

# Pharmacy and Drug Stores

## INDUSTRY OVERVIEW

For the past several years, the pharmacy and drug store industry has been impacted by the conversion of brand name drugs to lower-priced generic versions, which has negatively impacted pharmacy sales on a dollar basis, but has had a positive impact on gross margin. In order to offset sales declines, pharmacies are focusing on additional ways to drive revenue.



## TREND TRACKER

Pharmacy NOLVs	Consistent
Pharmacy Sales Trends	Mixed ↕
Pharmacy Gross Margin	Mixed ↕
Script Valuation	Consistent
Front End NOLVs	Consistent
Front End Sales Trends	Mixed ↕
Front End Gross Margin	Mixed ↕
Front End Discounting	Mixed ↕

**NOLVs:** Most NOLVs have remained relatively consistent.

**Sales Trends:** Sales trends have been mixed in recent months, with some companies increasing, and others declining, depending on the region and product mix.

**Gross Margin:** Gross margin has been mixed; however, many retailers in the industry have experienced improving gross margin due to the transition to generic drugs.

**Script Valuation:** Script values have remained relatively consistent.

## KEY INDUSTRY DRIVERS

- **Specialty drugs:** In order to offset declines in sales dollars, many retail pharmacies have been working to offer an increased assortment of specialty drugs. These drugs often treat rare or chronic diseases, and carry much higher prices. Retailers dispensing specialty drugs are often required to obtain certain licenses and offer related services, such as infusions.
- **Affordable Care Act:** Pharmacies have yet to feel the full impact of the Affordable Care Act as many people struggled to sign up and purchase individual coverage via the healthcare marketplace during the fourth quarter. Additionally, some parts of the Affordable Care Act have been delayed a year or more. However, increased coverage is expected to generate significant demand for prescription drugs, to the benefit of pharmacy retailers.
- **Wellness:** In response to increased focus on health and wellness, pharmacy retailers are repositioning themselves as one-stop wellness centers to assist and educate customers, including expanded front-end health and beauty offerings, prescriptions, as well as services such as drop-in clinics, medication therapy management, and specialized retail employees.

## SALES TRENDS

The following table illustrates the quarterly comparable store sales trends for CVS (Represents the most recent fiscal quarter sales reported):

CVS	Most Recent Quarter	Prior Quarter	Two Quarters Ago	Three Quarters Ago
Pharmacy	6.8%	5.7%	0.8%	(2.3%)
Front End	(1.9%)	(1.0%)	(0.4%)	1.4%
Total	4.0%	3.6%	0.4%	(1.2%)

*Note(s): The most recent quarter for CVS ended December 31, 2013.*

The following table illustrates the monthly comparable store sales trends for Walgreens and Rite Aid.

	Feb. '14	Jan. '14	Dec. '13	Nov. '13	Oct. '13	Sept '13
<b>Walgreens</b>						
Pharmacy	6.1%	3.7%	9.0%	4.0%	7.9%	10.2%
Front End	2.0%	1.6%	2.5%	1.9%	2.3%	2.9%
Total	4.5%	2.9%	6.1%	3.2%	5.8%	7.4%
<b>Rite Aid</b>						
Pharmacy	3.1%	3.2%	4.1%	3.9%	3.4%	3.1%
Front End	(1.8%)	(1.3%)	1.0%	0.4%	(0.6%)	(0.5%)
Total	1.5%	1.8%	2.9%	2.8%	2.1%	1.9%

## OUTLOOK

As more branded drugs go off-patent in the next year (most notably Celebrex, Nexium, and Nasonex), pharmacy retailers will focus on increasing specialty drug offerings, as well as enhancing front-end assortments, to boost customer traffic and sales.

## Experience

GA is one of the largest liquidators of retail inventory and has been involved in a variety of liquidations, ranging from the disposition of excess inventory and the closing of underperforming stores, to full-scale liquidations of national retailers with hundreds of stores. GA has experience with full and partial liquidations of companies throughout a variety of retail sectors, some of which are detailed below:

A&P	Linens 'N Things	Circuit City	Tower Records
Fortunoff	Fashion Bug	Mervyns	Payless Shoe Source
Jo-Ann Fabrics	Borders	Whitehall Jewelers	Movie Gallery
Ritz Camera	Boot Town	Eddie Bauer	Macy's

These experiences, in addition to numerous others, provide GA with valuable insight into the market trends and the consumer response that can be expected in a liquidation. They give us an understanding as to recovery values that can be achieved for retailers within these industries. In addition to this liquidation experience, GA has worked with and appraised numerous retailers, including industry leaders within each sector. While our clients remain confidential, GA's extensive list of appraisal experience includes:

- Major regional grocery store chains, including those with pharmacies within, including one with a store base of close to 400 and net sales of nearly \$8.0 billion, as well as smaller local grocery store retailers.
- Regional and independent pharmacy retailers, including those specializing in durable medical equipment, specialty drugs, and holistic medicines.
- Several e-commerce and multi-channel retailers, as well as flash sale websites and auction websites. In particular, GA has appraised 71 of the top 500 e-commerce companies as reported by *Internet Retailer*.
- Numerous retailers of apparel and accessories, including major department store retailers and a variety of specialty retailers that are found in malls throughout the country.
- Leading off-price retailers of apparel and accessories, including major national and regional chains.
- Retailers of consumer electronics, including smaller, more localized chains, as well as regional, national, and international retailers with close to 4,500 store locations.
- Major national and regional discount and dollar stores, including one of the country's largest chains, with over 10,000 stores.
- Leading book retailers, including one with over 700 store locations and sales of upwards of \$4.5 billion.
- Sporting goods retailers that specialize in a number of products, including those for outdoor sports, recreational ball sports, hunting, camping, and fishing, and a variety of other equipment for outdoor enthusiasts.

**In addition to our internal personnel, GA maintains contacts within the retail industry that we utilize for insight and perspective on recovery values.**

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## About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. GA also offers the *UK Retail Monitor* via its subsidiary, GA Europe Valuations Limited.

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