WALGREENS + RITE AID

This report examines the geographic overlap between Walgreens and Rite Aid.

I. Overview

Below is a map of all U.S. Walgreens (n=8,155) and Rite Aid (n=4,388) locations.

As can be seen, the companies don’t compete directly in all territories. Notably, Rite Aid doesn’t have a presence in Florida and most of the Midwest, including Chicago, making stores in these areas unlikely to factor into any closure decisions. The same can be said for Seattle, Portland, and Texas. Likewise, Walgreens doesn’t operate in rural New England or cities such as Harrisburg, PA.

* Rite Aid acquired RediClinic which operates locations in Texas; there are however no actual Rite Aid pharmacies in Texas.
II. Overlap by the Numbers

For each Walgreens location in our dataset, we calculated the distance in miles to the nearest Rite Aid store. The summarized results are as follows:

<table>
<thead>
<tr>
<th>DISTANCE</th>
<th>NUMBER OF STORES</th>
<th>% TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 0.25 Miles</td>
<td>669</td>
<td>8.20%</td>
</tr>
<tr>
<td>0.25 - 0.5 Miles</td>
<td>403</td>
<td>4.94%</td>
</tr>
<tr>
<td>0.5 - 1 Mile</td>
<td>635</td>
<td>7.79%</td>
</tr>
<tr>
<td>1 - 3 Miles</td>
<td>1,289</td>
<td>15.81%</td>
</tr>
<tr>
<td>3+ Miles</td>
<td>5,159</td>
<td>63.26%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8,155</td>
<td></td>
</tr>
</tbody>
</table>

Over 60% of Walgreens locations are more than three miles away from the nearest Rite Aid and are consequently unlikely to factor into any store closure decisions. Just under 16% are within 1-3 miles of each other and market specific factors like population density and presence or absence of other competition (i.e. CVS) will probably be looked at closely. The other 20% or so of stores that are less than a mile from one another are a lot more likely to have their remaining lease terms, store ages, and store sales scrutinized closely. Likely, the better store (factoring in many things) wins, not necessarily the acquirer’s brand.
III. Market Impact

Given the overlap, we would expect to see regional changes in cap rates in the near term as the merger winds its way through the necessary government approvals. To that end, areas like the Northeast and California can expect to see Buyers look very closely at the performance and age of locations. Poorer performing older stores in close proximity to a newer location can expect to see discounts applied to their values, perhaps significantly so.

In the future, empty locations could be utilized by CVS, Walmart Neighborhood Market, or other retailers, depending on their presence in an area. A limited competitor presence in the immediate area could cap the declines in the value of any store likely to shutter.

To further discuss anything in this report, or if you’d like a copy of the raw data underlying these maps, please email research@calkain.com.
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