Rite Aid Corporation NYSE:RAD
FQ1 2024 Earnings Call Transcripts
Thursday, June 29, 2023 12:30 PM GMT
S&P Global Market Intelligence Estimates

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Currency: USD
Consensus as of Jun-29-2023 1:09 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations

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Call Participants

EXECUTIVES

Byron Purcell
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Christopher DuPaul
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Elizabeth H. Burr
Interim CEO & Director

Matthew C. Schroeder
CFO & Executive VP

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George Robert Hill
Deutsche Bank AG, Research Division

Karru Martinson
Jefferies LLC, Research Division

Lisa Christine Gill
JPMorgan Chase & Co, Research Division

William Michael Reuter
BofA Securities, Research Division
Presentation

Operator

Hello, and welcome to the Rite Aid Corporation Fiscal Year 2024 Q1 Earnings Conference Call. [Operator Instructions]

I will now turn the conference over to Byron Purcell. Please go ahead.

Byron Purcell  
*Vice President of Investor Relations & Treasurer*

Thank you, Sarah, and good morning, everyone. We welcome you to our fiscal 2024 First Quarter earnings conference call. Elizabeth Busy Burr, our interim Chief Executive Officer; and Matt Schroeder, Executive Vice President and Chief Financial Officer will begin the call with prepared remarks. Chris DuPaul, Chief Operating Officer of Elixir will also join the call during the question-and-answer sessions. As we mentioned in our release, we are providing slides related to the material we'll be discussing today. These slides are provided on our website, investors.riteaid.com.

While management will not be speaking directly to the slides, these slides are meant to facilitate your review of the company's results and to be used as a reference document following the call.

Before we start, I'd like to remind you that today's conference call includes certain forward-looking statements. These forward-looking statements are presented in the context of certain risks and uncertainties that can cause actual results to differ. These risks and uncertainties are described in our press release and Item 1A of our most recent annual report on Form 10-K and in other documents we will file or furnish to the SEC.

Also, we will be using certain non-GAAP measures in our release and in the accompanying slides. The definition of the non-GAAP measures, along with the reconciliation to the related GAAP measure are described in our press release and slides. With that, let me turn it over to Busy.

Elizabeth H. Burr  
*Interim CEO & Director*

Thanks, Byron. Welcome, everyone. Thank you for joining our first quarter earnings call. Today, I'm going to provide a quick overview of our performance, then cover each business area by highlighting the bright spots as well as the challenges and importantly, give insight to what we're doing to drive our results to meet our plan. Matt will then give a more in-depth financial review and guidance update. We'll end as always, as Byron mentioned with Q&A.

We are ahead of our plan for first quarter despite headwinds that include soft front-end sales in the Retail Pharmacy segment and higher-than-expected medical loss ratio at Elixir Insurance. We offset these headwinds with strong script growth, better-than-expected recovery rate and generic drug settlements. We also made good progress on our turnaround, particularly in our initiatives to control SG&A spend, grow scripts and reduce drug purchasing costs. The performance acceleration model we put in place at the end of last year is gaining momentum and traction, and we continue to find opportunities to drive growth, increase efficiency and deliver positive results as we execute. We believe that the work we are doing now will continue to benefit the business and our financial performance, not only in fiscal '24, but also in fiscal '25 and '26 and beyond.

This is not just a strategy to get quick wins, though we are capitalizing on those too. We are focused on setting the right foundation for long-term success built on the bedrock of our valuable market position, strong relationships with customers and clients and a trusted brand.

Now on to first quarter financial results. Our adjusted EBITDA came in at $92 million versus last year's first quarter of $100 million. The main drivers of year-over-year results were script comps of 4.7% or
7.4%, excluding COVID. We continue to drive script growth through adherence initiatives and getting our fair share of prescriptions from the Kroger ESI dispute.

Strong trends in pharmacy margin due to better-than-expected recovery rate. We saw retail SG&A improvements of approximately $5 million from cost control initiatives and store closures. Offsetting those were front-end sales comps of negative 3.8%, excluding cigarettes and tobacco products. We saw a decline in transactions in our stores, driven by a reduction in demand for respiratory-related products. Some inventory challenges with the transition of our perishable food vendors and some inefficient pricing. And Elixir Insurance is experiencing a higher-than-expected medical loss ratio as adverse selection during annual enrollment is driving unfavorable changes in utilization and drug mix.

Matt will provide additional details in his section. Now I'd like to get to some of the specifics on each part of the business. I'll start with pharmacy where our performance improvement efforts are delivering results. We continue to make strides in adherence, driven by a strong 10.3% year-over-year increase in courtesy refills. We also see additional upside as we continue implementing our initiatives to improve adherence. For example, we saw good results from a pilot we conducted to reduce abandoned scripts. We are now rolling that program out to all stores, which we expect to complete by the end of July and are seeing consistent improvement.

In addition, our script file acquisition program exceeded our first quarter plan, further underscoring solid execution on pharmacy initiatives. We believe that when taken together, these improvements are indicative of the potential growth prospects for our pharmacy business. While we feel good about pharmacy, the front end was more challenging. In first quarter, our transactions on a comp store basis were down 7.9% with declines in selected health and consumables categories. We believe this was due to 3 key drivers: respiratory from allergy, cough, cold and flu wasn't as strong as last year. We faced supply chain challenges related to the supplier transition in many of our perishable consumer goods and shrink continued to be a significant headwind. We're working with urgency to address these drivers to improve front-end performance specifically. We recently completed the transition of vendors for perishable consumable items, which we believe should alleviate the pressures we saw in this category in first quarter. Our owned brands, which we believe represent a compelling opportunity remain a key area of focus earlier this month. We announced the launch of RYSHI, an exclusive collection of high-quality clean beauty and personal care essentials at accessible price points. We plan to accelerate the rollout of owned brands like these with 81 new items launched year-to-date and 208 new items scheduled to launch in the remainder of this year.

We're also collaborating with our supplier partners to ensure we are on track to bring innovative and on-trend products to our consumers. Lastly, we have hired new leadership in loss prevention as we continue to look at new ways to address shrink. Addressing the Elixir side of the business, let me start with Elixir Insurance, our Medicare Part D Plan. You might recall that heading into calendar year 2023, we shifted our bid to be above the low income benchmark in 23 of the 34 regions we serve. While we achieved the 275,000 life membership we forecasted for the first quarter of fiscal 2024, we experienced a significant shift in the composition of our member base.

The loss of our auto-assignee population in 23 of the regions, coupled with adverse selection among those choosing to remain in the plan during annual enrollment has resulted in an unfavorable shift in both utilization and drug mix and unplanned increase in medical loss ratio. Over the last 3 years, we have been gradually moving away from the individual Part D market.

Now in light of this recent performance as well as unfavorable regulatory changes on the horizon, we have made the decision to exit the individual Part D market beginning in January 2024. Elixir will remain in the group Medicare Part D market and we'll continue to offer employer group waiver plan, also known as EGWIP solutions in all 50 states, the District of Columbia and Puerto Rico.

Shifting to our core PBM business. While it is still early in the selling season, we are encouraged by the positive feedback we have received from the market in terms of our competitive position. We're focused on increasing our market presence as we move into the summer selling season. Strong procurement
economics have allowed us to bring competitive pricing for our core PBM offering. And we continue to make investments in market-facing functions and capabilities while tightly managing SG&A.

Finally, planning, hard work and execution are critical for us every day at Rite Aid. I’m inspired by our team's ongoing resolve and commitment to making our business successful. We are acting with urgency, rigor and an intense focus on the opportunities that we believe will create meaningful value in the near and long term. We appreciate the support from all of you on our journey to bringing this incredible brand back to where it should be. With that, I'll turn the call over to Matt and talk more -- who will talk more about Q1 and our outlook. Matt?

Matthew C. Schroeder
CFO & Executive VP

Thank you, Busy, and good morning, everyone. Our first quarter fiscal 2024 adjusted EBITDA was $91.7 million versus $100.1 million for last year's fiscal quarter. We also reported a net loss of $306.7 million or $5.56 per share and adjusted net loss of $40.1 million or $0.73 per share. Included in our net loss for the first quarter was an impairment charge for goodwill at Elixir of $152 million.

Our medical loss ratio at Elixir Insurance is now expected to trend higher than we initially forecast which will lower our expected adjusted EBITDA for Elixir in fiscal 2024. Given the shrinking margins and significant capital investment required to maintain a presence in this market, we have elected to exit the Medicare individual Part D market on January 1, 2024. As a reminder, the calculation performed to determine if an impairment is necessary includes a valuation based on discounted cash flows as well as an assessment of market value. This is a noncash charge.

Now I'll discuss the key drivers of operating results in our 2 business segments. In the Retail Pharmacy segment, revenues increased 3.4% over the prior year quarter due primarily to increases in acute and maintenance prescriptions that were partially offset by a reduction in COVID-related revenue, front-end sales and store closures. Same-store sales for the first quarter increased 8.4% over the prior year period, consisting of a 13.3% increase in pharmacy sales that were partially offset by a 4.4% decrease in front-end sales. The pharmacy sales increase was driven by an increase in sales of Ozempic and other GLP-1s, which have a high sales amount per script.

As the cost of these drugs is also high, the impact of the increase in volume of these drugs on our gross profit dollars is minimal. Front-end same-store sales, excluding cigarettes and tobacco products decreased 3.8%. As Busy described earlier, we are taking steps to address our challenges in retail sales but also expect some continued pressure through the rest of the year. Same-store prescriptions adjusted at 30 days increased 4.7% or 7.4% without taking into account the impact of COVID changes. Ratings for front-end gross profit dollars were negatively impacted by our soft front end sales and higher-than-expected shrink.

Pharmacy gross profit benefited from strong script growth, a better-than-expected recovery rate in generic drug settlements, which offset the reduction in COVID vaccine and testing volume. Adjusted EBITDA SG&A at retail improved by $4.8 million or 46 basis points versus prior year due to continued cost control from our transformation initiatives and lower occupancy due to store closures.

Moving to our Pharmacy Services segment, Elixir. Revenues were $1.2 billion for the quarter, a decrease of 30% compared to prior year quarter due primarily to increases in acute and maintenance prescriptions that were partially offset by a reduction in COVID-related revenue, front-end sales and store closures. Same-store sales for the first quarter increased 8.4% over the prior year period, consisting of a 3.3% increase in pharmacy sales that were partially offset by a 4.4% decrease in front-end sales. The pharmacy sales increase was driven by an increase in sales of Ozempic and other GLP-1s, which have a high sales amount per script.

The decrease in adjusted EBITDA was due to the lower membership I just mentioned, plus an increase in the Elixir Insurance medical loss ratio. Elixir's EBITDA margins are higher by 28 basis points, reflective of a more favorable mix of business, procurement economic improvements and SG&A reductions.

Turning to our cash flows and balance sheet. Our cash flow statement for the quarter shows operating cash use of $372.5 million, due to a build in the CMS receivable to Elixir and the timing of certain accounts receivable and monthly rent payments. Cash used in investing activities was $39.3 million for the quarter.
We generated proceeds of $8.2 million from the sale of prescription files from closed stores and the sale of certain assets.

We ended the fiscal quarter with approximately $1.15 billion in liquidity. The decrease in liquidity from year-end and the corresponding increase in leverage ratio was as expected. Now before I give an update on guidance, I’d like to say the following regarding our capital structure. We have always had an open dialogue with our lenders and are continuing to evaluate several options for addressing our 2025 debt maturities. We do not have a specific update to provide today on those discussions.

Now let’s turn to guidance. As outlined in our last call, we are investing in a proven turnaround model to drive growth and value for our stakeholders. Since our last call, we have seen some changes in our business. On the retail side, we believe our front-end sales trends will improve in subsequent quarters as we implement our initiatives but do expect front-end sales for the year to be less than what we initially planned. At Elixir, we have made the necessary decision to leave the individual Medicare Part D market at the end of calendar year 2023 due to the multiple factors previously outlined.

Due to the anticipated impact of these headwinds, we will also be taking steps to reduce SG&A. Because of this, we have made the following changes to our guidance. Adjusted EBITDA at Elixir is now expected to be between $90 million and $100 million. Retail EBITDA guidance remains at $240 million to $260 million as we expect the impact of incremental SG&A reductions to offset softness in our front-end sales and gross profit. Total revenues are now expected to be between $22.6 billion and $23 billion. We have increased our revenue guidance due to the increase in sales volume in Ozempic and other high-dollar GLP-1s and the increased utilization at Elixir Insurance. Note that both of these items are margin neutral as these factors also increased our cost of sales.

These factors were slightly offset by a decrease in expected front-end sales. We expect to generate a working capital benefit in fiscal 2024 from reductions in prescription brand inventory, SKU rationalization and reductions in seasonal merchandise. But we expect these benefits to be less than initially anticipated. As a result, we are lowering our capital expenditure spend guidance to $175 million. We are forecasting a use of approximately $100 million to $150 million in cash in fiscal 2024 and expect to have sufficient liquidity throughout the year. As we said on our last call, the initiatives that are intended to drive significant value in our turnaround process will take some time to gain traction, but we’ve seen progress in the first quarter.

As a result, we now expect to generate approximately 60% of our adjusted EBITDA for the year in the second half of the fiscal year. This completes our prepared remarks. Sarah, please open the phone lines for questions.
Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Elizabeth Anderson with Evercore ISI.

Elizabeth Hammell Anderson
Evercore ISI Institutional Equities, Research Division

A couple of things. Maybe one, just to kick it off on the numerical thing. Can you just remind us about the impact of COVID vaccines test and OTC tested in the quarter? Because it just seems like you had a nice step-up in core profitability, and I just want to make sure I understand that correctly.

Matthew C. Schroeder
CFO & Executive VP

Elizabeth, thanks. This is Matt. What I would tell you is last quarter we did about 1.7 million COVID vaccines. This year, we did less than $500,000. So a pretty significant drop off in COVID vaccines. From a testing standpoint, we dispensed about $2.5 million antigen kits this quarter, lower than last year’s first quarter as well.

Elizabeth Hammell Anderson
Evercore ISI Institutional Equities, Research Division

Okay. Got it. So maybe talking about some of the improvements on the core. Can you talk about some of the benefits of -- some of the financial benefits of the impact programs in terms of the adherence and how you expect that to trend. Is that something we should sort of like run rate ratably from what we saw in the first quarter? Or is there like an increasing ramp to that as we think about how those programs roll out across the year?

Matthew C. Schroeder
CFO & Executive VP

Yes. I think there’s a couple of things to consider Elizabeth. On the pharmacy side, we had a strong quarter in script growth, the 7.4% without COVID. And some of that is driven by the work we’re doing on adherence, the work we’re doing to reduce abandoned scripts, the work we’re doing to really maximize pull-through opportunities to the extent that there’s changes in networks or network disruption. I would expect that to continue through the rest of the year.

And there’s other initiatives that we’re using to drive to maximize our vaccine penetration in the second half of the year once we get the flu season and we get the kind of the next COVID vaccine. On the front end, it’s a challenging front-end environment. We do have initiatives around improving our assortment around doing planogram changes quicker around getting sharper on our price changes that we really expect to have more of a back-end impact in fiscal 2024. And so again, while expect some front-end pressure, also expect those to really gain some traction here in the back half of the year.

Elizabeth Hammell Anderson
Evercore ISI Institutional Equities, Research Division

And one last one for me. Can you remind us, given your decision to exit the individual Part D market, can you just remind us kind of the impact in terms of number of lives or scripts and sort of how we think about those scripts versus the profitability of the group Part D and EGWP lives.

Matthew C. Schroeder
CFO & Executive VP

So the number of lives we’re currently serving in the Med D plan is about 300,000 lives and those are going to go away as of January 1, 2024. Those lives from a pure underwriting perspective are not profitable. I mean, they’re practically breakeven from a cost ratio standpoint.
There is an impact that we’re going to have on the volume in our specialty and mail order pharmacy. There’s also an impact that we’re going to have from rationalizing our cost structure, and that’s where we’re still working through to fully build out our plans on.

Operator

Your next question comes from the line of George Hill with Deutsche Bank.

George Robert Hill
Deutsche Bank AG, Research Division

Liz hit a lot of my operational questions, Matt. So I guess I’d hop in on the dialogue with the debt securities and thinking about the 2025 maturities. I guess is there any way to frame for us kind of the range of options that are on the table or kind of characterize the discussions?

Matthew C. Schroeder
CFO & Executive VP

Yes, George, as we talked about in the prepared remarks, we’ve always had an open dialogue for our lenders. We’re continuing -- we’re evaluating several pathways to address the capital structure, but we don’t have a more specific update to drive, to provide today. We’re also very much focused on driving our turnaround performance and positioning this business for long-term growth.

George Robert Hill
Deutsche Bank AG, Research Division

Okay. That’s very helpful. And then I guess a quick follow-up for me would be, as we think about the exit of the PDP business, are you able to quantify for us kind of like what is the overlap between the pharmacy business and the PDP business? So like kind of how much script exposure do you guys have to your own PDP business when you guys exit that kind of like what's the script value at the risk?

Matthew C. Schroeder
CFO & Executive VP

I would say the script value. There’s a script value number to, I would say, vis-a-vis the total scripts that we fill for the company is relatively minor.

George Robert Hill
Deutsche Bank AG, Research Division

Okay. And then kind of the last one as we think about the driving of the MLR, I guess I call the MLR, heightened [ MLRs ] and Elixir, I would assume that it’s a lot of the GLP-1s and -- or is there any other product categories that you guys would call out as it relates to the higher medical cost there?

Christopher DuPaul
President & Director

George, this is Chris. I think for this case, while we certainly have those drug trends that you see in other parts of the industry, the key driving factor with this is the shift in the membership base as we cycliced out the auto assignees in those regions where we were -- where we’ve been above the benchmark. And then you have the members who chose to stay through annual enrollment despite significant increases in premiums in those regions. The mix that we were left with and the utilization that we were left with among those members is more the driving factor here than any particular drug category or class.

George Robert Hill
Deutsche Bank AG, Research Division

And sorry. And Matt, just one last housekeeping one. Given you've called out the vasc number, could you remind us what is the vasc assumption in the guidance for the year in the pharmacy business?

Matthew C. Schroeder
CFO & Executive VP
Yes, the vacs assumption for COVID is about $3 million.

Operator

Your next question comes from the line of Lisa Gill with JPMorgan.

Lisa Christine Gill  
_JPMorgan Chase & Co, Research Division_

Matt, I want to start just with the pharmacy trend. You talked about the Kroger dispute. Can you quantify what the impact has been? And then if we think back to former disputes, can you talk about this script, not just the capture, but what you were able to maintain if they do come to some kind of agreement between Kroger and [ESI]?

Matthew C. Schroeder  
_CFO & Executive VP_

Lisa, thanks. We haven't quantified a specific impact from the Kroger dispute. I would say what we are doing is getting our fair share of the volume that would come -- what you expect to get from that from the standpoint of market location and network participation and as far as that goes.

The last thing that really wind back that I can think of to wind back where we had a dispute, this significance was the Walgreens Express dispute from over a decade ago at this point. And we had a pretty solid retention of scripts, and we're able to keep a lot of those scripts. I don't remember the exact amount. It was definitely north of 50% of the scripts were we were able to keep as what comes to mind.

Lisa Christine Gill  
_JPMorgan Chase & Co, Research Division_

And then on the front end, you talked about some company-specific issues, perishables, new vendor, the shift towards private label, et cetera. One of your larger competitors talked about more of a macro issue and real changes in consumer behavior. Can you maybe just bifurcate that for us as to how much do you think is Rite Aid and Rite Aid can fix versus more of a macro issue from a consumer perspective?

Matthew C. Schroeder  
_CFO & Executive VP_

Yes, Lisa, I think it's hard to, honestly, to parse out the 2 and as far as x number of [bps] is on an X number of [bps] is the other. Certainly, as we looked out through the categories, the issues in consumables and some of the private label work that we're doing is more of the company-specific issue. I think for -- in the drugstore space, obviously, just the fact that we're cycling a pretty strong flu and allergy season from last year at the same time has a pretty significant impact on OTC. That's more industry.

I think we are seeing a cautious consumer, but what we're trying to focus on is really what are the things that we know that are in our control, to improve our results and drive better sales. And that gets back to assortment, it gets back to pricing, it gets back to better targeted marketing.

Lisa Christine Gill  
_JPMorgan Chase & Co, Research Division_

And then also shrink, right? So that's been an issue. And I think, Matt, you made a comment that you'll have new leadership when we think about that area. Can you maybe talk about what shrink was in the quarter? And what are the potential opportunities there?

Matthew C. Schroeder  
_CFO & Executive VP_

Our shrink headwind compared to last year is about $9 million over last year in the quarter. So it was a sizable number. As you know, Lisa, this is just such an industry problem. We have -- certainly, we've made decisions to close stores in high-shrink areas. We've made investment in -- in security, we made investment in ways to secure product.
I think really, with the leadership change we're making, we're really trying to think of what are some innovative ideas to put to a problem that's a problem that's always played the industry, the retail industry. But it's manifested itself, I think, in a different way than it has historically over the last couple of years. So I don't think there's a silver bullet to solving this, but we're excited about the new leader we've brought in. We think he's going to bring some innovative ideas to help us tackle this problem.

Lisa Christine Gill  
JPMorgan Chase & Co, Research Division

And just one last one for me, and that would be just around procurement and generic pricing right now. So we're hearing stabilization on the generic pricing side. Are you also seeing that? I know there's always pressure on reimbursement rates when you think about drug retail, but we are hearing stabilization there and some better opportunities around generic pricing. Are you seeing that as well?

Matthew C. Schroeder  
CFO & Executive VP

We are, Lisa. We are. And we're also doing some things just around maximizing flexibility in our own purchasing arrangements to try to grab as much savings as we can. But yes, it's -- we're seeing some stabilization in generic pricing. And overall, I would say our drug purchasing numbers ended up being a little better in the first quarter than what we thought it would be.

Operator

Your next question comes from the line of Carla Casella with JPMorgan.

Carla Marie Casella Hodulik  
JPMorgan Chase & Co, Research Division

Quick on the revolver draw. It's about $200 million higher than we expected, and it looks like it's driven by kind of inventory and receivables. And I'm wondering, is there unusual build in either inventory and receivables because of some of the vendor changes you were talking about upfront or anything on the CMS receivable side?

Matthew C. Schroeder  
CFO & Executive VP

Carla, it's Matt. Thanks. I'll start with the inventory. It's really focused in pharmacy inventory, and it's just -- it's been driven by some AWP inflation in our generic drugs. As we move throughout the year and we implement some initiatives to really to get more efficient in the amount of inventory we carry for -- in the pharmacy for both brands and generics. I expect that number to come down.

The receivables is really all timing. It's a combination of the build of the CMS receivable which we will look to securitize later in the year. And it's also built around just timing of some payments of receivables both on the retail side from PBMs and on the pharmacy side from payments from a rebate aggregator. Those are all just kind of calendar timing issues.

Carla Marie Casella Hodulik  
JPMorgan Chase & Co, Research Division

And then just can you update us where you are today in terms of total script count on an annual basis?

Matthew C. Schroeder  
CFO & Executive VP

Yes, I don't have that number off the top of my head. So why don't -- at the risk of giving a bad number, we'll push it over to you.
And let me just ask one other than on the store closures. It looks like you closed 25 stores. Was there a concentration in any one market and I have been forecasting that you were done with your store closure program after the 145 from last year. Is there a new effort to kind of reevaluate and close stores?

Matthew C. Schroeder  
CFO & Executive VP

Carla, we’re always looking at store performance, this is something we do on an ongoing basis. So I would characterize this less as a wholesale program and more as we are constantly looking at the store base. We’re constantly looking at performance of stores, particularly ones that don’t have much lease life left on the lease and determining whether we’ve got an opportunity to continue to maximize the profitability and the efficiency of the fleet.

I would expect us to continue to do that. I don’t have a number of store closures to give you, but it’s certainly something we’re going to continue to look at as we think about just how do we drive as much profitability as we can while still maintaining the presence in communities and providing access to our customers and communities.

Operator

Your next question comes from the line of William Reuter with Bank of America.

William Michael Reuter  
BofA Securities, Research Division

My first question is, with the exit of the individual Medicare Part D, I think you mentioned it's kind of breakeven. How much SG&A is associated with this? And I guess, what are the challenges or costs going to be to eliminate these parts of your P&L?

Matthew C. Schroeder  
CFO & Executive VP

William, thanks for the question. I think there certainly are costs relative to administering the plan, taking calls from members, compliance with regulations that we’re going to have to work on how do we unwind those costs out of the system. And some of those will be -- we’ll start to think about this year. A lot of them will have to keep in place until December, so we can support our members.

Too early to give you a number. It’s something that we’re still taking a really hard look at from the standpoint of just driving as much cost as we can out of the system, without having those members while still obviously being able to support the members that we have, both in the Med D plan and then in our business going forward.

William Michael Reuter  
BofA Securities, Research Division

And then with the assumption that you’ll still administer 3 million COVID vaccines, it's still somewhat meaningful. What are the expectations on how profitability of these is going to be for the remainder of the year?

Matthew C. Schroeder  
CFO & Executive VP

I would expect the profitability of the COVID vaccines to mirror the profitability that we see on a flu vaccine. So you’re talking about probably something that’s $25 per script on a gross profit dollars basis then less whatever SG&A, it costs to administer those vaccination. And that’s very similar to what we see on flu and other vaccinations that we do.

William Michael Reuter  
BofA Securities, Research Division
And then just lastly for me. In terms of -- you mentioned it's early in the bidding season. I guess, your level of optimism that Elixir may gain additional lives or I guess, any concerns about potential losses of lives for next year?

Matthew C. Schroeder  
CFO & Executive VP

Bill, we're showing well in the marketplace. We're getting good feedback from consultants. We're getting good feedback from -- in the bids we're doing, but it's too early to give a projection on what the selling season is going to be like and what the lives are going to be at the end of the year.

Operator

We have time for one last question, and that will come from the line of Karru Martinson with Jefferies.

Karru Martinson  
Jefferies LLC, Research Division

Just following up on Bill's question regarding the selling season. Have you seen kind of an unlock of the companies coming to market given the past 3 years of lower-than-expected selling seasons?

Christopher DuPaul  
President & Director

This is Chris. I'll take that one. Look, as we go into this part of the season, this is when we are heading into our -- the hardest part for our core market. We are, as Matt said, encouraged by both the number of RFPs that we're seeing as well as the lives associated with those. And as we work through our renewals so far as we move through the season, we're real happy with where we sit there. But as Matt said, it's still very early in the season, and we'll provide an update as we get more towards year-end.

Karru Martinson  
Jefferies LLC, Research Division

And then when you look at the vendor transition, especially on the perishable food side, now that, that is complete, have you seen a shift in kind of your front-end sales trends here in the second quarter?

Matthew C. Schroeder  
CFO & Executive VP

Yes, Karru, still probably a little early to comment on front-end sales trends in the quarter. We're still seeing some pressures in June so far, but very, very early.

Karru Martinson  
Jefferies LLC, Research Division

And I know you don't want to talk about your capital structure and the options that are there. But when you look at it, is this more of a holistic view of put the company into a position where you can invest in your core businesses? Or is this more just -- let's take care of the 25 majority and move forward from there?

Matthew C. Schroeder  
CFO & Executive VP

Yes. As we said, Karru, we're looking at several pathways to address the capital structure. All the more we're ready to talk about that publicly yet. Whatever we do, we're going to be focused on driving our turnaround performance and positioning our business for long-term growth.

Operator

I will now turn the call over to Matt Schroeder, Chief Financial Officer, for any closing remarks.

Matthew C. Schroeder
CFO & Executive VP
Thanks, Sarah, and thanks, everybody, for joining the call today. We look forward to speaking with you again when we announce our second quarter earnings in September. Take care.

Operator
This concludes today's conference call. Thank you for joining today's conference call. You may now disconnect your line.