

Retail

Prescription blurry

Questions cloud midstate impact of Rite Aid deal

By **Roger DuPuis**, November 13, 2015 at 3:00 AM

And now we wait.

Long months lie ahead before Illinois-based Walgreens Boots Alliance's proposed \$17.2 billion purchase of East Pennsboro Township-based Rite Aid Corp. will be complete.

With them will come anxiety in those worried about what the deal will mean for more than 2,200 Rite Aid corporate jobs in the midstate.

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So far, Walgreens' stated position has been that Rite Aid initially will continue to operate under its own name following the sale, though exactly how long that might be is unclear.

Nothing has officially been said yet about the future of Rite Aid's 205,000-square-foot property at 30 Hunter Lane, assessed at just over \$11 million, or the people who work there.

In the meantime, there's no shortage of opinions about what could happen — including how long the Rite Aid brand survives — and discussion of a remote chance that the \$9-per-share deal, due to be completed in the second half of 2016, might not take place at all.

Bob Gorland, vice president of Lower Paxton Township-based Matthew P. Casey and Associates Inc., who specializes in supermarket and retail feasibility studies, said Walgreens will certainly be looking at how much overlap exists between positions in Illinois and at Rite Aid's corporate headquarters here.

"Those people have to be extra nervous about their jobs," Gorland said.

Little being said

Local officials are worried about those jobs, too.

"At this point, we're all still in a holding pattern," Jonathan Bowser, CEO of the Cumberland Area Economic Development Corp., said during an interview nearly two weeks after news of the deal broke Oct. 27.

While Rite Aid is a major force regionwide, its West Shore headquarters are on Bowser's home turf.

“With any scenario like this, you try to make the case that this is a good area to have a strong presence in, and I think we make that strong case,” Bowser said. He praised southcentral Pennsylvania's workforce, Rite Aid's deep local ties and the region's proximity to major East Coast markets where both Rite Aid and Walgreens have a significant presence.

Bowser said he has been in touch with the Governor's Action Team, a group of economic development professionals who deal with companies entering or maintaining their presence in Pennsylvania, about reaching out to Walgreens.

And U.S. Sen. Bob Casey last week wrote to Walgreens Boots CEO Stefano Pessina, urging him “to protect the good-paying operations and administrative jobs in East Pennsboro Township.”

When asked about the letter and the senator's concerns, Chuck Greener, Walgreens' vice president of corporate affairs and communications, replied only that the firm would respond to Casey directly.

Walgreens' public position has been that “decisions will be made over time” regarding integration of the two chains and that more than \$1 billion in cost savings expected to result will be fully realized within three to four years of closing.

“It's business as usual for the time being,” a Rite Aid spokeswoman said after announcement of the sale.

Competitive concerns

The most commonly cited stumbling block for the deal, locally and among national observers, is its potential to draw fire from federal antitrust regulators.

How likely is it that such concerns could derail a deal? That depends on who's talking.

“Stefano Pessina is a very savvy businessman. He wouldn't have made this move unless he had already done all his due diligence,” said Kris Shankar, a California resident and Rite Aid shareholder.

“I think it will go through, because Walgreens has made it clear they will shed a lot of stores to make it go through,” Shankar said.

In a report filed Nov. 2 with the U.S. Securities and Exchange Commission, Walgreens said it is willing to divest itself of up to 1,000 stores if needed, but expects “the most likely outcome” would be the divestiture of fewer than half that many locations.

No. 1 U.S. chain Walgreens and No. 3 Rite Aid may have another major factor in their favor: No. 2 CVS Health Corp. set a precedent earlier this year with its own \$1.9 billion deal to buy Target Corp.'s pharmacies and clinics.

Not only is that a major transaction in its own right, but it also further blurs the line between drugstore chains and retailers with pharmacies, such as grocery stores.

“There's plenty of pharmacy competition out there,” Gorland said, adding that while he certainly expects scrutiny, mega-mergers between top brands have recently succeeded in other industries, such as airlines.

“It seems to be happening more and more, and these deals seem to be going through,” Gorland said.

Other buyers?

Shareholder Steve Krol, a longtime critic of what he sees as the chain's poor customer service, held out two other possibilities: That the Rite Aid name might persist longer than expected thanks to tax laws, or that the emergence of some other suitor could derail the sale between now and next year.

Krol, a South Florida resident, began buying up Rite Aid stock in 2000 and now has about 240,000 shares, he said. Krol stayed with the stock through the late 2000s, when five years of losses pushed the price below a quarter per share. He has watched his investment rebound in recent years as Rite Aid's prospects brightened.

But Rite Aid's losses resulted in the accumulation of substantial tax credits, and Krol suggested that is a major reason why the deal calls for Rite Aid to live on as wholly-owned subsidiary of Walgreens.

"You can assume they want to use the tax credits Rite Aid has," Krol said. "They can't use them if the Rite Aid name is gone.

"Will they keep the separate headquarters? Now that's an issue."

Then there is the chance the Walgreens deal could not happen at all.

Krol noted that the terms of the proposed deal include a no-shop provision with a fiduciary out. That means Rite Aid may not seek out other bidders. But if an unsolicited bidder comes to Rite Aid, the board may talk with that party if directors believe a superior deal may result.

How likely is that to happen? Krol admits it's hard to say.

"But the world knows it's a \$9-per-share offer," added Krol, who believes that price was too low.

Fellow shareholder Shankar also isn't happy with the price, but admits there aren't many in a position to rival what Walgreens has put on the table — perhaps "someone unconventional, maybe a grocery or Express Scripts."

"CVS is unlikely to do it," Shankar added.

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