

Rite Aid

Refinancing in the works

Rite Aid announced this morning that intends to issue a new \$400 million Term Loan to refinance its \$145 million Term Loan A that matures in September 2010, and part of its revolver. This is the first step in refinancing a total of \$1,531 million (drawn, or \$2,443 million including the un-drawn portion of the revolver). **We view this news as a positive for RAD**, as it will put them a step closer to pushing out their pending maturities, but we maintain our **Neutral** on the company from a credit perspective. The industry remains highly competitive, and RAD highly levered (7.3x). Additionally, we expect this deal will be followed by additional financings (first or second lien bonds, AR facility) which could further subordinate the bonds.

Within the capital structure, we prefer the guaranteed notes over the second lien notes. The second liens (Caa2/B-) trade 300bps wide to the existing bank debt (B3/B-). If the bank debt moves off with this new offering, the second liens could also come under pressure (so far they rallied on the news). The guaranteed notes (Caa3/CCC) trade about 700bps behind the second liens, and are less than 1x more levered – see chart on following page. We would expect those bonds to be more influenced by improved liquidity if refinancing transactions are completed. The unsecured notes (Ca/CCC) trade only about 200bps wide to the guaranteed notes yet are 0.4x more levered, which we don't think is enough to compensate for the higher leverage risk.

- Rite Aid announced a \$400 million term loan due 2015. The existing Rite Aid term loans traded in the high 9% range, and mature in 2014. The most recent Term Loan issue (\$350 million face value) was completed about a year ago (L+300 at a 10 point discount).
- There are 4 upcoming September 2010 maturities: the \$1.75 billion Revolver (\$838 million drawn, \$188.3 million of LC's utilized, and \$724 million available), \$145 million Term Loan A, \$330 million First Lien AR securitization, and ~\$220 million Second Lien AR Securitization. The company commented that this is the first step in addressing these maturities and that it will consider using bank debt, HY bonds, or securitization facilities to take care of the remainder. **We believe that RAD is bringing the new TL first to see how much additional financing it will need.** We would not be surprised if the company were to upsize the current offering if the interest is there.

See page 3 for analyst certification and important disclosures.

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Neutral

Moody's: Ca; Outlook,Negative
S&P: CCC; Outlook,Negative
Fitch: CC; Outlook,Negative

Ticker

RAD

HY Consumer, Food, Retail

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Liquidity improves somewhat

While this transaction improves Rite Aid's liquidity, by taking care of one of its 2010 maturities, the company still has to refinance its AR facilities and extend or refinance its revolver.

We don't see the revolver extension as a problem. We expect that to be taken care of at the same time as the new term loan. We have not seen the proposed amendments the company is seeking under its credit facility, but would anticipate that it includes a downsizing and extending of the existing revolver, and potentially an amendment to permit additional secured debt.

Management commented during its last conference call that it could add (through issue or draw on its revolver) a total of \$847 million of secured debt (first or second lien). This proposed transaction should not alter that amount because it is replacing secured debt with new secured debt.

Table 1: RAD capitalization - actual, pro forma, and market value

Rite Aid		28-Feb-09					
Capitalization and Leverage				Net Debt/ EBITDA	x Price	Market value	Net Debt/ EBITDA
LTM EBITDA		968.4					
LTM EBITDAR		1,963.4					
Cash		152.0					
		<u>Pro Forma</u>					
Revolver (\$1,750 million max due 9/2010) L+175	838.0	568.0				568.0	
Term loans - Tranche 1 due 9/30/10 L+175	145.0	0.0				0.0	
Term loans - Tranche 2 due 6/4/14 L+175	1,096.7	1,096.7				1,096.7	
Term loans - Tranche 3 6/4/14 L+300	317.6	317.6				317.6	
Term loans - Tranche 4 due 2015 L+650		400.0					
Capital leases	193.8	193.8				193.8	
AR securitization facility (\$450 million max due Jan 22, 2010) L+ 325	330.0	330.0				330.0	
2nd lien TL (on the AR under the AR facility) L+1400	225.0	225.0				225.0	
Total bank debt, cap leases, and AR facility	3,146.1	3,131.1	3.1 x	26-May-09	2,731.1	2.7 x	
7.5% senior secured notes due 2017	500.0	500.0		74.00	370.0		
10.375% senior secured notes due 2016	429.0	429.0		85.00	364.6		
Other	4.2	4.2			4.2		
Total senior secured notes	944.3	944.3	Rent Adj:		749.6	Rent Adj:	
Total senior secured notes and bank debt	4,090.4	4,075.4	6.1 x		3,480.8	5.7 x	
8.625% senior notes due 2015	500.0	500.0		62.00	310.0		
9.375% senior notes due 2015	405.2	405.2		62.00	251.3		
9.5% senior notes due 2017	799.3	799.3		62.00	495.5		
Total guaranteed notes	1,710.5	1,710.5			1,061.8		
Total debt through senior notes with guarantees	5,800.9	5,785.9	6.9 x		4,542.6	6.3 x	
6.875% senior debentures due 2013	184.8	184.8		57.00	105.3		
7.7% notes due 2027	295.0	295.0		37.00	109.2		
6.875% fixed-rate senior notes due 2028	128.0	128.0		37.00	47.4		
8.5% convertible notes due 2015	158.0	158.0		62.00	98.0		
<i>Total unsecured debt</i>	<i>765.8</i>	<i>765.8</i>			<i>359.8</i>		
Total debt through unsecured	6,566.7	6,551.7	7.3 x		4,902.4	6.5 x	
Market value of equity	895.0	895.0			895.0		
Total Enterprise Value	7,461.7	7,446.7	7.8 x		5,797.4	6.9 x	

Source: Company reports and J.P. Morgan estimates.

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