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Buffalo News (New York)

December 25, 2006 Monday
FINAL EDITION

SECTION: BUSINESS; Pg. B7

LENGTH: 493 words

HEADLINE: \$4 generic drugs aren't hurting drugstore profits

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DATELINE: NEW YORK

BODY:

Wal-Mart Stores' offer of \$4 generic-drug prescriptions hammered shares of drugstore chains this fall, but it doesn't appear to be hurting their profits.

Walgreen Co., the nation's largest pharmacy chain by sales, said Friday its profit for the fiscal first quarter ended Nov. 30 surged 25 percent, and noted that its income got a boost from sales of generic drugs. That news followed No. 3 drug chain Rite Aid Corp.'s announcement Thursday that it turned a third-quarter profit that beat analysts' estimates amid strong pharmacy sales.

Wal-Mart said earlier this month that its rollout of \$4 generic prescriptions -- covering a 30-day supply on about 150 different medications -- lifted its November pharmacy sales at stores open at least a year, which surged by a mid-teen percentage. The Bentonville, Ark.-based retailer said the generic prescriptions also have boosted customer traffic, although the company's same-store sales for the month fell slightly.

With prescription sales at Walgreen, Rite Aid and CVS Corp. maintaining their strength nevertheless, many analysts have concluded that Wal-Mart's pharmacy sales have been fueled by uninsured patients who weren't buying prescriptions anywhere prior to its offer, as the drugstore chains say the overwhelming majority of their prescription customers are insured.

The drugstores add that the generic drugs on their shelves, which frequently number five to ten times the number that Wal-Mart is offering, are frequently priced in a similar range at the \$5 or \$6 level.

"While the last several months have brought plenty of speculation about the effects of \$4 generic drugs . . . we've shown with these results just what our core drugstore business is capable of doing," Rick Hans, director of finance, said in a prerecorded conference call Friday. He noted that generic drug sales helped lift the company's overall revenue.

"The strong contribution from generics bodes well for the group over the next few quarters," Credit Suisse analyst

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Edward Kelly said in a research note, referring to drugstore retailers.

In a Thursday conference call with analysts, Rite Aid Chief Executive Mary Sammons said profits from generic drugs should increase as more are rolled out this year. Meanwhile, Wal-Mart's generic-drug initiative had "limited impact" on Rite Aid's business, Sammons said.

"Customers chose location, convenience and services over the small price differential on nearly all of the generics on the list," Sammons said. "I continue to wonder how long these programs can last since the \$4 cannot cover the full cost of dispensing, and you can only tell sell a product below cost for so long."

Target Corp. says it has matched Wal-Mart's \$4 offer on generics. Meanwhile, Costco Wholesale Corp. originally matched Wal-Mart's offer, but switched away from the strategy earlier this month, saying it had been losing money in the process. Now, Costco instead offers \$10 prescriptions on a 100-day supply of generics.

GRAPHIC: Associated Press Major drugstore chains reported strong third-quarter profits, despite selling some generic drug prescriptions for \$4.

LOAD-DATE: December 26, 2006