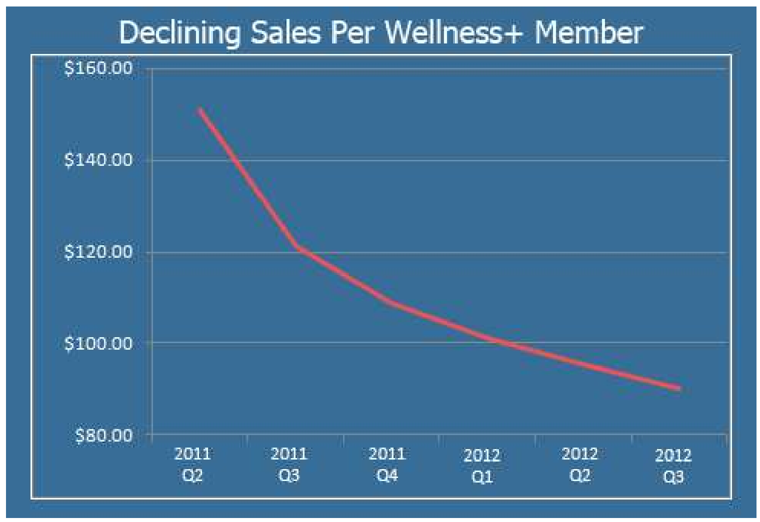
CtW Investment Group

March 20, 2012

To Whom It May Concern,

I am writing to bring your attention to Rite Aid's lack of disclosure regarding a major initiative. Having experienced eighteen consecutive quarters of losses, the Company continues to tout its two-year-old customer loyalty program, Wellness+ as a key element of its turnaround strategy. Management has trumpeted the success of the program in contributing to improved top line sales, and the Company's share price has moved upward on news of this positive momentum. Yet Rite Aid has not disclosed to investors how much the program actually costs and whether those costs generate adequate returns. In fact, there are worrying signs that membership figures may be inflated as casual shoppers drop off, causing sales per member to decrease and raising doubts about the program's strategic benefits.

Figure 1: Declining Sales Per Wellness+ Member



Source: Company Data.

A Downward Trend

Rite Aid reported that 70% of front-end sales and 66% of scripts came from Wellness+ members in the third quarter. What those numbers do not tell us is whether customers are shopping more or less frequently than they were before joining the program. Belying the Company's rosy picture, we have identified a downward trend in sales per member (see figure 1), adding up to a drop of more than forty percent since the first full quarter of the loyalty program's existence. This pattern suggests casual shoppers may be joining the program for one-time discounts and not coming back, which is borne out by the Company's recent acknowledgement that 46% of Wellness+ members used their card once or not at all in the past six months. The percentage of inactive members would likely increase if a more appropriate time period of three months were used to measure activity.

Rite Aid Provides Little Clarity

Despite quarterly inquiries from analysts about the true costs and benefits of the Wellness+ program, Rite Aid management has declined to provide requested disclosures. Just last quarter, when an analyst from Crédit Suisse asked whether the program was profitable on an operating income basis, CEO John Standley said only, "I think that's correct. Yes. I mean, we kind of looked at gross profit dollars as kind of the key measure there when you kind of stir it all together, and I think it's helping us there." That kind of response does not provide much comfort, coming from the management of such a highly-leveraged company that has yet to recover from the poor decisions of its leadership.

1900 L Street, NW, Suite 900 Washington, DC 20036 | 202-721-6060

www.ctwinvestmentgroup.com

The CtW Investment Group works with pension funds sponsored by unions affiliated with Change to Win, a federation of unions representing nearly 5.5 million members, to enhance long-term shareholder returns through active ownership. Members of Change to Win affiliates participate in Taft-Hartley plans with over $200 billion in assets. The CtW Investment Group has monitored Rite Aid since its acquisition of the Brooks and Eckerd chains in 2007, at which time we urged the board to reconsider a transaction that saddled the Company with an excessive $6.4 billion debt load. In a public letter dated December 29, 2006, we suggested:

> *Rather than increase Rite Aid's already high debt and expose shareholders to undue financial and operating risk… Rite Aid shareholders would be best served if management focused on creating value by turning around its own struggling operations.*

Most recently, the CtW Investment Group wrote to Rite Aid and asked management to address a number of shortcomings in its disclosures related to Wellness+. In its response, Rite Aid management made no commitment to provide the information we sought.

Our Questions for Rite Aid

We believe the troubling performance trends over the first two years of the loyalty program's existence necessitate more complete disclosure, particularly given that Wellness+ appears not to have met several major goals articulated by management. The following are the areas of disclosure we requested from Rite Aid:

- **Incremental revenue and expenses**: Despite identifying a $4.7 billion sales opportunity from Wellness+, Rite Aid has not quantified the impact of the program.

  Rite Aid has attributed improved same store sales to Wellness+ but has not clarified the actual amount by which the program is impacting comps. Investors also lack information on the costs of the program and thus cannot accurately evaluate its return on investment. Management recently explained that the revenue deferral that accounts for Wellness+ rewards is reduced by the flow-through of discounts that are redeemed during a given quarter and thus does not provide an accurate measure of total costs. Rite Aid should disclose the percentage of COGS used to pay for Wellness+ discounts and other program costs.

- **Pharmacy customer acquisition**: Rite Aid has not explained how it will gain new pharmacy customers through the Wellness+ program.

  Wellness+ has failed to attract significant numbers of new pharmacy customers, even though growing the pharmacy customer base was an express goal of the program. Management acknowledged this shortcoming, telling a Goldman Sachs investor conference that "we haven't driven a significant amount of additional foot traffic with [Wellness+] on the pharmacy side." Additionally, the company reported that 68% of Wellness+ members shop only at the front end, not at the pharmacy. The Company should explain to investors how it intends to address this shortcoming.

- **Impact on customer behavior**: Rite Aid has not disclosed metrics that demonstrate customer behavior change over time, an important measure of program success.

  The metrics that Rite Aid is disclosing do not capture the change in customer behavior after joining, and the decline in per capita spending levels raises questions about whether the program has a positive impact. While Rite Aid reports higher basket size for silver and gold members compared to the average, we do not know if these customers already shopped more than others and whether the basket differential pre-existed the launch of the program. A more telling metric would be the trend in shopping habits for consumers who joined Wellness+ at a certain time, which would show how average basket size and shopping frequency has evolved.

- **Capability of IT infrastructure**: It is unclear whether Rite Aid is taking full advantage of customer transaction data to merchandise and market more effectively.

  Marketing experts emphasize that smart use of transaction data is critical to loyalty program success. Drugstore competitor CVS has an advanced analytics platform attached to its ExtraCare loyalty program, which enables the company “to market and merchandise the front store in a way that better provides what customers want, which ultimately will drive sales and deliver even more profitable business results.” In contrast, Rite Aid has not demonstrated an ability to fully utilize the data generated by Wellness+. Management should address this apparent gap in technology and provide investors with information about the current capabilities of the Wellness+ IT infrastructure.

- **Customer Satisfaction and Sales Inventory**: Rite Aid has not disclosed information about how Wellness+ has impacted customer satisfaction related to in-store promotions.

  Rite Aid has made membership in Wellness+ a precondition to access weekly sales prices, thus tying the success of its loyalty program to regular promotional activity, which depends on strong inventory management. Management should provide information on company performance metrics regarding in-stock levels and customer satisfaction with in-store promotions.

Given the importance the Company places on Wellness+ when it reports to shareholders, management should provide a more complete picture of the program’s impact.

Please feel free to contact us with any questions you may have.

Sincerely,

Richard W. Clayton III
Research Director, CtW Investment Group