INDUSTRY PROFILE
Drugstores
SIC CODES: 5912
NAICS CODES: 44611

INDUSTRY OVERVIEW

In the US, about 40,000 drugstores have combined annual revenues of about $160 billion. Large companies include Walgreens, CVS, and Rite Aid. The industry has become more concentrated: the 50 largest companies hold close to 70 percent of the market. A typical drugstore has 30 employees and $6 million of annual revenue.

COMPETITIVE LANDSCAPE

Demand is driven by the aging of the US population and advances in medical treatment. The profitability of individual companies depends on access to medical insurance groups. Large companies have economies of scale in purchasing and in access to large groups of customers. Small companies can compete effectively through convenient location or special merchandising. Average annual revenue per employee is close to $200,000.

PRODUCTS, OPERATIONS & TECHNOLOGY

Drugstores sell two types of products: prescription drugs, and "front-store" products, including over-the-counter (OTC) drugs, health and beauty aids, greeting cards, photo-finishing services, and general merchandise. Prescription drugs draw customers to the store, and stores focus their efforts on the number of new prescriptions they fill. The average store fills around 1,000 prescriptions per week. However, higher margin front-store merchandise sales often account for more than half of sales and an even larger percentage of profits.

The operations of drugstores focus on merchandising (which items to stock), advertising, inventory management, billing, and personnel management. Many are freestanding, about 12,000 square feet, and have a drive-through window to more easily accommodate elderly customers. Because older, and often sicker, customers buy most prescription drugs, many drugstores offer free home delivery. To use (expensive) pharmacists more efficiently, drugstores use various aids in medicine dispensing.

Drugstore chains generally buy drugs and other products directly from manufacturers or large wholesalers like AmerisourceBergen, Cardinal Health, and McKesson, and distribute them to their stores through a warehouse system. Independent stores usually buy from a local distributor or may participate in buying co-ops that purchase from manufacturers.

Computer and other technology is becoming more important in dispensing prescription drugs, driven by demands of large third-party payers and the greater likelihood of errors or drug interactions as the number of drugs increases. Computer systems point out potential drug side effects or drug interactions and aid in billing; pill-counting machines are more accurate than humans; and 24-hour telephone lines allow customers to refill prescriptions automatically. Electronic prescriptions eliminate problems with reading doctors' handwriting, allow pharmacies to search databases for drug interactions, and let them bill third-party payers electronically.

SALES & MARKETING

Major customers of drugstores are the third-party payers that account for 80 percent of prescription sales. Pharmacies contract with third-party payers like insurance companies, HMOs, or other managed care plans to provide prescription drugs to group members at reduced prices. The margins on this business are lower than on cash sales, but volume can be high, increasing sales of front-store products, so drugstores compete vigorously for this business. Independent drugstores often can't bid for this business because of a lack of locations.

Marketing and advertising often focus on services provided, such as drive-through service or home delivery. Convenient
location is often the most important factor that draws customers. Advertising is mainly through newspapers, although large chains also use TV. Since drugstores usually get most of their prescription drug sales from repeat customers, they typically emphasize friendly, helpful, and discrete service.

**FINANCE & REGULATION**

Drugstores typically have high inventories and moderate receivables, and fairly rapid inventory turnover. Companies may have large investments in computer and communications equipment. Most sales of nonprescription items are in cash. Third-party payers usually pay within 30 days.

Pharmacists are regulated by states. To a large extent, prices for prescription drugs are indirectly regulated by large third-party payers that will pay only a certain price for drugs sold to their plan members. Drugstores’ nonprescription sales are unregulated except for ordinary state consumer-protection laws that apply to all retailers. In some states, pharmacies are required to substitute cheaper generic drugs unless prescriptions specifically demand a particular name-brand drug.

**REGIONAL & INTERNATIONAL ISSUES**

Growth in retail demand depends partly on population increase. The states with the fastest population growth in recent years were Nevada, Arizona, and Florida, while those with the lowest growth were Massachusetts, New York, and Ohio.

**HUMAN RESOURCES**

Although pharmacists have advanced degrees and very good salaries, most drugstore employees are minimally skilled retail workers with relatively low pay and high turnover. Accordingly, the average hourly pay is about $14, a couple of dollars below the national wage. The industry’s annual injury rate is low, at two cases per 100 full-time workers, which is about half the national average.

**Industry Employment Growth**

Bureau of Labor Statistics

![Industry Employment Growth](image)

**Average Hourly Earnings & Annual Wage Increase**

Bureau of Labor Statistics

![Average Hourly Earnings & Annual Wage Increase](image)
Recent Developments

MONTHLY NEWS

Medicaid Proposal Is Bitter Pill for Pharmacies
The Wall Street Journal, 28 March, 2007, 1302 words
John Mitchener, owner of Mitchener's Pharmacy in Edenton, N.C., is worried a new Medicaid reimbursement rule will force him to drop some of the customers who need him most -- a couple of truck drivers with diabetes, several people who ...

Express Scripts may not need to fret over bid if Caremark slips away. Firm still looks poised for growth, experts say
St. Louis Post-Dispatch, 14 March, 2007, 510 words
Investors are growing more skeptical Express Scripts Inc. will win the contest for Caremark Rx. Some experts said the Maryland Heights company shouldn't be too disappointed. Express Scripts, they say, has a secure position in a growing ...

Why Generic Doesn't Always Mean Cheap --- Zocor Case Shows Drugstores May Offer Only Small Savings Over Brand-Name Drug Prices
The Wall Street Journal, 13 March, 2007, 1682 words
The great promise of cheap generic drugs is taking a bumpy road to arrival. Case in point: Zocor, one of the most commonly prescribed pills in the U.S., which lost patent protection last June. Multitudes of patients have switched to ...

QUARTERLY INDUSTRY UPDATE

Lower-Cost Generic Drug Promotion Baffles Estimates - Wal-Mart recently began a program offering low-cost generic medications for about $4 a month. The strategy, which Target soon adopted, had many drugstore industry analysts predicting lower profits and sales for pharmacies that didn't participate. However, recent earnings statements prove that the low-cost strategy hasn't negatively affected major chains such as Walgreens, Rite Aid, and CVS. Further, profits at Walgreens and Rite Aid have soared in recent months.

Medicaid Rule to Affect Pharmacy Reimbursements - Pharmacy reimbursements for drugs for Medicaid patients would drop if a recent Bush administration proposal is adopted. The proposal would reduce the amount paid to pharmacies filling Medicaid patient prescriptions, in hopes of saving Medicaid billions at both the federal and state levels, according to administration estimates. The rule proposal is based in part on a recent Congressional estimate that Medicaid pays 35 percent more than private healthcare plans for some drugs.

Online Pharmacies Face Increased Scrutiny - The illegal online pharmacy market continues to grow exponentially, which is pressuring the US government, consumers, and legitimate online operators. Industry experts note that healthcare plans increasingly want consumers to buy drugs online because of lower prices, but often consumers are lured into buying from illegal sites posing as legitimate retailers. The illegal vendors pose a potential problem for legitimate drugstores, which have set up online pharmacies in recent years to satisfy customer demand. All online pharmacies could face increasing scrutiny as the government turns increasing attention to the problem.

Business Challenges

CRITICAL ISSUES

Lower Margins for Prescription Drugs - The share of prescriptions paid for by insurance or other third parties has grown, resulting in lower profit margins. Low margins on prescription drugs may push drugstores to expand front-store merchandise sales, where they compete with discount stores, or into related businesses such as pharmacy benefit management (PBM).

Sales at drugstores and pharmacies increased 7.8 percent in the first 11 months of 2006 compared to one year ago.

Regulatory Pressure to Contain Drug Prices - The continuing rise in prescription drug costs has encouraged
proposals to control drug prices, either through legislation or the formation of large public buyer groups that can negotiate lower prices with drug suppliers. Controls on drug prices cut drugstore margins.

Consumer prices for prescription drugs and medical supplies rose 2.6 percent in November 2006; nonprescription drug and medical supply prices increased 1.3 percent compared to a year ago.

OTHER BUSINESS CHALLENGES

Insurers Negotiate Lower Prices - Managed care companies and other health insurers, because they control access to large numbers of patients, are able to negotiate lower prices with drug manufacturers and drugstore chains. The share of prescriptions paid for by insurance or other third parties has grown.

Competition from Supermarkets, Mass Merchants - Supermarket and mass merchant in-store pharmacies have expanded rapidly in recent years. Drugs and health and beauty aids account for more than 15 percent of Wal-Mart's revenue. Because retailers see pharmacies as a tool mainly to bring customers in, they operate with very low margins, undercutting prices of traditional drugstores.

Competition from Distributors - Institutional pharmacy companies have taken over much of the drug dispensing for nursing homes and other institutional care facilities that used to be handled by local retail drugstores.

Competition from Internet, Mail-Order - Internet and mail-order prescription drug sales are increasing rapidly. Because they operate with lower overhead, Internet and mail-order drug operations can offer lower prices for drugs than many traditional drugstores can. Some also have doctors available to write prescriptions after a phone or online interview, cutting the cost to consumers by avoiding an expensive doctor visit. Of particular concern are Canadian drug distributors: many Canadian drugs are cheaper than US-produced equivalents.

Competition from PBMs - Some pharmacy benefit managers (PBM) lower drug costs for corporate clients by operating their own mail-order pharmacies, bypassing drugstores completely. The top three PBM companies manage about $80 billion of annual drug spending, according to the FTC.

Increasing Liability for Prescription Mistakes - With more drugs on the market, pharmacists and drugstores more often find themselves being held financially liable when a prescription they fill harms a patient. The harm may come from incorrectly reading a prescription, mistakes in drug identification and labeling, or failure to spot harmful interactions with other drugs.

Trends & Opportunities

BUSINESS TRENDS

Chains Buying Independent Store "Files" - Chains eliminate independent drugstores mostly through acquisition by buying the existing independent stores, which often are in small, unfavorable locations, then closing the store and using the patient prescription files (and often hiring the pharmacist).

Freestanding Locations - Chains are moving stores out of strip malls to freestanding stores. CVS currently has 30 percent of its stores freestanding, but plans to increase this to 80 percent. More than half of Walgreens' freestanding stores are usually larger (12,000 square feet) and have more high-margin front-store item sales than their other stores. Chain drugstore construction is driven by the discovery that large, freestanding stores perform much better than strip-center stores.

Pharmacist Shortage - Drugstores are competing with hospitals and retail chain stores over the limited supply of pharmacists, despite an increase in the number of pharmacy graduates. Some drugstores are competing for newly graduated pharmacists by offering additional compensation, like stipends to cover student loans and signing bonuses. The lack of experienced pharmacists increases the likelihood of errors in filling prescriptions.

Internet Pharmacies - Large drugstore chains, such as Walgreens, Eckerd, and Rite Aid, offer convenience by receiving prescription orders over the Internet, so customers don't have to wait at the store while a pharmacist fills their prescriptions.

Drug Company Discount Cards - Some drug companies are offering drug discount cards to the elderly, promising to cut prices on medicines they manufacture. The National Association of Chain Drug Stores (NACDS) believes discount
card plans cost pharmacies and are simply a brand name drug promotion for expensive products.

**24-Hour Service** - As doctors write more prescriptions and hospitals increasingly trim pharmacy hours, 24-hour drugstores have become a vital link in the healthcare chain. Sunday, when many smaller drugstores are closed, is typically the busiest day for drugstores that are open.

**Private Label Products** - Drugstores use their own product brands to raise sales of nonprescription products. Drugstores compete with discount stores by selling private label products, which they can sell at prices comparable to those of discount stores. Common private label products include beauty supplies, single-use cameras, and cold medicines.

**INDUSTRY OPPORTUNITIES**

**Drug Spending Growth** - Prescription drug sales are expected to rise 75 percent in the next five years. Increased prescription drug use has been fueled by managed healthcare companies, which have promoted drug therapy as a cheaper alternative to expensive treatments like surgery. As the US population ages during the next decade, the number of annual prescriptions filled is expected to double.

**Growing Over-the-Counter Market** - The over-the-counter (OTC) share of the pharmaceutical market is expected to climb as high as one-fourth of the pharmaceutical industry within five years. Growth in OTC sales is due partly to patent expirations on prescription drugs. More than 700 OTC drugs are available that were sold only by prescription 30 years ago.

**Technology to Improve Efficiency** - Faster claims transmission and adjudication, robotics, central fill, central call centers, electronic prescription transfer, product databases, and other cutting-edge developments are technology innovations that benefit pharmacies. Touch-tone phones and the Internet provide customer convenience, and automated pill-counting machines reduce operating costs and improve reliability.

**Consulting Role** - A survey by Ferris State University College of Pharmacy suggested that most people would be willing to pay between $13 and $23 for a single drug consultation with a pharmacist.

**Homeopathic Products** - Homeopathic or "all-natural" medicines are becoming a popular alternative to pharmaceutical medications. Where homeopathic medicines are placed in the drugstore often determines how well they sell. Marketers for homeopathic products recommend placement with OTC medicines that treat the same symptoms. Some of the best selling homeopathic products include cold/allergy medicines, pain relievers, and children's medicines.

**Executive Insight**

**CHIEF EXECUTIVE OFFICER - CEO**

**Differentiating the Store**
Drugstores are differentiating themselves from competitors by offering new services, operating in unconventional locations, and adopting new technologies. To expand service, some pharmacists are providing minor medical services including flu shots, birth control injections, and vaccinations. Drugstores are also opening on the ground floor of medical towers or within large corporations’ headquarters as a convenient in-house service.

**Competing against Related Businesses**
Drugstores compete against pharmacy benefit managers (PBMs); online and mail-order pharmacies; and retailers, including supermarkets and mass merchants. Supermarkets, mass merchants, and online and mail-order pharmacies operate at very low margins that undercut traditional drugstore prices. PBMs buy and dispense large quantities of drugs directly to employees within the organizations they represent. Drugstores compete through specialized services, offering non-prescription drugs, targeted advertising, convenient locations, and legislative lobbying efforts to limit or block competitors’ drug-dispensing operations.

**CHIEF FINANCIAL OFFICER - CFO**

**Becoming Third-Party Network Providers**
Pharmacies increase sales volume, but sacrifice margins, by contracting with third-party payers to provide group
members low-priced prescription drugs. Third-party payers, including insurance companies, managed care providers, and the federal government through Medicare and Medicaid, account for 80 percent of prescription sales. New government programs can take months to work smoothly and delay payments for substantial periods. Third-party payers may dispute prescriptions and delay payments, slowing cash flow.

Managing Inventory
Drugstores track merchandise turnover to prevent loss of revenue due to slow sales or inadequate supplies. Computerized inventory management systems track the age, quantity, cost, and price of merchandise to help drugstores determine price markdowns and sales promotions to move slow-selling items; the systems also help drugstores order stock to ensure adequate levels of fast-selling products. Pharmacies track inventory turnover to prevent prescribing expired medication or having an inadequate supply on hand to meet projected demand.

CHIEF INFORMATION OFFICER - CIO

Adding Online Prescription Capabilities
Benefits to online prescribing include time and cost savings, greater efficiency and patient safety, and better prescription and treatment program compliance. A California Healthcare Foundation study indicates that 25 percent of the time spent in communication between physician and pharmacy could be eliminated by online prescribing. However, lack of a standardized system is hampering the transition of physicians and pharmacies to an online prescribing system.

Developing Inventory Management Systems
Drugstores and pharmacies use a variety of technologies to control inventory. Inventory management systems include point of sale (POS) scanners at registers; computerized databases of merchandise and drug inventory; and radio frequency identification devices (RFID) in or on product packaging. Inventory management systems help drugstores order adequate supplies of pharmaceuticals and merchandise, schedule sales of slow-selling products, track high-sales products, detect losses due to non-sales and theft, and verify the authenticity of selected drugs.

HUMAN RESOURCES - HR

Hiring and Retaining Pharmacists
Hiring and retaining pharmacists is a growing challenge for drugstores, due to the aging population requiring more pharmacy services and an escalating number of pharmacists retiring. Drugstores in rural areas are struggling to attract pharmacists, while those in densely populated areas have difficulty hiring enough. To attract pharmacists, drugstores are raising the annual base salary to $90,000 to $110,000, and hiring pharmacy technicians to assist head pharmacists. Drugstores that fail to provide adequate pharmacy services stand to lose customers and revenue.

Enforcing Controversial Drug Policies
Drugstores are ensuring that pharmacists meet legal and store policies regarding prescription and regulation of controversial, but legal, medications. Drugstores are confronted by pharmacists unwilling or resistant to prescribe certain medications, often on ethical or religious grounds. Some pharmacists have been fired for refusing to fill prescriptions for emergency contraceptive pills, also known as the morning-after pill, which may prevent pregnancy from occurring.

VP SALES/MARKETING - SALES

Determining Product Mix
Aside from prescription pharmaceuticals, drugstores must determine the mix of “front-store” products, including over-the-counter drugs, health and beauty aids, greeting cards, photofinishing services, food and beverages, and general merchandise that best fit customers' needs and produce profits. Front-store products typically carry high margins and account for more than half of sales and an even larger percentage of profits.

Boosting Awareness through Advertising
Because drugstores vary little in the types of services and products offered, advertising is key to attracting and retaining customers. Marketing and advertising generally focus on convenient location and services, such as drive-through pickups, online prescription ordering, and home delivery. Drugstores advertise sales and promotions mainly through newspaper flyers and mailers; chains with large budgets may use TV advertising.
Call Preparation Questions

CONVERSATION STARTERS

What steps is the company taking to improve profit margins?
The share of prescriptions paid for by insurance or other third parties has grown, resulting in lower profit margins.

How is regulatory pressure to reduce drug prices affecting company sales?
The continuing rise in prescription drug costs has encouraged proposals to control drug prices, either through legislation or the formation of large public buyer groups that can negotiate lower prices with drug suppliers.

What incentives does the company get from managed care organizations (MCOs) and insurers to increase sales of less expensive generic drugs?
Managed care companies and other health insurers, because they control access to large numbers of patients, are able to negotiate lower prices with drug manufacturers and drugstore chains.

How is the company positioning itself for the forecast continued rise in drug prescribing?
Prescription drug sales are expected to rise 75 percent in the next five years.

How is the company benefiting from the growing availability of OTC drugs?
The over-the-counter (OTC) share of the pharmaceutical market is expected to climb as high as one-fourth of the pharmaceutical industry within five years.

What is the company’s technology strategy?
Faster claims transmission and adjudication, robotics, central fill, central call centers, electronic prescription transfer, product databases, and other cutting-edge developments are technology innovations that benefit pharmacies.

QUARTERLY INDUSTRY UPDATE

How could the company be affected by lower Medicaid reimbursement rates?
Lower reimbursement rates are designed to save the Medicaid program money, but lower rates could put additional cost pressures on pharmacies that fill prescriptions for Medicaid patients.

How can the company distinguish itself from illegal online pharmaceutical retailers?
Legitimate online sellers may require prescription information or take other actions to ensure that patients receive the correct dosage and medications.

OPERATIONS, PRODUCTS, AND FACILITIES

What products does the store sell under a private label brand?
Private label products are the drugstore's brand, and allow drugstores to compete with discount stores by selling private label products at prices comparable to discount stores. Common private label products include beauty supplies, single-use cameras, and cold medicines.

How many stores does the company operate?
About 60 percent of drugstores belong to chains.

How big are the stores? Are they in malls or freestanding?
Newly built pharmacies are often freestanding, about 12,000 square feet, and have a drive-thru to more easily accommodate customers.

How many prescriptions does the store’s pharmacy fill per week?
A typical pharmacy fills 1,000 prescriptions per week.

What are the trends relative to new prescription fills versus refills?
Prescription drugs draw customers into the store, and stores focus on the number of new (which are more profitable because they often produce future refills) versus refill prescription fills and their trends.

What percentage of revenue comes from front-store sales?
More than half of revenue and the bulk of profits can come from front-store sales.
Does the company buy directly from manufacturers or from wholesale distributors?
Chains generally buy drugs and other products directly from manufacturers and distribute them to their stores through a warehouse system. Independents use local distributors.

Does the company use automated refill systems or drive-thru windows for service?
Both are growing industry trends.

Does the store get incentives from insurers to increase generic drug sales?
Insurance providers like WellPoint give pharmacists financial incentives to increase the number of prescriptions they fill with generics.

CUSTOMERS, MARKETING, PRICING, COMPETITION

How large an area does the company service?
Convenient location is a major factor in attracting customers.

How many other drugstores are in the company's market?
Most drugstores have several competitors in the same area.

How does the company distinguish itself from competitors?
Lower prices, more merchandise, and special services are common methods of differentiation.

Who are the company's main competitors (direct or indirect)?
Supermarket-based pharmacies are quickly pushing into the drugstore market. Institutional pharmacy companies have taken over much of the drug dispensation for nursing homes and other institutional care facilities that retail drugstores used handle. Encouraged by some HMOs, new and growing competition is also coming from the prescription mail-order business.

How will the company meet the threat of low-cost pharmacies, like mail-order or online?
Online drug sales are one of the fastest-growing parts of the industry. Online pharmacies offer simpler service and fewer restrictions, although they've had problems with service quality, especially in terms of responsiveness, reliability, ease of use, credibility, and perceived cost.

What effect have institutional pharmacies had on company revenues?
Institutional pharmacy companies like Omnicare and its subsidiaries have taken over much of the drug dispensing for nursing homes and other institutional care facilities that used to be handled by retail drugstores.

In how many third-party payer programs does the company participate?
Third-party payers often account for the majority of prescription drug sales.

What percentage of prescription business comes from managed care organizations (MCOs)?
Above 80 percent at large chains is not unusual.

Does any third-party payer account for more than 10 percent of pharmacy revenue?
Some drugstores rely heavily on a few payers.

How is the mix of front-store merchandise determined?
Over-the-counter (OTC) drugs; health and beauty items; and high-margin items like greeting cards are common front-store items.

REGULATIONS, R&D, IMPORTS AND EXPORTS

How will new FDA regulations on drug labeling affect the company?
The FDA has mandated that pharmaceutical companies change labels to put product names in a mix of upper and lowercase letters and different colors to help pharmacists easily identify different drugs.

Does the pharmacy comply with the voluntary Verified Internet Pharmaceutical Provider System (VIPPS)?
Most states forbid doctors from employment with drug manufacturers, and the American Medical Association (AMA) forbids electronic-only medical consultations. These rules, called the VIPPS, aren't stopping online drugstores from hiring doctors to prescribe medication based on an online questionnaire.

ORGANIZATION AND MANAGEMENT

If the company operates a chain, how much independence do store managers have to select merchandise?
How does the company attract and retain pharmacists?
In many areas of the country, pharmacists are in short supply. Drugstore companies are offering generous benefit, salary, relocation packages, flexible work schedules, signing bonuses, and stock options to entice new employees.

How many pharmacists does each location employ?
Pharmacies employ pharmacists, pharmacist assistants, and technicians. Because of a pharmacist shortage, pharmacies are hiring more assistants and technicians to fill in, or are investing in automation and technology to increase productivity of existing pharmacists.

How much workforce turnover does the company have with clerical workers?
Because of low pay for these unskilled positions, employee turnover can be high among clerical workers.

FINANCIAL ANALYSIS

What percentage of receivables is written off as uncollectible?

Has the company recently invested in computer systems?
Specialized software to manage prescriptions, inventory, and billing are expensive.

Is cash flow seasonal?
The pharmaceutical market may peak in regional allergy and flu seasons. Over-the-counter (OTC) drug sales are often higher in winter. Many stores sell seasonal items.

How large are inventories as a percentage of sales?
Prescription drugs generally have a higher inventory turnover than front-store items.

What percentage of claims to insurers is denied?
Claims can be denied if the claim submission is faulty or if customers don't have coverage.

BUSINESS AND TECHNOLOGY STRATEGIES

Does the company use computer information systems to receive and track patient data?
Improved computer information systems can help pharmacists spot unfavorable drug interactions and improve the reliability of dispensing drugs.

Does the drugstore offer online customer ordering services?
Some big retail pharmacy chains have been successful getting customers to order prescriptions online and then come to the store for pickup.

What is the company's long-term plan for profitability?
As supermarkets and other retailers use breakeven pharmacies to bring traffic into their stores, pharmacies are becoming a low-margin commodity business.

Financial Information

COMPANY BENCHMARK INFORMATION

HEALTH AND PERSONAL CARE STORES
(NAICS: 4461)

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<th>Last Update June 2006</th>
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<td>Median Values</td>
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<td>Company Count in Analysis</td>
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### Income Statement

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<td><strong>Net Profit After Tax</strong></td>
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### Balance Sheet

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<td><strong>Accounts Receivable</strong></td>
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<td><strong>Inventory</strong></td>
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<td><strong>Other Non-Current Assets</strong></td>
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<tr>
<td><strong>Net Worth</strong></td>
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### Financial Ratios

(Click on any ratio for comprehensive definitions)

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<td><strong>Return on Investment</strong></td>
<td>16.0%</td>
<td>21.0%</td>
</tr>
<tr>
<td><strong>Sales per Employee</strong></td>
<td>$200,430</td>
<td>$125,205</td>
</tr>
<tr>
<td><strong>Net Profit per Employee</strong></td>
<td>$3,878</td>
<td>$3,209</td>
</tr>
<tr>
<td><strong>Interest Coverage</strong></td>
<td>15.0</td>
<td>14.0</td>
</tr>
</tbody>
</table>
ECONOMIC STATISTICS AND INFORMATION

Change in Consumer Prices - Bureau of Labor Statistics

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Mar 07</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUUR0000SEMA Prescription drugs &amp; medical supplies</td>
<td>5.2%</td>
<td>3.1%</td>
<td>3.3%</td>
<td>3.5%</td>
<td>4.3%</td>
<td>1.0%</td>
</tr>
<tr>
<td>CPI</td>
<td>1.6%</td>
<td>2.3%</td>
<td>2.7%</td>
<td>3.4%</td>
<td>3.2%</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

Retail Annual Sales Growth - Census Bureau

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>44611 Pharmacies and drug stores</td>
<td>8.9%</td>
<td>6.9%</td>
<td>5.5%</td>
<td>6.0%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Total US retail sales</td>
<td>2.5%</td>
<td>4.4%</td>
<td>7.6%</td>
<td>7.2%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

Annual Construction Put into Place - Census Bureau

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial - Drug stores</td>
<td>38.7%</td>
<td>8.9%</td>
<td>-20.3%</td>
<td>-7.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Total Private Construction</td>
<td>-0.4%</td>
<td>6.6%</td>
<td>14.4%</td>
<td>11.8%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

VALUATION MULTIPLES

Drug Stores

Acquisition multiples below are calculated using at least 29 private, middle-market (valued at less than $1 billion) industry transactions completed between 3/1994 and 5/2006. Last update: February 2007.

<table>
<thead>
<tr>
<th>Valuation Multiple</th>
<th>Equity/Net Sales</th>
<th>Equity/Net Income</th>
<th>MVIC/Net Sales</th>
<th>MVIC/EBIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Value</td>
<td>0.4</td>
<td>5.6</td>
<td>0.4</td>
<td>5.2</td>
</tr>
</tbody>
</table>

Equity (Equity price) = Reported selling price
MVIC (Market Value of Invested Capital) = Equity price + Long-term liabilities assumed
EBIT (Earnings Before Interest & Taxes) = Net Income + Interest expense + Taxes

SOURCE: Pratt's Stats™ (Portland, OR: Business Valuation Resources, LLC) To purchase more detailed information, please either visit www.BVMarketData.com or call Business Valuation Resources at 888-287-8258.

Industry Forecast

US personal consumption expenditures for drug preparations and sundries, which are major indicators for drugstores,
are forecast to grow at an annual compounded rate of 6.6 percent between 2006 and 2009.

**Consumer Drug Spending Growth Uneven**

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>8%</td>
</tr>
<tr>
<td>2005</td>
<td>8%</td>
</tr>
<tr>
<td>2006</td>
<td>10%</td>
</tr>
<tr>
<td>2007</td>
<td>9%</td>
</tr>
<tr>
<td>2008</td>
<td>5%</td>
</tr>
<tr>
<td>2009</td>
<td>6%</td>
</tr>
</tbody>
</table>

First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy.

**First Research Opportunity Rating**

The First Research Opportunity Rating is First Research’s estimate of industry performance vs. industry risk over the next 12 to 24 months.

- Demand for prescription drugs increases
- But prescription drug margins are squeezed by insurers
- And discount competition grows for non-prescription items

**Web Links & Acronyms**

**INDUSTRY WEBSITES**

**Drug Store News**
Comprehensive industry news.

**National Community Pharmacists Association**
Industry news posted twice a week under Rx Headlines on home page.

**American Pharmacists Association**
Consumer information, publications, government affairs, and public relations.

**National Association of Chain Drug Stores**
Industry facts, news, and resources.

**Canadian Association of Chain Drug Stores**
Organization that represents Canadian retail chain pharmacies.

**Food and Drug Administration**
Press releases, news, regulations.

**GLOSSARY OF ACRONYMS**

**CMS** - Centers for Medicare and Medicaid Services

**EPC** - Electronic product code

**IT** - information technology

**NACDS** - National Association of Chain Drug Stores

**NCPA** - National Community Pharmacists Association
OTC - Over-the-counter

PBM - pharmacy benefit managers

PhRMA - Pharmaceutical Research and Manufacturers of America

RFID - radio frequency identification

“The purpose of the Profiles is for sales call preparation and general business and industry analysis. Profiles provide general background information only and are not intended to furnish detailed information about the creditworthiness of any individual borrower or purchaser or to be used for making any loans, leases or extension of credit to any individual borrower or purchaser. First Research, Inc. is not an investment advisor, nor is it in the business of advising others as to the value of securities or the advisability of investing in securities, and the Profiles are not intended to be relied upon or used for investment purposes.”

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