest brand to Rite Aid stores in the second quarter. The Wild Harvest product line includes natural and organic items that will expand our current offering and further support our wellness transformation in the front end. Bryan will have more information on this partnership later in the call.

We're excited to be partnering with both Adobe and UNFI, and we'll continue seeking out best-in-class partnerships with industry leaders to accelerate innovation and provide engaging new experiences for our customers across all channels. As we transform our business, we're also making significant operational progress as reflected in our first quarter results for key areas of our business. Our continued success with clinical pharmacy services and other script growth initiatives help drive a strong 3.7% increase in same-store prescription count, which exceeded our expectations as our best script count performance in 4 years.

In the front end, we generated critical top line momentum in our focused front-end categories and delivered positive year-over-year growth of 0.3% when excluding cigarettes and tobacco products. And we continue to demonstrate good cost control as we also benefited from steps we've taken to reduce our cost structure, which allowed us to more than fully offset the anticipated reduction in TSA revenue. We achieved these results in the face of continued reimbursement rate pressure.

We expect our quarterly run rate of EBITDA to improve as we complete our generic bidding activity, and those cost savings are fully recognized in our results. In our Pharmacy Services Segment, results for our EnvisionRxOptions PBM were impacted by margin compression in the commercial business and key investments we're making to support current year and future growth. At the same time, we continue to see strong growth in Medicare Part D revenue and are excited about the progress we're making in the current 2020 commercial selling season. We're also improving operational efficiencies as we look to further leverage the unique offerings of Envision in delivering a higher level of patient care.

Looking ahead, we're taking significant steps to transform our business and deliver enhanced customer experiences as we accelerate our Path to the Future initiative. These efforts are helping us identify significant opportunities to drive further growth and operating efficiency and include building solutions to work with regional health plans to improve patient health outcomes; optimizing SKUs in our front-end offering to free up working capital, improve front-end profitability and improve the customer experience; assessing our pricing and promotional strategy; and a continued review of our cost structure, which includes opportunities to use technology and vendor partners to help reduce cost. While still early in the process, we expect these initiatives to drive significant value into fiscal 2021 and beyond while reducing our reliance on traditional pharmacy reimbursement rate models.

With that, I'll turn it over to our Chief Operating Officer, Bryan Everett, for additional details about our go-forward strategy and an update on our key initiatives. Bryan?

Bryan B. Everett - Rite Aid Corporation - COO

Thank you, John, and thanks again to everyone for joining the call.

I'd like to start by saying that I'm excited by the momentum we're building as a team and optimistic about the opportunities ahead of us as we begin to see our transformation come to life. A key highlight has been our success with clinical pharmacy initiatives that helped us deliver our fourth consecutive quarter of same-store prescription count growth and, as John mentioned, our best performance in 4 years.

Additionally, we were able to follow up last year's record number of immunizations by nearly doubling our first quarter ancillary immunizations, which protect our customers against conditions like shingles, pneumonia, measles and whooping cough. To accelerate this growth, we're providing additional prompts for ancillary vaccines like Tdap. I'd like to thank our dedicated pharmacy teams for providing a high level of care and service to our customers resulting in this business growth.

In addition to this organic growth, we also continued to invest in prescription file buys and have an increased plan of $60 million for fiscal year '20. We'll continue to closely monitor the marketplace for file buy opportunities.

Additionally, we continue to work with our payer partners to gain access to limited and preferred networks. As part of this effort, we recently regained access to Anthem's managed Medicaid networks. Our continued success in these areas will be critical as we implement our Path to the Future strategy and work to help payers provide a higher level of care. To achieve this, we will continue to focus on driving operational efficiencies that free up time for our pharmacists to deliver best-in-class clinical pharmacy services through our AIM strategy. We believe these pharmacy services represent our gateway into value-based care and our best opportunity to drive positive patient health outcomes.

We are also generating important momentum in the front end. Quarter 1 was the first quarter in 12 quarters that we delivered positive front-end same-store sales minus cigarettes and tobacco products. We have particularly strong sales in consumables, personal care and OTC items while also benefiting from the Easter shift. As we reimagine our front-end business, we continue to expand our health and wellness offering by introducing additional better-for-you items, including more natural, organic and cleaner or free-from products. As John mentioned, we recently entered into an agreement with UNFI to add over 180 new Wild Harvest food items to the majority of our stores. The Wild Harvest line is a brand of natural and organic items and starts to hit store shelves next month.

Another area of focus on the front end continues to be growing own brand penetration over the next few years. We believe this area presents enormous potential, and our go-forward plan introduces new items, enhances our product mix and additional consideration to how we market and promote these items. One example of our own brand focus is the successful recent expansion of our iconic Thrifty Ice Cream brand to Idaho, Oregon and Washington. We are currently planning to expand the Thrifty Ice Cream brand to additional markets in the East. We are also gearing up for the relaunch of our best-selling Rite Aid Pharmacy OTC brand later in the second quarter. Also during the first quarter, we began piloting the sale of CBD creams, lotions and lip balms at Rite Aid stores in Oregon and Washington to better meet the needs and preferences of our customers in those communities. Response from customers has been positive so far.

In April, we announced plans to remove e-cigarettes and vaping products from all stores while also increasing the age to purchase tobacco products to 21 throughout the chain. We stated that we would implement both of these changes within 90 days. We are ahead of schedule on meeting both of those commitments and plan to have these changes fully implemented by July 1.

As we focus on delivering a higher level of care in the pharmacy and transforming our front-end business, we also know that today's consumers want to engage with brands in a number of different ways. Our digital business, although relatively small, grew 115% in the first quarter and continues to be an important priority for the company. We're excited to be creating an innovative retail offering that enhances our in-store experiences and creates a seamlessly connected journey for our customers across all touch points.

Our partnership with Amazon to launch Amazon Lockers at Rite Aid stores will help us take these efforts to an even higher level. Through Amazon Lockers, customers can visit select Rite Aid locations to pick up their Amazon packages from a secure locker. Today, we've installed Amazon Lockers at over 300 store locations, and our plan is to have this pickup option available in 900 stores by the end of quarter 2. We've seen an increase in customer traffic in those stores and expect that to continue with the rollout of additional locker locations.

A key aspect of our strategy is to grow our business by driving additional traffic into our existing network of stores to experience our retail offering and the high level of service and care we provide. We believe that new initiatives like Amazon Locker give us a tremendous opportunity to achieve this critical objective.

In addition to our same-day, no charge prescription home delivery for wellness+ gold and silver members in the majority of our markets, we expanded our Instacart pilot to additional stores during the quarter as we continue to test this online and mobile app driven service to further enhance our home delivery capabilities. As we look to seamlessly connect our in-store and digital experiences, we're excited about our strategic partnership with Adobe and believe it will be a game changer in how we engage with our existing customers and attract new customers. By leveraging Adobe Experience Cloud and the expertise of the Adobe team, we'll be able to deliver highly personalized digital marketing offers and also make it easier to navigate and shop on our app and website in addition to the caring moments that our associates deliver to customers in store.

To help lead our marketing and merchandising transformation, we're pleased to welcome Erik Keptner, who has been named to the newly created position of Chief Marketing and Merchandising Officer and officially joined our team earlier this week. Erik is an experienced retail executive who has proven that he can integrate and manage all aspects of an organization's marketing and merchandising assets to provide great customer experiences, operate efficiently and deliver growth. We're pleased to have Erik join our team and believe that combining the responsibilities of marketing and merchandising under one leader will help us further accelerate our efforts to create a seamlessly connected customer experience.

As I conclude my remarks, I want to take a moment to sincerely thank our Rite Aid store associates, sales leaders, distribution center partners and corporate team members for all that they're doing. I'm truly inspired by the passion that our associates have as I visit our stores and distribution centers and engage with our teams. Day in and day out, Rite Aid associates are working to bring our mission of improving the health and wellness of our communities to life and embracing this opportunity to test and learn from new initiatives. I look forward to working with our team as we accelerate our Path to the Future strategy and position our company for growth.

At this time, I'd like to turn it over to EnvisionRxOptions' CEO, Ben Bulkley, for an update on the Pharmacy Services Segment. Ben?

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

Thank you, Bryan. Despite the margin compression John mentioned in the EnvisionRx first quarter results, we feel good about the progress we're making to grow our business. We're substantially ahead of prior year period in lives, one, in our commercial lines as well as in our Part D plan. The margin compression in quarter 1 is attributable to a few large off-market contracts that did not renew last year. The bulk of the unfavorable year-over-year comparison will play out this year. I'm pleased to say we've renewed a number of very important client contracts in this last period as a result of a more disciplined account management process. We are also in process of modifying several contractual relationships that we expect will contribute positively to EBITDA in quarter 2 and beyond in fiscal year 2020.

Our progress in attaining more lives in the commercial business is because of our position as an independent pharmacy services alternative offering a transparency model. Not only do we see it in the numbers, but the clients and prospects I continue to meet share their strong support for EnvisionRx as an essential option in the marketplace. There are also from these conversations very clear ways we can extend our relationship and enhancing our services and new product capabilities.

I've had the opportunity to spend more time with our technology and Laker teams. Technology is of course a key enabler of all of our businesses. Our adjudication systems capability remains a strong core in which we can build. Our strategy looking forward is to increase our technology investments to enhance our platform and add new revenue sources to the business. We're in a unique position to introduce capabilities to certain segments of the market because of our pass-through model.

To support our continued growth and our investments is a step-up in operational excellence as a way of doing business. There are significant opportunities for us to simplify the business, to limit the rework and improve quality for our teams and clients. We're very excited by the progress we're making here. Ultimately, our growth will always be based on providing better and better levels of service, delivering innovative new products and of course, disciplined execution.

I'd like to provide some additional details to the results of the efforts towards continued growth in the Medicare Part D enrollment. All told, over the past calendar year, we've gained approximately 108,000 lives in the Part D sector and now have roughly 648,000 enrolled Part D members for plan year 2019. Additionally, since the close of the plan year 2017, we have now increased our Part D membership total by well over 250,000 lives. In other words, the strategic decisions over the last few years are continuing to pay off. Most notably, our number of chooser members in our Med D plans has increased from 77,000 in calendar 2016 to 364,000 today.

As with Medicare Part D enrollment, specialty pharmacy continues to be an important opportunity in our go-forward strategy, and Envision specialty first quarter revenue continued its growth in this key area of our business. Year-over-year, specialty revenues for the first quarter are favorable by approximately 23% compared to the first quarter of the previous year. We're also excited about the progress in the current 2020 commercial selling season with several regional and health plan RFPs in-house, a number of finalist opportunities and new regional health plans already in place. We now project our commercial membership total to increase by approximately 320,000 lives year-over-year and have several exciting prospects in the pipeline. Envision is well positioned to take advantage of the consolidation that is occurring in the marketplace. On balance, we're very enthused by the progress we're making and the prospects for future growth.

Thank you for your time. Now I'll turn it over to Matt Schroeder, our Chief Financial Officer, for more information on our financial results.

Matthew Schroeder - Rite Aid Corporation - CFO

Thanks, Ben, and thanks to everyone for joining us today. On this evening's call, I'll walk through our first quarter results and review our fiscal 2020 guidance.

Revenues for the quarter were $5.4 billion, which were essentially flat to the prior year's first quarter results. Net loss from continuing operations was $99.3 million or $1.88 per diluted share versus a net loss from continuing operations of $41.7 million or $0.79 per diluted share in the prior year's quarter. Current year net loss was impacted by severance and restructuring charges related to our strategic initiatives and a reduction in adjusted EBITDA. Adjusted net loss in the current quarter was $7.5 million or $0.14 per diluted share versus adjusted net income of $1 million or $0.02 per diluted share in the prior year quarter. Our decline in adjusted net loss was primarily due to a decline in adjusted EBITDA, which was $110.3 million in the current quarter compared to $138 million in the prior year quarter. This was partially offset by a reduction in lease termination and impairment charges due to store closures in the prior year's quarter.

Retail Pharmacy Segment revenue for the quarter was $3.86 billion, which was $33 million lower than last year's first quarter. Our increase in same-store sales was more than offset by the impact of store closures. Same-store sales increased 1.4% in the quarter. Front-end same-store sales were down 30 basis points, and pharmacy same-store sales increased by 2.3% with same-store script count up 3.7% on a 30-day adjusted basis.

Total Retail Pharmacy Segment gross profit dollars in the quarter were $39 million lower than last year's first quarter, and gross margin was 78 basis points lower as a percent of revenues. Adjusted EBITDA gross profit was unfavorable to last year's first quarter by $43.8 million and 90 basis points worse as a percent of revenues. We faced continued reimbursement rate pressures during the quarter that we were not able to fully offset with generic cost savings and same-store prescription count growth. As noted on our release, $12.5 million of the reimbursement rate decline was due to an adjustment to our estimated exposure for our retroactive billing from a state Medicaid agency.

Retail Pharmacy Segment SG&A expense for the quarter was $6.9 million and 41 basis points higher than last year's first quarter. The increase in SG&A expense was driven by an increase in restructuring-related charges that were offset by an improvement of $23.7 million or 40 basis points as a percent of revenue in adjusted EBITDA SG&A. Our adjusted EBITDA SG&A improvement was driven by strong labor and expense control, including the effect of our previously announced restructuring, partially offset by lower TSA fee income from Walgreens.

Our Pharmacy Services Segment had revenue of $1.57 billion, which was an increase of $23 million or 1.5%. The increase was due to an increase in our Medicare Part D revenues. Adjusted EBITDA for the Pharmacy Services Segment of $26.3 million was $7.5 million lower than last year's first quarter adjusted EBITDA of $33.9 million. Gross profit and margin were negatively impacted by margin compression in our commercial business. The decline in adjusted EBITDA was also driven by increases in SG&A expense as we continued to invest for future growth.

Our cash flow statement for the quarter shows the use of cash from operating activities of $51 million. We funded the annual employer 401(k) matching contribution and bonus payments which normally have a negative impact on cash flow in the first quarter. Timing of receivables and payables also had an impact. We expect our cash flow from operations to fluctuate from quarter-to-quarter due to seasonal inventory builds in our retail business and the timing of the build of the current year CMS receivable, which occurs primarily in Q2, versus receipt of the prior year receivable from CMS, which occurs in Q3. We expect to generate positive free cash flow this year due to initiatives to reduce inventory and improve payable terms.

Our debt balance net of cash was approximately $3.4 billion at the end of our quarter, and our pro forma leverage ratio was 6x adjusted EBITDA, which takes into account the pro forma impact of the sale proceeds from the remaining distribution centers to Walgreens. Our liquidity of approximately $1.7 billion at quarter end was very strong. And with no debt maturing until 2023, we have the flexibility and runway to execute our strategic initiatives.

Turning to fiscal 2020 guidance, which we are confirming at this time. Our guidance assumes a continued decline in prescription reimbursement rates partially offset by prescription count growth, improvements in drug cost and continued strong SG&A expense control. We expect our quarterly run rate of adjusted EBITDA for fiscal 2020 to improve given expectations for same-store prescription growth, the timing of drug purchasing improvements and actions we are taking to reduce cost. We expect total sales to be between $21.5 billion and $21.9 billion and same-store sales to be in the range of flat to an increase of 1%. We expect adjusted EBITDA to be between $500 million and $560 million. We expect adjusted net income to be in the range of a loss of $0.14 per share to income of $0.72 per share. Our net loss guidance includes an estimate of $55 million for restructuring expenses related to the rightsizing of our organization that we announced last quarter and our transformation initiatives. A large portion of the restructuring expense is for severance cost for head count reductions which were largely recognized in the first quarter. However, the restructuring expense estimate may be refined in future quarters as we further develop these transformation initiatives. Keep in mind that this restructuring expense is not part of adjusted EBITDA or adjusted net income.

Our fiscal 2020 capital expenditure plan is to spend $250 million, which includes $60 million for script file buys and investments in technology designed to accelerate our digital and omnichannel offering. We are planning to open or relocate 8 stores and remodel 70 stores in fiscal 2020.

This completes my portion of the presentation. And I'll now turn it back to John.

John T. Standley - Rite Aid Corporation - CEO & Director

Thank you, Matt. Before we open the phone lines for questions, I just like to state that as a company, we have a tremendous opportunity to build on our momentum in key areas of our business and ultimately redefine what it means to be a neighborhood destination for health and wellness. We have a strong foundation for growth thanks to our trusted and well-known brand, award-winning customer loyalty program, innovative wellness store format and expanded offering of clinical pharmacy services. We have a clear and customer-focused strategy that leverages our strongest capabilities and capitalizes on our biggest opportunities to deliver value in the retail health care marketplace. We have ample liquidity and a cost structure that's much better aligned with our current operations, which gives us the time and flexibility we need to execute this strategy. And we have an outstanding team of talented Rite Aid associates who are passionate about delivering a great experience to our customers.

When combined with our new strategic partnerships and the investments we're making to transform our business, we believe we're on the right path in positioning Rite Aid for future growth.

That concludes our prepared remarks for the call. We will now open up the phone lines for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Lisa Gill from JPMorgan.

Michael Roman Minchak - JP Morgan Chase & Co, Research Division - Analyst

It's actually Mike Minchak in for Lisa this afternoon. Just in terms of the discussion around new value-based pharmacy reimbursement models, we've heard yourself as well as some of the larger payers have been talking about that. I'm just wondering if you could talk about what those models might look like. I mean should we be thinking about incremental payments for keeping patients herein? Or would you be going at risk for some component of your reimbursement? And as we think about those models, when do you expect them to be implemented more broadly? Is this a calendar 2020 impact? Or are we thinking more 2021 and beyond? And then as a follow-up to that, how should be thinking about the profitability of those models versus the current model?

John T. Standley - Rite Aid Corporation - CEO & Director

Well, our goal is to drive profitability up over time. So the current sort of gross margin retail reimbursement models are pretty painful obviously based on our recent results. So our goal is to find additional ways to create value here and get paid for it. I think there's a few different things that we're working on. Today, we do participate through Medicare Part D and certain performance-type networks. Honestly, oftentimes, they're designed in a way that makes it difficult for us to really achieve any gainsharing. So our goal is really to try and come up with some ways that drive value for both payer partners and Rite Aid. We can do that based on kind of specific type measurements, things that drive star ratings, close gaps in cares -- in care and do things like that and find a way to get compensated for that. Some of that could be at risk potentially. But we can also be focusing more broadly on outcomes as well, and we've had a model like that in the marketplace previously. So I think we're kind of running down some parallel paths to really find the right solutions that meet the needs of our regional partners in the payer space.

Bryan B. Everett - Rite Aid Corporation - COO

Mike, it's Bryan. I might just add that it is probably as an FY '21, calendar year '20 in terms of when we realize some of that additional income.

Michael Roman Minchak - JP Morgan Chase & Co, Research Division - Analyst

Got it. And then just wondering if you could provide any more color on the PBM selling season. Where do you stand in terms of your retention rate? How much of your book is left to be renewed for 2020 at this point? And then obviously, with all that's going on in the marketplace, your pass-through pricing model is probably seeing a lot of interest there. Is that interest sort of broad-based across all customer verticals or sort of limited to a certain customer category?

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

It is across all segments we're seeing it. And we're nearly double the place we are now versus last year in our progress, so we're seeing really good momentum here. And we continue to see the pipeline growth, so we feel really good about that. Retention rates are above our goals actually, so we feel good about overall where we are.

John T. Standley - Rite Aid Corporation - CEO & Director

A piece of the book of business, right, for this year?

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

That's right.

Operator

Your next question comes from the line of Robert Jones from Goldman Sachs.

Kevin Hartman - Goldman Sachs Group Inc., Research Division - Business Analyst

This is actually Kevin Hartman on for Bob today. So just first, your adjusted EBITDA guidance would appear to require a pretty meaningful ramp in growth off 1Q levels even though you'll have to manage through the TSAs potentially rolling off in the back half. So obviously, the retroactive billing won't repeat. But outside of this, could you give more specifics on the base drivers of the ramp in growth and what you think the biggest swing factors might be between you getting to the high end versus the low end of guidance?

John T. Standley - Rite Aid Corporation - CEO & Director

Sure. I'll start, Matt, and you can clean up on this one. The first thing is we have reimbursement rate changes go into effect in the first part of the year. We are now largely through our biggest generic bit of the year. It's coming in line or maybe just a little bit better than our expectations. So we have the value of those generic savings for the remainder of the year. We continue to have script count growth, which is going to help us push this thing forward. We're making really good progress on cost savings, and we believe we have things lined up here which will continue to fully offset the TSA fees as they ramp down later in the year. So although the first quarter obviously isn't where we wanted it to be, I think a lot of the things are lining up the way we expected to hit our results down the stretch here.

Matthew Schroeder - Rite Aid Corporation - CFO

Yes. The only thing I would add -- a couple of things I would add to that, Kevin, are we expect to see continued strong prescription count growth, and we reference getting back into some plans this year to actually going to help further drive that prescription count growth. So I think that's going to be a positive. And then on the PBM side, there's -- some of the benefits on drug costs that we talked about are also going to flow through onto the PBM as well in addition to some of the adjustments that Ben talked about in his commentary.

Kevin Hartman - Goldman Sachs Group Inc., Research Division - Business Analyst

And then quickly on -- you guys had mentioned last quarter, there was an open reimbursement contract, I think, for fiscal '20 which you were still working through. I was just wondering if you can give us a quick update on how that's going, if it's completed and if it was within what you were expecting.

John T. Standley - Rite Aid Corporation - CEO & Director

Still working on it. Yes.

Operator

Your next question comes from the line of Carla Casella from JPMorgan.

Carla Casella - JP Morgan Chase & Co, Research Division - MD & Senior Analyst

Can you give us what the amount of the TSA was in the quarter?

Matthew Schroeder - Rite Aid Corporation - CFO

We -- the TSA fee was probably about $14 million, Carla, down about $9 million from last year.

Carla Casella - JP Morgan Chase & Co, Research Division - MD & Senior Analyst

And is that a good run rate for the whole year?

Matthew Schroeder - Rite Aid Corporation - CFO

No. It's going to ramp down even more throughout the year as we have stores roll off the TSA.

Carla Casella - JP Morgan Chase & Co, Research Division - MD & Senior Analyst

Okay. And then...

Matthew Schroeder - Rite Aid Corporation - CFO

I think what we said publicly, Carla, is we expect the TSA income this year to be about $40 million, about half of what it was last year. So...

Carla Casella - JP Morgan Chase & Co, Research Division - MD & Senior Analyst

Okay. Okay, that's great. And then on -- you mentioned that there are a few large off-market contracts that you didn't renew. That's all Pharmacy Services, right, that's what you're referring to?

Matthew Schroeder - Rite Aid Corporation - CFO

That's correct.

Carla Casella - JP Morgan Chase & Co, Research Division - MD & Senior Analyst

And did that -- should that help gross margin going forward? Or -- I mean we didn't see it impact the gross margin this quarter. Is it something that's late in improvement? Or how should we think about it going forward? And are there others that you're considering not renewing going forward?

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

This year -- so experienced it this year, it's dilutive. Next year, we will not feel that effect.

John T. Standley - Rite Aid Corporation - CEO & Director

So it's a contract -- just to back up, it's primarily one larger contract, but there's a couple I guess, but one larger one, and it's a client that didn't new last year, correct. Last year, this was -- these were not competitive. It's -- they simply didn't renew.

Carla Casella - JP Morgan Chase & Co, Research Division - MD & Senior Analyst

Okay. And the amount of the FILO outstanding, is that still $450 million, the face value?

Matthew Schroeder - Rite Aid Corporation - CFO

That is correct. Yes.

Carla Casella - JP Morgan Chase & Co, Research Division - MD & Senior Analyst

Okay. But your liquidity number, the $1.7 billion, is that FILO included in your ABL availability?

Matthew Schroeder - Rite Aid Corporation - CFO

So the -- no, the availability calculation is really based upon how much more we can draw on the revolver, Carla. There's a borrowing base component in the credit facility that also basically works into the FILO. But at the end of the day, the $1.7 billion is additional draws we can do on the revolver.

Operator

Your next question comes from the line of William Reuter from Bank of America Merrill Lynch.

William Michael Reuter - BofA Merrill Lynch, Research Division - MD

It sounds like you've made some good progress on the commercial side on Envision. I think that you've accelerated the number for the 2020 season from last quarter. Is that number a net number or a gross number? And I guess do you expect to -- if it is a gross number, do you expect it to be offset by any losses?

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

It's a net number including our projected sales through the rest of the year. And it does include expected and anticipated losses. The good news is we've signed the most important contracts at this point for renewal.

William Michael Reuter - BofA Merrill Lynch, Research Division - MD

Okay. That's helpful. And then will there be any changes in terms of your Medicare Part D preferred networks for 2020 plan year? Do you have an expectation there?

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

I mean we're always adjusting. There's not a substantial change in our strategy there.

William Michael Reuter - BofA Merrill Lynch, Research Division - MD

Okay. And then just lastly for me. I think that you will continue to get proceeds from the sale of the DCs to Walgreens. Do you have an expectation -- and I think it's $160 million. Do you have an expectation for when you will be receiving those?

Matthew Schroeder - Rite Aid Corporation - CFO

Will, this is Matt. We -- under the TSA agreement, we would not receive -- we don't have -- Walgreens doesn't have to take possession of these DCs until the end of the TSA, which is October of 2020. So the receipt of those proceeds could be as late as then.

Operator

Your next question comes from the line of Karru Martinson from Jefferies.

Karru Martinson - Jefferies LLC, Research Division - Analyst

Just on the $12.5 million charge for the retroactive billing, could you provide a little more color? Is that cash going out the door here in the next quarter or 2 or -- and does that fully cover you? Or will there be additional adjustments there?

Matthew Schroeder - Rite Aid Corporation - CFO

So Karru, it's cash that's going to go out the door here probably over the next 6 to 12 months depending on the timing of all the retroactive buildings. We've made our best estimate of what we think the full amount of those retroactive billings is going to be. Until we kind of get the final billings number, can maybe move a little bit off of that, but I'm pretty confident with the $12.5 million.

Karru Martinson - Jefferies LLC, Research Division - Analyst

Okay. And then when you talk about in the PBM, investing for future growth, is this kind of the SG&A run rate that we should be using going forward? Or are these kind of one-time investments that enhance the scalability and then you can kind of leverage the growth off of that?

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

It's actually a little bit of both. It's elevating some that cover the volume increases, but there are some additional investments in our systems and our process capabilities so we can scale with this increased volume.

Karru Martinson - Jefferies LLC, Research Division - Analyst

Okay. And just lastly, could you provide an update on the CEO search?

John T. Standley - Rite Aid Corporation - CEO & Director

I can. So our Board has retained a nationally recognized search firm to assist with the search process. And with their assistance, the Board has identified several qualified candidates. The Board is currently working through the interview and selection process, recognizing that the search is the Board's highest priority. The board is making significant progress towards selecting a strong leader that will help Rite Aid be successful.

Operator

And we have one last question remaining. Your last question comes from the line of David Kuck from Wells Fargo.

David William Kuck - Wells Fargo Securities, LLC, Research Division - Research Analyst

It's Dave Kuck on for Bryan. Want to first touch on the retail side. I'm curious, in the quarter, did you all see an impact to sales with regard to your pitched Tobacco 21 move as well as your move to no longer sell vape and e-liquid products? Or is that just kind of organic consumption declines?

John T. Standley - Rite Aid Corporation - CEO & Director

Yes.

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

Yes is the answer to your question.

John T. Standley - Rite Aid Corporation - CEO & Director

So that's why if you kind of take those things out, the comp actually flips to positive, so we've kind of given you the impact there. We're minus 30 bps with it, and we were positive 30 without it.

David William Kuck - Wells Fargo Securities, LLC, Research Division - Research Analyst

Okay. And then the stores with the Amazon Lockers, any way you can provide kind of a relative lift in sales at the stores where you have those?

John T. Standley - Rite Aid Corporation - CEO & Director

First of all, we can see they're getting utilization from data that we get back. We need a little bit of time here to kind of quantify and measure the sales impact of this thing. So you've got to give us a little time to work, and we'll see how it goes.

David William Kuck - Wells Fargo Securities, LLC, Research Division - Research Analyst

Okay. And then the Pharmacy Segment -- Services side, I guess similar to Karru's question, the growth kind of related SG&A investments that's been a theme for a while now, I guess, at what point do those kind of level off?

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

I think that we'll continue to see additional investments because we want to accelerate our growth. I think we'll begin to see some of it level off towards the end of this year, but we'll also know a lot more coming into next year on our deselling -- selling season. So we may make some adjustments if we have a significant -- significantly higher uplift.

John T. Standley - Rite Aid Corporation - CEO & Director

So you're going to continue to be a little elevated year-over-year. But in terms of run rate, you're in a pretty good place except for whatever you might do to bulk up a busy season, right?

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

That's right.

John T. Standley - Rite Aid Corporation - CEO & Director

Yes. So I think we're kind of -- I think we're getting close to a steady-state. I think there's also some opportunity for efficiency that they're thinking about. And then it depends on how we do in Med D and whatnot, what enrollment looks like, but we may have to throw on some temporary help just to get through open enrollment and things like that.

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

Which is typical.

John T. Standley - Rite Aid Corporation - CEO & Director

Which is typical, yes.

David William Kuck - Wells Fargo Securities, LLC, Research Division - Research Analyst

Okay. And then lastly, the $43 million of addbacks for restructuring charges, what percentage of that or what amount of that is a cash restructuring charge?

Matthew Schroeder - Rite Aid Corporation - CFO

It's predominantly cash restructuring charges. It's -- but one thing to keep in mind is a lot of that severance cost, we're recognizing the expense upfront, but the actual payments are going to happen -- kind of come out over a period of time.

John T. Standley - Rite Aid Corporation - CEO & Director

Okay. Well, I think that is all the questions that we have for this evening. So thanks, everyone, for joining us. We appreciate it.

Matthew Schroeder - Rite Aid Corporation - CFO

Thank you very much.

Benjamin Earle Bulkley - Envision Rx Options Holdings, Inc. - CEO

Thank you.

Operator

This concludes today's conference call. You may now disconnect.