
Kroger-Albertsons Transaction Overview

Health Care Market Oversight

Community Review Board for 013 Kroger-Albertsons Review

April 10, 2024

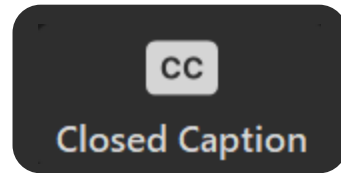


Oregon
Health
Authority

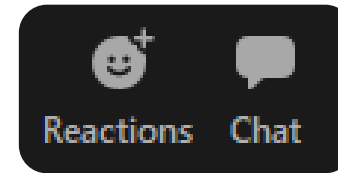
Meeting Logistics



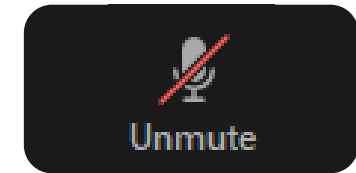
This meeting is being recorded



Closed captioning is available



Use the raise hand or chat feature if you want to share a question or comment



Remain muted until it's your time to speak

Meeting Agenda

Today we will learn more about the proposed Kroger-Albertsons transaction and how it might affect communities and people in Oregon.

- About the proposed transaction
- HCMO and other regulatory review processes
- The pharmacy landscape
- Why consolidation matters for health care
- How might the transaction impact Oregon?
- Discussion: What questions do you have about the proposed transaction?

Public comments

To submit a public comment about this or any HCMO transaction:

- Email hcmo.info@oha.oregon.gov
- Call 503-945-6161 and leave a voicemail

Mention “Kroger” in your message. Comments will be posted to the HCMO website.

Community Review Board Members

Jeanette Baxter

David Hill

Laura Johnson

Dan Kennedy

Kevin Knutson

Craig Newton

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Contact us by emailing hcmo.info@oha.oregon.gov.

Public Hearing

The public hearing is scheduled

April 24, 2024, 1:00 PM – 3:00 PM via Zoom

Proposed agenda:

1. OHA staff provide high level information about HCMO's review and the proposed transaction
2. Representatives from Kroger, Albertsons, and C&S provide testimony
3. Q&A with representatives from Kroger, Albertsons and C&S
4. Public comment and testimony

Public hearing outreach

OHA is using multiple channels to get the word out:

- Newspapers in general circulation
- OHA email newsletters (Oregon Health News, Provider Matters)
- Social media
- State and local officials
- Coordinated Care Organization Innovator Agents

About the proposed transaction

Kroger and Albertsons are planning to merge

Together, Kroger and Albertsons operate 4,997 grocery stores and 176 in Oregon.

In October 2022, the companies announced plans for Kroger to buy Albertsons in a \$24.6 billion deal.

In September 2023, the companies announced a plan to sell approximately 413 stores nationwide (49 in Oregon) to C&S Wholesale Grocers.

RETAIL

Kroger agrees to buy rival grocery company Albertsons for \$24.6 billion

OREGON

Kroger, Albertsons announce plans to sell 49 Oregon stores, pending federal approval

MYNORTHWEST NEWS

Kroger, Albertsons selling QFC brand name, over 400 stores in \$1.9B deal

Kroger is the largest supermarket chain in the nation



\$148 billion revenue in 2022
2,700+ supermarket stores in 35 states
20+ grocery store banners
430,000 full and part-time employees

Fred Meyer



55 Fred Meyer and QFC grocery stores
14,600 employees

Kroger is one of the largest *pharmacy* chains in Oregon...

FredMeyer.



Nationwide



\$148 billion revenue

2,700+ supermarket stores in 35 states

20+ grocery store banners

430,000 full and part-time employees

2,252 retail pharmacies in 35 states

Oregon



55 Fred Meyer and QFC grocery stores

14,600 employees

53 retail pharmacies in 20 counties

Mail-order pharmacy, pharmacy benefit management, and specialty pharmacy

Albertsons is also one of the largest supermarket and pharmacy chains in Oregon



\$77.65 billion revenue in 2022
2,200+ supermarket stores in 34 states
15+ grocery store banners
285,000+ employees
1,726 retail pharmacies in 34 states
Mail-order and specialty pharmacy



SAFeway 

 Albertsons

121 Safeway and Albertsons grocery stores
~14,000 employees
106 retail pharmacies in 28 counties
Telehealth services (through Providence Health)
Leases space to 7 Quest Diagnostics patient service centers

C&S is a grocery wholesaler that currently operates 1 pharmacy



Nationwide

Wholesale grocery supplier to 7,700 independent supermarkets, retail chain stores, and military bases

\$30 billion in revenues

23 retail stores

2 retail grocery banners

15,000 employees

1 retail pharmacy



Oregon

Wholesale grocery supplier

No retail grocery stores or pharmacies in Oregon

What are the merger and divestiture terms?



- Kroger pays **\$24.6 billion** to purchase Albertsons
- Kroger takes on **\$4.7 billion** of Albertsons debt
- Albertsons becomes a wholly-owned subsidiary of Kroger
- C&S pays **\$1.9 billion** for selected Kroger and Albertsons stores, brand names, distribution centers, and offices.

Commitments by the entities



Kroger will not close any stores, distribution centers or manufacturing facilities or lay off any frontline associates as a result of the merger.

The divestiture plan ensures no stores will close as a result of the merger...

C&S will continue to recognize the union workforce and maintain all collective bargaining agreements [...].

Kroger has no plans to reduce the scope or types of health care products and services offered in Oregon, the number of its grocery stores or pharmacies in Oregon, or the types of insurance accepted at its pharmacies...



HCMO and other regulatory review processes

HCMO's review of the Kroger-Albertsons merger

Began in August 2023 after the entities filed a notice

Focuses on pharmacy and prescription drugs

Assesses impacts in Oregon

Will result in a decision to approve, approve with conditions, or disapprove the transaction

HCMO comprehensive review approval criteria

- A. There is no substantial likelihood that the transaction would:
- Have material anti-competitive effects;
 - Be contrary to law;
 - Jeopardize the financial stability of a health care entity involved in the transaction; or
 - Otherwise be hazardous or prejudicial to consumers or the public

and

- B. The transaction will benefit the public good and communities by:
- Reducing the growth in patient costs or maintaining sustainable cost growth;
 - Increasing access to services in medically underserved areas; or
 - Rectifying historical and contemporary factors contributing to a lack of health equity or access to services.

or

- C. The transaction will improve health outcomes for residents of this state.

Key questions for OHA's review

1. Will the transaction reduce competition in Oregon's retail pharmacy market?
2. Will C&S be a viable competitor and pharmacy operator?
3. Will insurance companies or patients pay more for prescriptions filled at Kroger and Albertsons pharmacies?
4. Will the transaction result in store closures or other reductions in access to pharmacy services?

Key questions for OHA's review

5. Will the transaction change the types of insurance accepted at pharmacies?
6. Will the transaction make it harder to adequately staff pharmacies?
7. Will the transaction result in changes to the pharmacy services provided?
8. Will the transaction affect some communities or groups more than others?

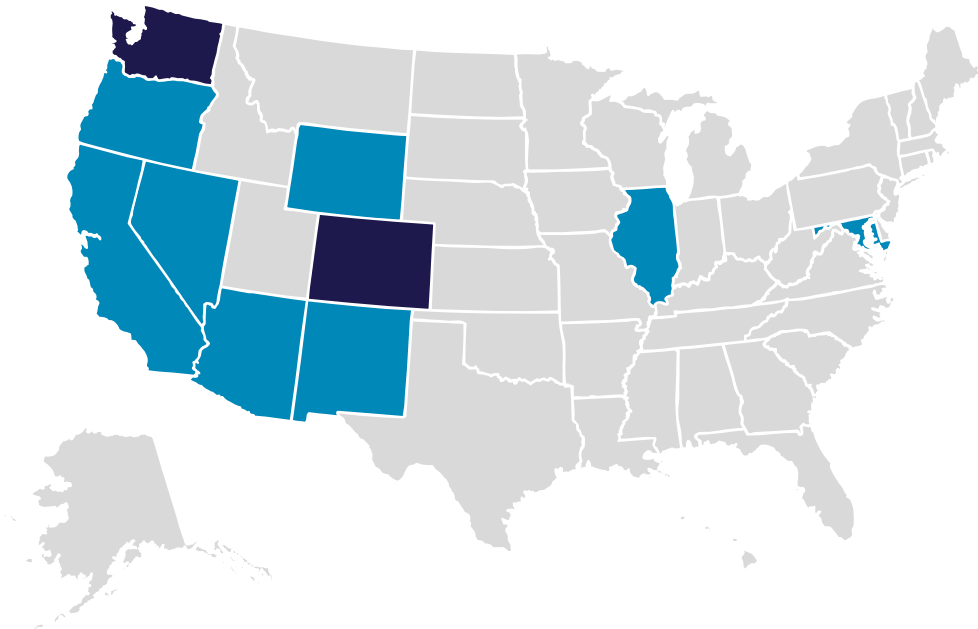
This deal is also undergoing review by other state and federal agencies

The Federal Trade Commission (FTC) is pursuing an antitrust lawsuit to block the merger.

Eight states, including **Oregon**, and D.C. have joined this suit.

Colorado and Washington have filed separate suits opposing the merger.

Oregon joins lawsuit blocking Kroger-Albertsons 'mega merger'



HCMO vs. FTC action

	Oregon's HCMO Review	FTC
Business	Pharmacy and prescription drugs	Grocery and all business
Geographic authority	Oregon	Nationwide
Criteria/ focus areas	Competition, cost, access, quality, equity	Competition
Outcome	OHA issues a decision	FTC issues a decision
Timeline	No sooner than August 2024	Administrative hearing date currently set for July 31 st

The FTC lawsuit highlighted some pharmacy concerns

- Offering pharmacy services is an important way for Kroger and Albertsons to compete to attract supermarket customers
- Kroger and Albertsons compete to win pharmacy patients, retain prescriptions, and to offer other pharmacy services
- This competition incentivizes Kroger and Albertsons to offer promotions and adjust pharmacy hours and staffing to be more attractive to pharmacy patients.
- The proposed transaction would reduce Kroger's and Albertsons' incentive to continue offering the same level of pharmacy services.

High Level Timeline



OCT 2022

Entities announce merger



AUG 2023

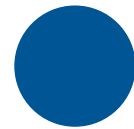
HCMO accepts notice and preliminary review begins



SEP 2023

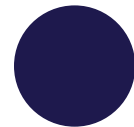
HCMO begins comprehensive review

Entities announce divestiture plan



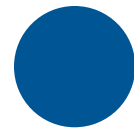
FEB 2024

FTC files antitrust lawsuit



APR 2024

HCMO convenes community review board



MAY 2024

Expected recommendation from community review board



SUMMER 2024**

Expected timeline for HCMO to complete review

**Timeline subject to change


The pharmacy landscape

Pharmacies play a crucial role in our health care system, because they...

- Dispense medications and other supplies people need to recover from infections, viruses, and other short-term illnesses.
- Offer accessible advice from licensed professionals on how to safely take medications.
- Provide vaccinations and other health care services.
- Sell over-the-counter drugs and health care products.
- Help people manage chronic diseases such as diabetes, depression, or high blood pressure.
- Help patients continue recovering at home after a hospital stay.

Retail pharmacies

- Dispense prescription medications, other medications and supplies.
- Often provide health care services, such as vaccines.
- Are licensed by the Oregon Board of Pharmacy.
- Are staffed by licensed pharmacists and pharmacy technicians.



There are
approximately 500
retail pharmacy
locations in Oregon.

Other types of pharmacies

Specialty pharmacies

- Dispense “specialty drugs”
- Few or no physical locations
- Provide extra clinical support to patients
- Frequently owned or affiliated with pharmacy benefit managers

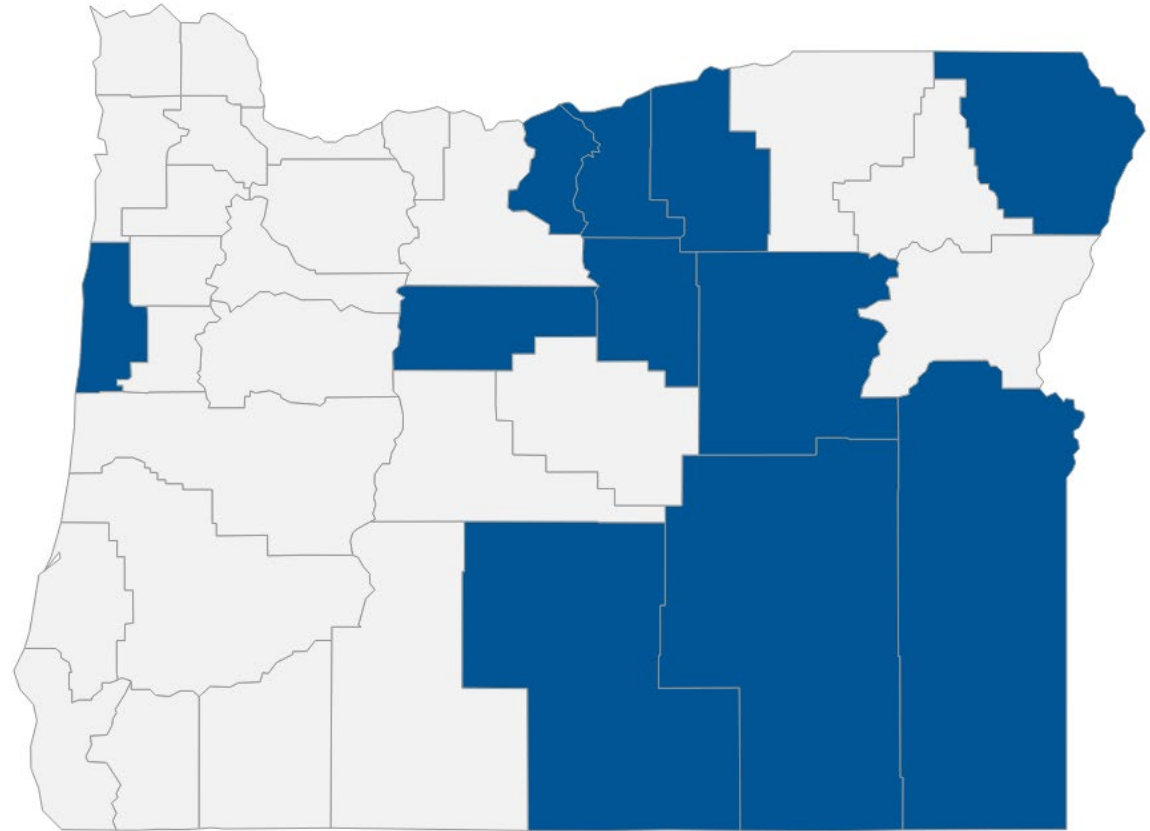
Online & mail-order pharmacies

- Fulfill prescriptions by mail or other delivery service
- Deliver medications to patient’s home or doctor’s office
- Offer online ordering/refills
- May offer virtual prescribing or medical consults

Many areas in Oregon have limited access to retail pharmacies

A pharmacy desert is an area where most people have to drive more than 15 minutes to reach a pharmacy.

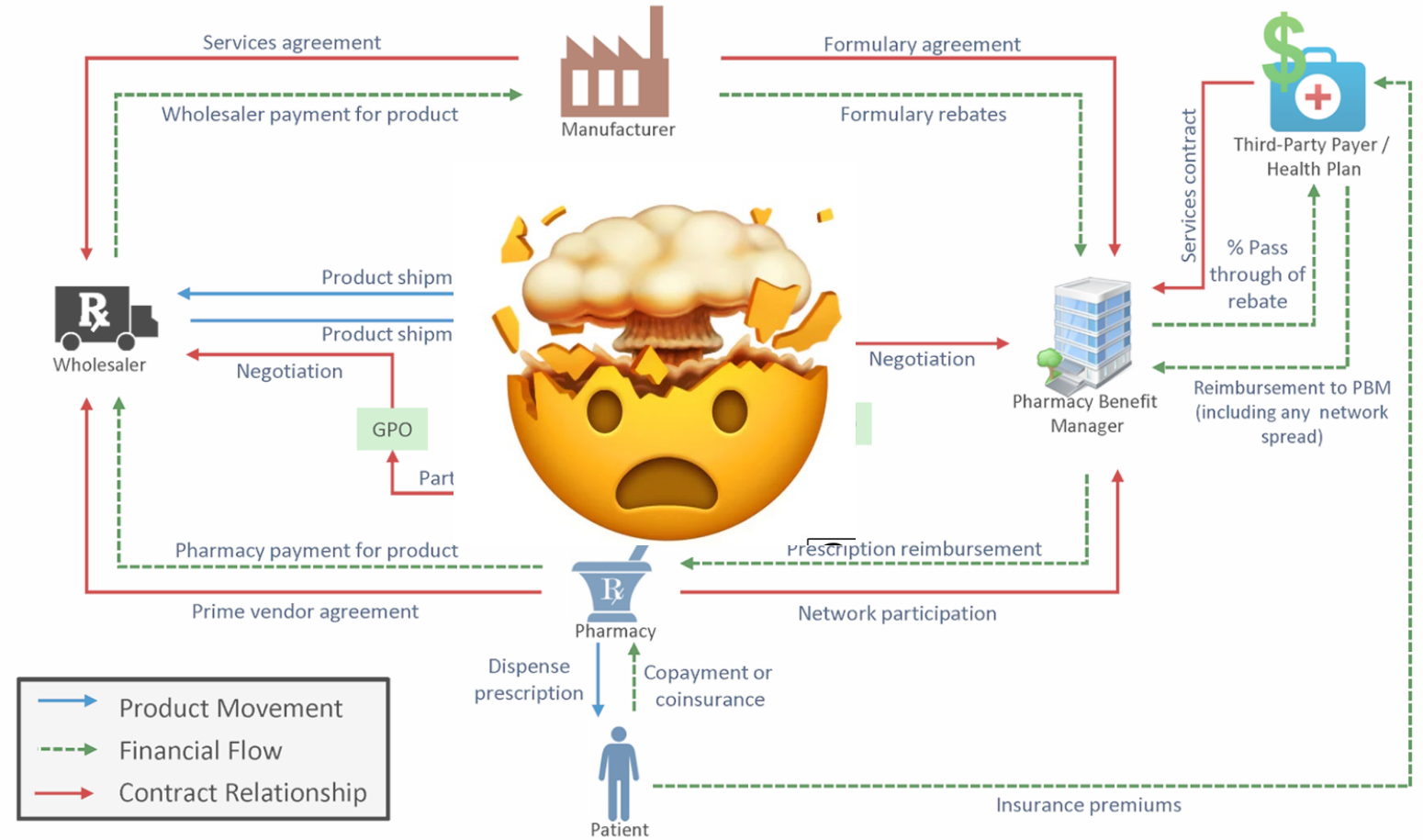
11 Oregon counties are pharmacy deserts.



Source: GoodRx

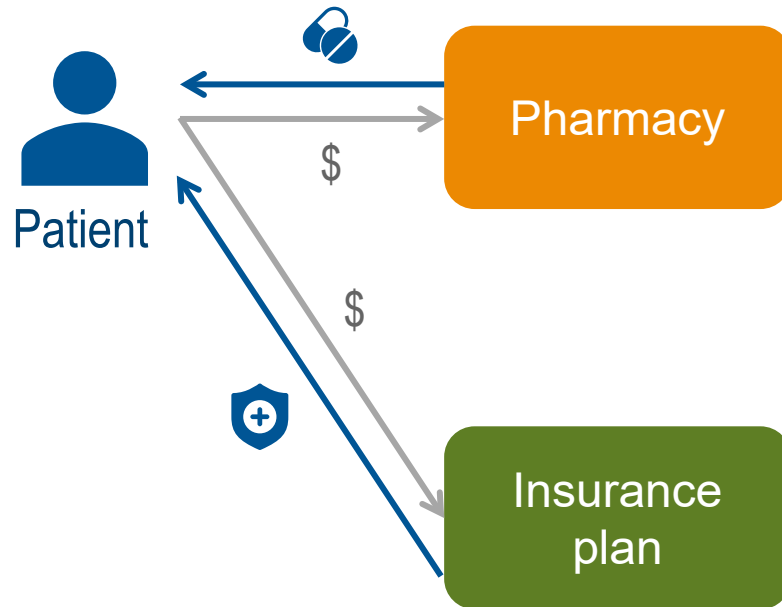
Prescription drug payment and supply chains are complicated.

U.S. Distribution and Reimbursement System: Patient-Administered, Outpatient Drugs



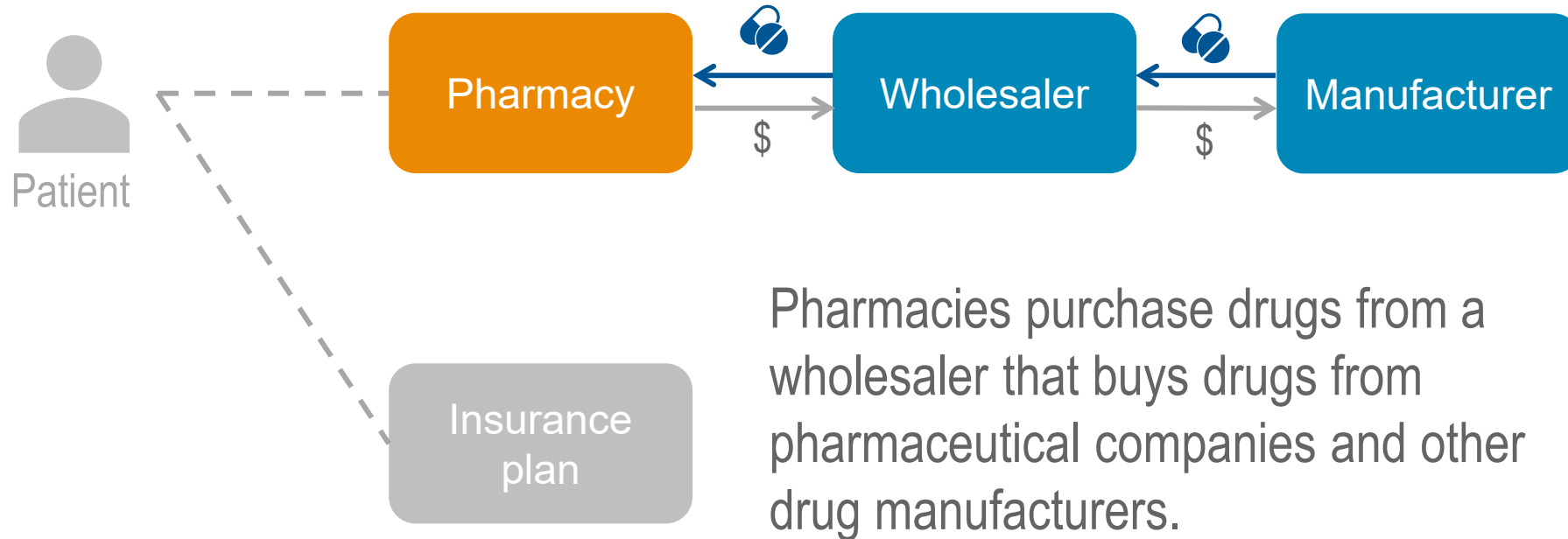
Source: Fein, Adam J., *The 2017 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*, Drug Channels Institute, 2017. Chart illustrates flows for **Patient-Administered, Outpatient Drugs**. Please note that this chart is illustrative. It not intended to be a complete representation of every type of financial, product flow, or contractual relationship in the marketplace.
 GPO = Group Purchasing Organization; PSAO = Pharmacy Services Administrative Organization

Key players in prescription drug markets

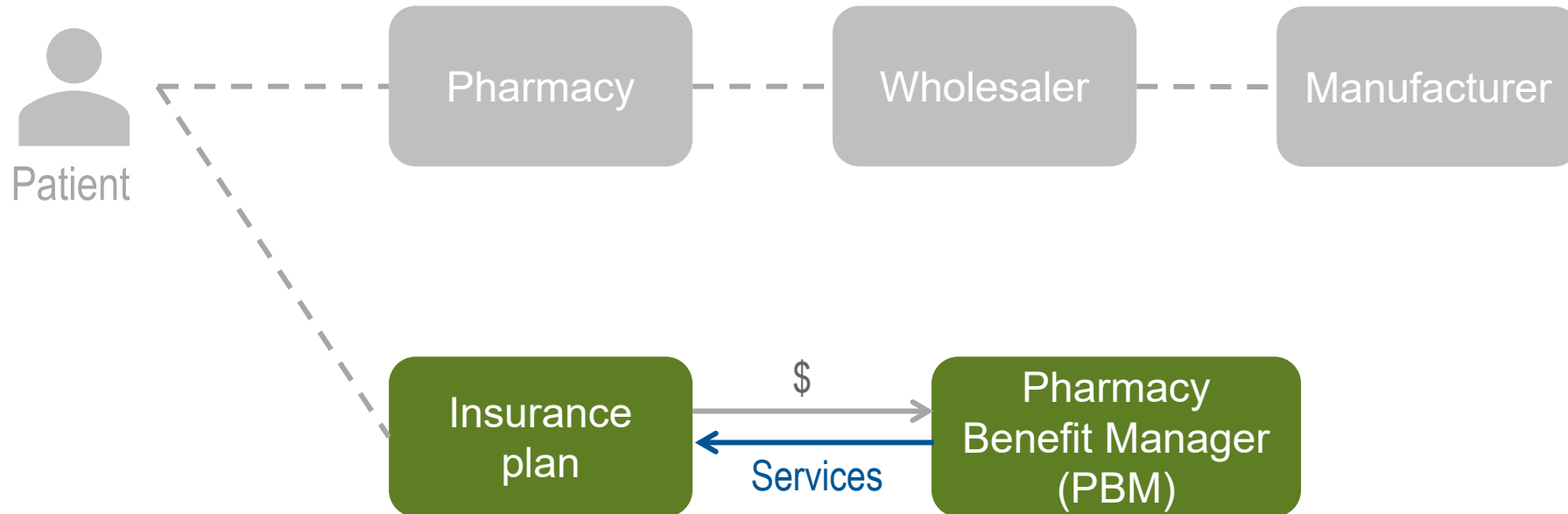


Pharmacies dispense drugs to plan members and receive copays and coinsurance.

Key players in prescription drug markets

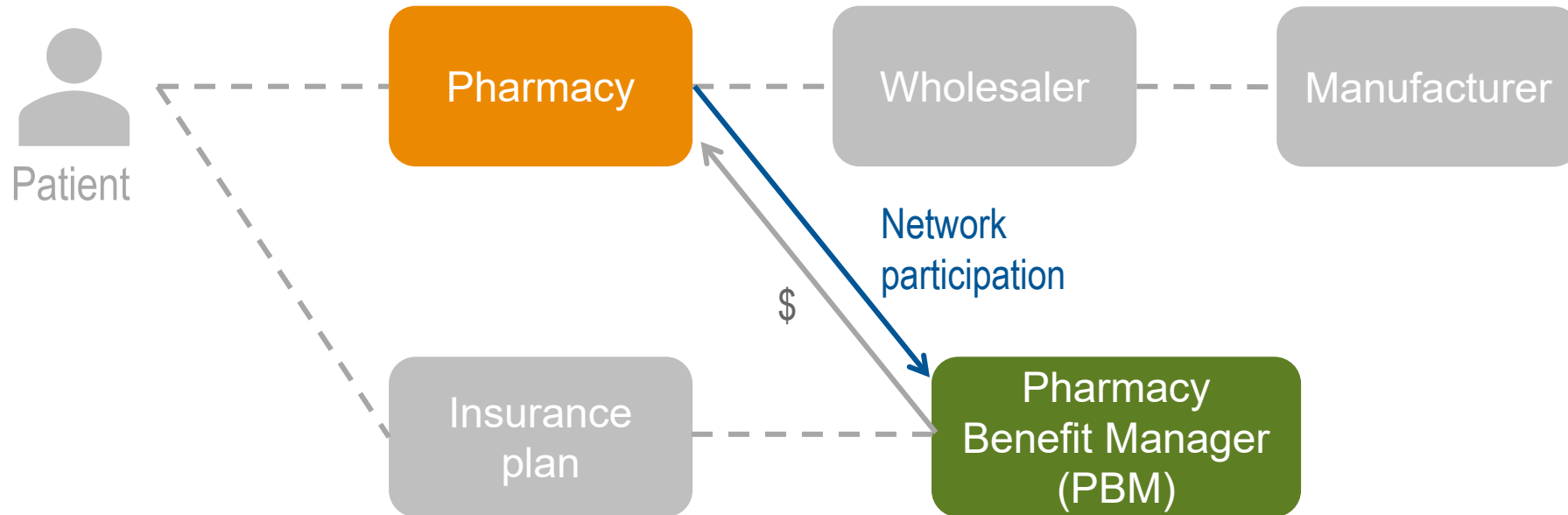


Key players in prescription drug markets



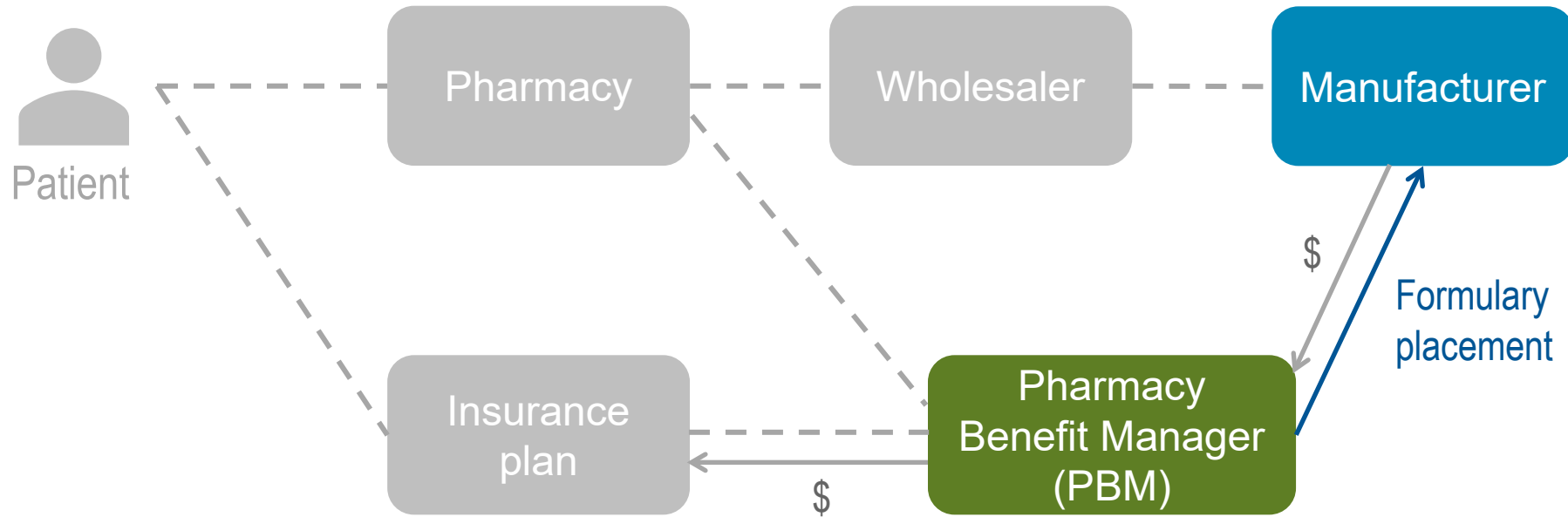
Insurance plans pay administrative fees to PBMs to manage drug benefits. Plans also pay for drugs and pay dispensing fees that pass through PBMs to pharmacies.

Key players in prescription drug markets



PBMs contract with pharmacies to be included in an insurance plan's network and negotiate payment rates with pharmacies to dispense drugs.

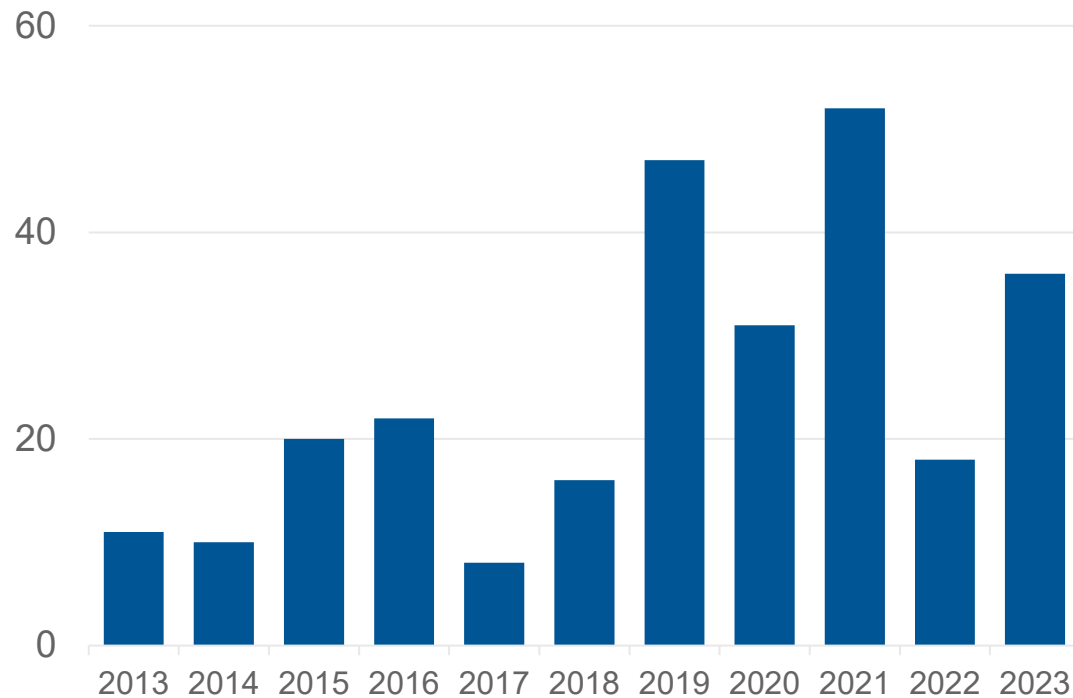
Key players in prescription drug markets



PBMs negotiate with manufacturers for inclusion of drugs in plan formularies and to obtain rebates.

Trend: Pharmacy closures are increasing

More pharmacies have closed in recent years. This chart shows closures for licensed pharmacies with locations in Oregon.



Source: Oregon Board of Pharmacy



Tillamook Pharmacy closes after 22 years in business



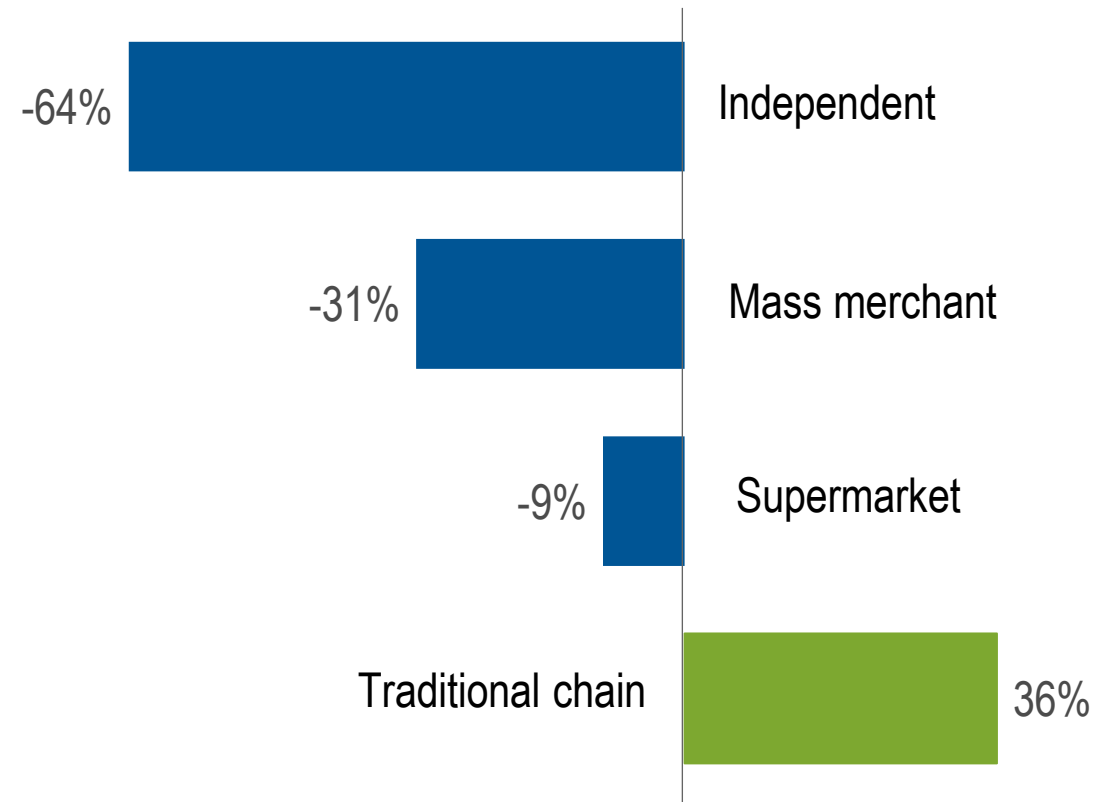
Rite Aid to close more stores in Oregon, SW Washington



Rural pharmacies continue to close as legislature takes another look at regulation

Trend: Independent pharmacies are being replaced by chain pharmacies

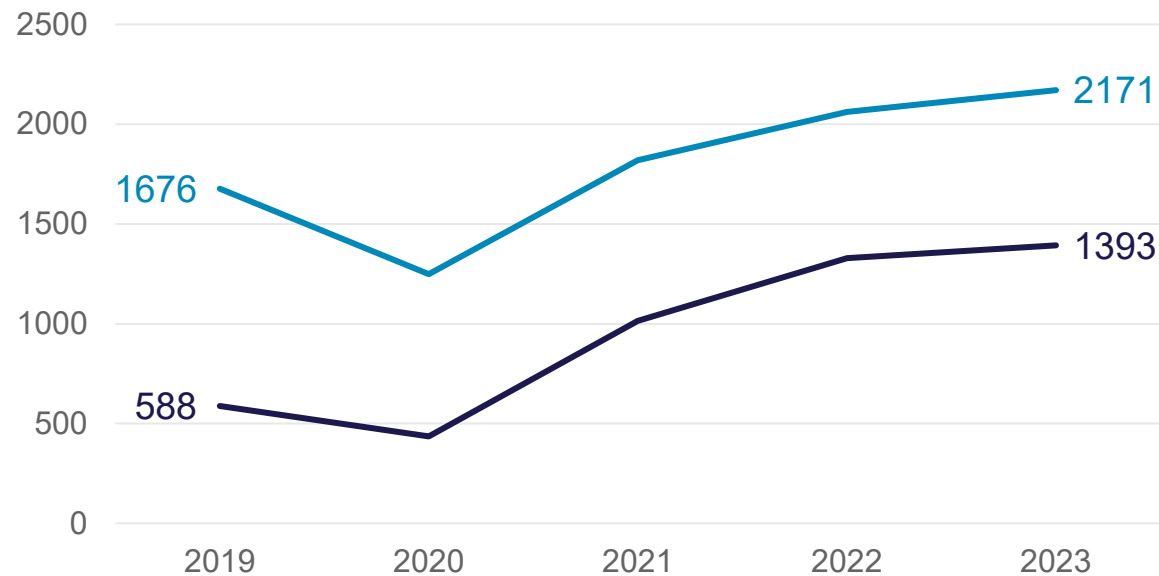
The number of independent pharmacies in Oregon declined by **64%** between 2008 and 2022, from 248 to 90, while chain pharmacies grew 36%.



Source: National Community Pharmacists Association

Trend: Pharmacies are facing staffing shortages

The number of job postings for **pharmacists** and **pharmacy technicians** in Oregon has increased in recent years, suggesting challenges filling positions.



Source: American Association of Colleges of Pharmacy



Pharmacies across Oregon struggling with staffing shortages

WILLAMETTE WEEK

Walgreens Pharmacists Walk Out, Demanding Better Working Conditions



Long pharmacy wait times sending some patients back to the hospital

Why consolidation matters for health care

Consolidation is when two or more companies combine

Consolidation can occur through different types of business deals:

- Mergers
- Acquisitions
- Joint ventures
- Partnerships
- Affiliations

Consolidation in **health care** can involve entities such as:

- Hospitals and health systems
- Insurers
- Clinics
- Pharmacies
- Other companies involved in delivering health care

Consolidation in health care can result in...

Higher prices

Consolidation can lead to higher prices for products & services, higher insurance premiums¹

No improvements to quality or outcomes

Consolidation may reduce quality of care in some cases, e.g., by increasing use of low-value procedures²

Changes to services

Consolidation can impact the type, location, and staffing of services, particularly in rural areas³

1. See for example, Curto et al, Health Affairs, 2022
2. See for example, Young et al, Health Affairs, 2021
3. See for example, Mosher Henke et al, Health Affairs, 2021

Case study: Albertsons-Safeway

In 2015, Albertsons acquired Safeway, divesting 146 stores to Haggen, a regional grocery chain in the Pac NW.



Less than a year after the sale, Haggen filed for bankruptcy. It closed 127 stores and laid off thousands of workers.

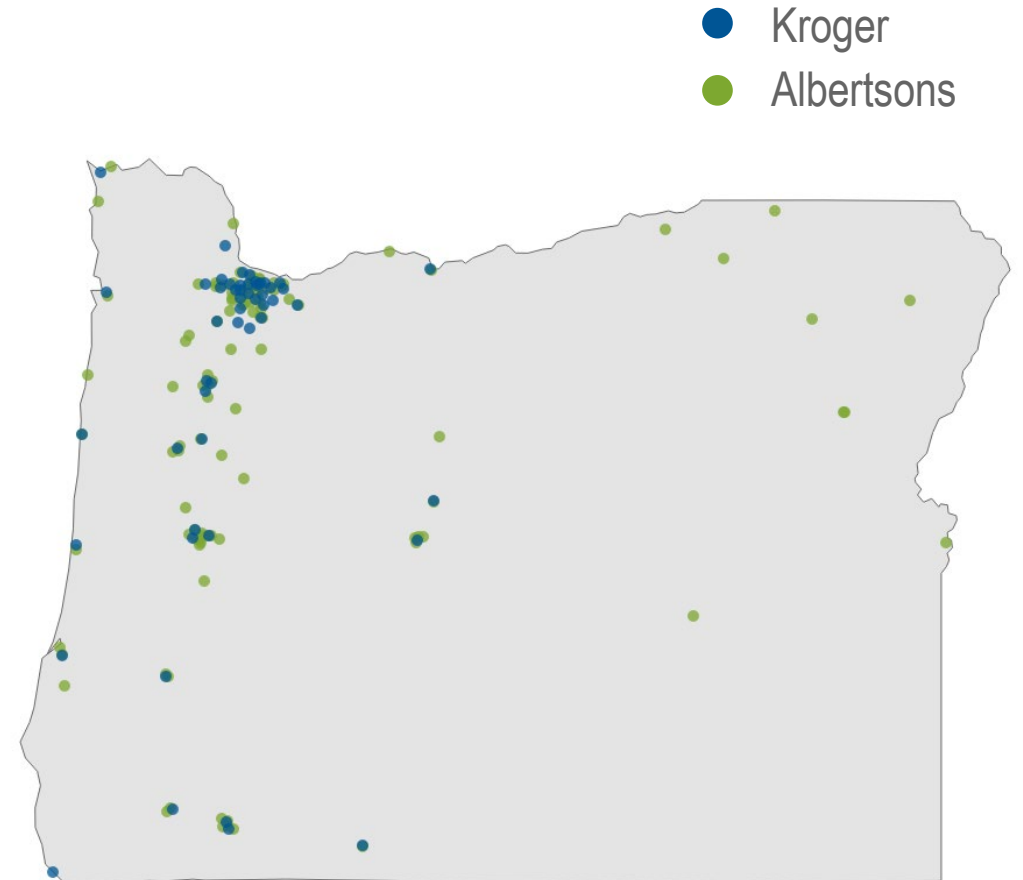


Haggen filed a lawsuit claiming that Albertsons-Safeway had tried to undermine Haggen as a viable competitor. Albertsons bought back 48 of the divested stores.

**How might the transaction impact
Oregon?**

Kroger and Albertsons currently operate 159 pharmacies in Oregon

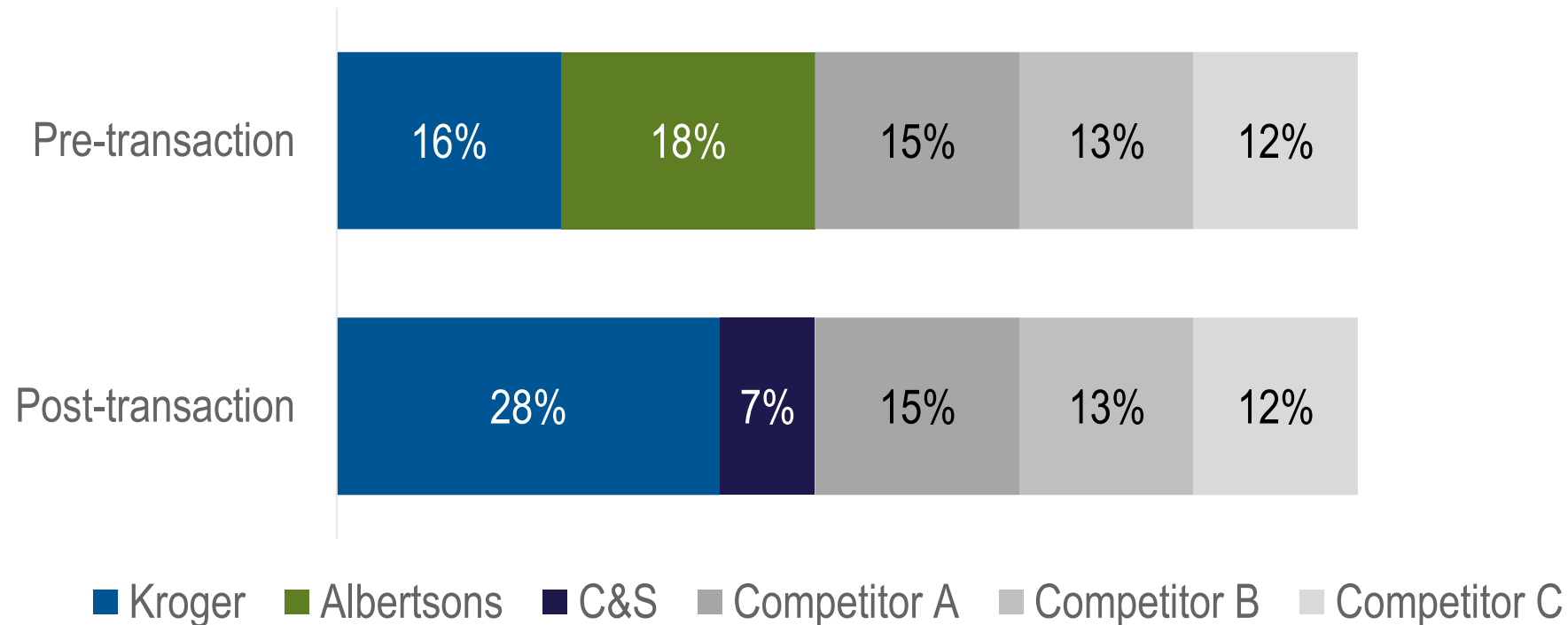
- More than 11 million prescriptions dispensed annually (about one third of the state total)
- Over 400,000 prescription customers served annually (nearly half of people in Oregon who obtain prescriptions)
- \$700 million in prescription sales per year



The combined company would dominate Oregon's retail prescription drug market

Even with the planned divestitures to C&S, the combined Kroger & Albertsons would dispense 28% of retail prescriptions statewide.

The next closest competitor dispenses 15% of prescriptions in the state.



C&S plans to purchase ~50 grocery stores in Oregon

C&S is also purchasing the rights to use the



banner.



C&S plans to invest the necessary resources to maintain the pharmacy and prescription drug services that currently exist in the divested stores, including by hiring experienced leaders to direct its pharmacy business.

C&S will continue to recognize the union workforce and maintain all collective bargaining agreements and is committed to retaining frontline employees and further investing for growth.



OHA has asked for more information from C&S about...

- Plans for hiring pharmacists and pharmacy technicians in Oregon.
- Plans for obtaining licenses and other approvals for pharmacies in Oregon.
- Whether the divested pharmacies would continue to participate in the same insurance plan networks.
- How C&S' pharmacies will obtain drugs from wholesalers.
- Potential impacts on the range of prescription drugs and pharmacy services available at the divested pharmacies.
- And more...

Post-transaction, Kroger will own 127 grocery stores in Oregon with at least 110 pharmacies

Kroger says it has “**no current plans to change pharmacy operations in any Albertsons store.**” Specifically, it has no plans to change:

- Types of products and services offered
- Number of pharmacies operating
- Types of insurance accepted
- Number of pharmacy employees
- Levels of pharmacist prescribing
- Levels of dispensing of contraceptives

Discussion of potential impacts

- What (if any) impacts would you expect to see in your communities?
- How might the transaction affect...
 - ... the number or location of retail pharmacies in Oregon?
 - ... the services available at pharmacies?
 - ... the staffing of retail pharmacies?
 - ... the insurance plan networks pharmacies belong to?
 - ... out-of-pocket costs for prescriptions?
- Could some communities or groups be impacted differently than others?

Questions and discussion

What questions do you have?

What questions would you like to ask representatives from Kroger, Albertsons, or C&S?

What additional information do you need to make a recommendation?



Wrap up & next steps

Thank you!

Next meeting is a public hearing: April 24, 1:00-3:00

Email: hcmo.info@oha.oregon.gov

Website: <https://www.oregon.gov/oha/HPA/HP/Pages/HCMO-013-Kroger-Albertsons.aspx>