******Please forward to Senior Management and Board of Directors******

Mr. Byron Purcell
Investor Relations
Rite Aid Corporation
30 Hunter Lane
Camp Hill, Pennsylvania 17011
Email: bpurcell@riteaid.com

Re: ***THRIFTY ICE CREAM—RITE AID'S DIAMOND IN THE ROUGH?***

Dear Mr. Purcell:

I am the CIO of Seven Corners Capital, LLC and have been a loyal owner of Rite Aid Corporation ("*Rite Aid*" or "*RAD*") shares for over 4½ years continuously. As such, I have a strong vested interest in seeing our company prosper over the long term. No doubt you and the other executives at RAD are fully focused (as you should be) on reacting in real time to the current crisis. Even in normal times, I would expect that the vast majority of RAD's senior executives will be preoccupied with blocking and tackling and making sure "the trains run on time" at RAD, etc. Therefore I feel that it is my responsibility, along with that of other engaged shareholders, to attempt periodically to keep ***RAD's larger strategic path*** in mind and to constructively communicate to the board and management my thoughts on how best to optimize this path going forward to maximize value for all shareholders. (Incidentally, if successful, this optimization should inevitably richly financially reward RAD's executives, assuming the company's pay structure aligns executives' incentives with those of shareholders.)

The only way for RAD to be a truly great company, and one to which employees are fervently devoted, is for senior leadership to transform RAD into a "Day One" company endowed with an entrepreneurial, growth mindset[1]. Employees at such companies become devotees and evangelists of the culture, which prioritizes creativity, market share expansion and new lines of business, while eradicating the stifling bureaucracy which inevitably kills the employees' souls. Specifically, I would like to focus on one particular potential "diamond in the rough" asset at our company, namely the Thrifty Ice Cream brand ("*Thrifty*"). I believe RAD should focus on, and devote company resources to, how best to expand and display Thrifty to the world, separate and apart from the larger entity known as Rite Aid Corporation. ***Just as a one-karat diamond can be worth 50-100X the value of an entire pound of quartz, a premium niche consumer brand which is endowed with significant pricing power (such as Thrifty) could potentially be worth, on a multiple of***

[1] "Staying in Day 1 requires you to experiment patiently, accept failures, plant seeds, protect saplings, and double down when you see customer delight. A customer-obsessed culture best creates the conditions where all of that can happen." https://blog.aboutamazon.com/company-news/2016-letter-to-shareholders

revenues basis, as much as 50-100X (or more) that of a large pharmacy chain, such as that represented by RAD's 2,400 store base.[2]

My plan for Thrifty consists of the following steps:

1. By the end of May 2020: Assemble an executive team at RAD specifically dedicated to restoring and polishing the Thrifty diamond, with a team leader reporting directly to RAD's CEO or COO. This team should have a start-up mindset and observe Amazon's famous "two-pizza rule", i.e., if a team can't be fed with two pizzas, it is too big[3];
2. By the end of June 2020: Thrifty team crafts Thrifty's "Master Plan for Worldwide Ice Cream Domination™". The first indispensable step for any startup is creating a credible business plan[4]. The overall goal of the plan should be to take market share away from entrenched, somnolent incumbents, such as Baskin-Robbins. The team should also craft a faux RAD "press release" announcing the launch of the Thrifty plan.[5]
3. By the end of July 2020: In time to capitalize on the high summer season, open ~10 Thrifty-bannered retail shopfronts on the West Coast on a test basis (assuming society has by then largely be re-opened for business);
4. Over the next year: If the Thrifty pilot program proves successful, develop a licensee business model to expand Thrifty nationwide;
5. Over a 2-5+ year timeframe: Blanket the United States with Thrifty ice cream parlors, with Thrifty licensees shouldering responsibility for the startup and capex costs. Plan to build a 2nd ice cream plant (the El Monte plant will reach capacity at some point during the 2-5 year buildout of stores);
6. Longer term: Expand the Thrifty ice cream store base to international markets (Europe, Asia and South America); and
7. Gradually, beginning in 2020: Seek to increase the market share of the Thrifty brand in frozen food sections of grocery stores and supermarkets across the country.

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[2] Indeed, if RAD adopts and executes the right short, medium and long-term strategy for Thrifty, I believe that Thrifty's separate equity value could ultimately eclipse RAD's entire current market capitalization.

[3] See https://buffer.com/resources/small-teams-why-startups-often-win-against-google-and-facebook-the-science-behind-why-smaller-teams-get-more-done.

[4] Note that Tesla's phenomenal success thus far has been guided by two successive relatively simple and straightforward "master plans" penned by Elon Musk. They may seem like a hokey concept, but they actually work in practice (all employees are on the same page and thus buy in completely to the company's overarching objectives). See https://www.tesla.com/blog/secret-tesla-motors-master-plan-just-between-you-and-me and https://www.tesla.com/blog/master-plan-part-deux. ***I've copied and pasted the second of these as an appendix to this letter—RAD should emulate this kind of mission statement by adopting a "master plan" for each of its discrete business units***.

[5] "For new initiatives [an Amazon] product manager typically starts by writing an internal press release announcing the finished product. The target audience for the press release is the new/updated product's customers, which can be retail customers or internal users of a tool or technology. Internal press releases are centered around the customer problem, how current solutions (internal or external) fail, and how the new product will blow away existing solutions." https://www.quora.com/Amazon-company-What-is-Amazons-approach-to-product-development-and-product-management?ref=http://www.product-frameworks.com/

WHY THRIFTY?

Taking a step back, let's consider: Why would it be an intelligent use of RAD's precious resources to focus on Thrifty at all? At first glance, Thrifty, with annual revenues around $100 million[6] (less than 0.5% RAD's overall annual turnover) might rightfully be considered an afterthought. Is it realistic to think that Thrifty could move the needle for RAD? So long as Thrifty as a standalone entity demonstrates superior profit margins, as well as robust pricing power and growth rates, then the answer is decidedly ***"Yes", Thrifty can move the needle at RAD***.

Ferrari & FCAU: David Trounces Goliath

We know this because prior examples of the same phenomenon exist in public markets. Take, for example, the spinoff of Ferrari from Chrysler. This demonstrates how significant shareholder value can be created through the separation of a highly profitable, albeit tiny, subsidiary from a far larger corporate parent. In late 2014, the Fiat Group announced the transaction to its shareholders[7]:

> ***FCA Announces Board Intention to Spin Off Ferrari S.p.A.*** - Oct 29, 2014, 09:08 ET - LONDON, October 29, 2014 /PRNewswire/ -- The Board of Directors of Fiat Chrysler Automobiles N.V. (NYSE: FCAU) ("FCA") announced that in connection with FCA's implementation of a capital plan appropriate to support the Group's long-term success, it has authorized the separation of Ferrari S.p.A. ("Ferrari") from FCA. *The separation will be effected through a public offering of FCA's interest in Ferrari equal to 10% of Ferrari's outstanding shares and a distribution of FCA's remaining Ferrari shares to FCA shareholders*. The Board authorized FCA management to take the steps necessary to complete these transactions during 2015. FCA expects that the Ferrari shares will be listed in the United States and possibly a European exchange.
>
> "I am delighted to have taken this additional step in the development of FCA. Coupled with the recent listing of FCA shares on the NYSE, the separation of Ferrari will preserve the cherished Italian heritage and unique position of the Ferrari business and allow FCA shareholders to continue to benefit from the substantial value inherent in this business" said John Elkann, Chairman of FCA.
>
> FCA CEO Sergio Marchionne added. "Following our acquisition of the minority interest in Chrysler earlier this year, the transformation of Fiat and Chrysler into FCA was completed earlier this month with our debut on the New York Stock Exchange. *As we move forward to secure the 2014-2018 Business Plan and work toward* ***maximizing the value of our businesses to our shareholders****, it is proper that we pursue separate paths for FCA and Ferrari*," Marchionne continued, "The

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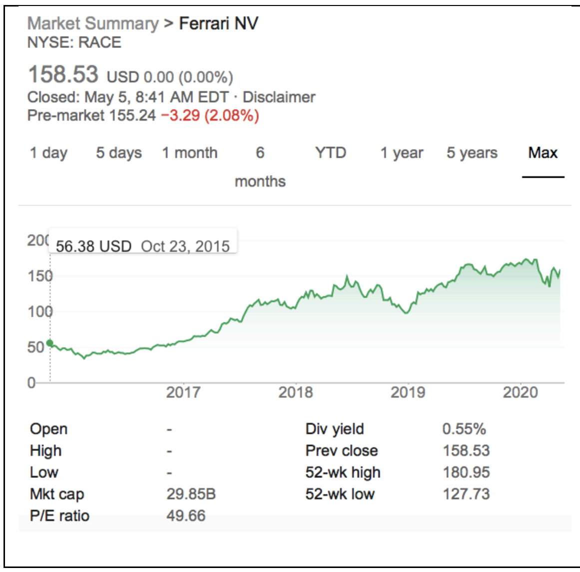
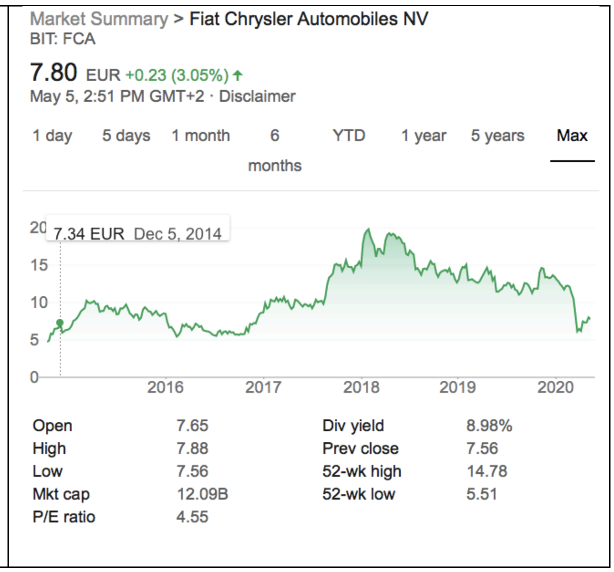
[6] According to the LinkedIn page of former Thrifty plant GM Ron Simmer, Thrifty had an annual revenue runrate of $75MM by the time he retired in 2013. See https://www.linkedin.com/in/ron-simmer-3724b46b. I have assumed ~33% total growth (to $100MM annually) since then, or a ~4% CAGR, since RAD expanded Thrifty ice cream into select additional markets (including Idaho, Oregon, Washington, Delaware, Maryland, New Jersey, New York and Pennsylvania) beginning last year. In addition, RAD retained most of its West Coast store footprint (where Thrifty was traditionally sold) following completion of the 2017 WBA asset sale. See https://www.businesswire.com/news/home/20190513005529/en/ and https://www.supermarketnews.com/center-store/rite-aid-s-thrifty-ice-cream-heads-east

[7] https://www.prnewswire.com/news-releases/fca-announces-board-intention-to-spin-off-ferrari-spa-280766672.html

> Board supports management's determination that this transaction represents FCA's best course of action to support the long term success of the Group while at the same time substantially strengthening FCA's capital base."

The spinoff was completed in early 2016[8]. It is initially important to note the massive disparity in size between Fiat and Ferrari. In 2018, Fiat sold 35,300,000 units, while Ferrari sold a grand total of 9,251 units. Thus, Fiat sold 3,816 times(!) as many vehicles as Ferrari. Yet the stock market values Ferrari at ~$29B, ***<u>120% higher</u>*** than Fiat's ~$13B market cap. ***<u>In other words, the market has assigned Ferrari a valuation of $3.3 million per vehicle produced annually, versus just $375 per vehicle for Fiat.</u>*** The reason? Ferrari sells a niche product with large profit margins (16% in 2018) in a rarified market (the product has few peers), while Fiat sells a mass product with miniscule profit margins in a cut-throat market (with many substitutes). With apologies to James Carville[9], "It's the profit margin, stupid!" When we look at it from that perspective, we can see why Ferrari's stock has appreciated over 175% since its initial listing in late 2015, while FCAU has done virtually nothing for its shareholders (other than pay an annual dividend):





Turning to RAD and Thrifty, it is unclear from RAD's financial statements whether or not Thrifty is a hidden gem trapped within a larger parent with whom it has little in common. In other words, is it a potential Ferrari or simply an undistinguished portion of a Fiat? If the former, it needs to be liberated ASAP; if the latter, no further specific action is required. ***<u>However, in order to fulfill its fiduciary duty to shareholders, RAD's board must answer this key, as well as the following, questions</u>***: What is Thrifty's profit margin currently? What could it be if Thrifty were separated from the lumbering, stolid pharmacy chain that owns it, with an independent and entrepreneurial management team (using Thrifty stock, rather than RAD shares, as a currency to compensate and motivate executives)? Are there

[8] https://www.prnewswire.com/news-releases/separation-of-ferrari-from-fca-completed-564056421.html
[9] https://en.wikipedia.org/wiki/It%27s_the_economy,_stupid

expansion opportunities that could be pursued if Thrifty were operated like a start-up? If so, how could Thrifty best capitalize on these?

Amazon-Proof Biz Model

While many retail business models are susceptible to destruction by Amazon (and many have been thus permanently destroyed), the beauty of the ice cream business model is that it is perhaps as close to being Amazon-proof as any retail business can be. If the weather is nice and you want to escape the house with your kids for a stroll combined with an after-dinner treat, Amazon can't help you, but a Thrifty Ice Cream parlor in your neighborhood certainly can. If you need a pint or two of delicious ice cream quickly for an evening of "Netflix and chill" with your family, you don't plan to order this up on your Amazon app two days in advance and wait for delivery (even assuming Amazon is capable of delivering frozen products in your area)—you want it NOW. Thus, you hop in your car and go to the local convenience store, or (better yet) your local Thrifty Ice Cream shop, buy it and bring it home. ***The point is that bricks-and-mortar retail establishments will still be necessary once the virus crisis passes (perhaps more than ever), because people simply enjoy escaping the confines of their abodes in quest of enjoyable experiences***. In most parts of the country, despite politicians claiming otherwise, we are currently experiencing an existence devoid of many of the essential things that make our lives worth living (going to restaurants and sporting events, commuting to our jobs and interacting with co-workers in person, going on vacations, etc). This is not sustainable; despite the virus, life (as we used to know it) must eventually go on, and a standalone Thrifty business model can be a part of that experience.

Buy Commodities, Sell a Brand

Another positive aspect of the proposed Thrifty business model of making ice cream in bulk in a factory, and using third-party licensees to distribute it, is its simplicity. Coca-Cola operates similarly, manufacturing cola syrup in its factories and then selling the syrup in bulk to its unaffiliated distributors (bottlers). These distributors resemble the licensees in the restaurant chain business model (upon which Thrifty's chain of parlors would be modeled). Coca-Cola's bottling partners are fully responsible for all the capital expenditures entailed in packaging and distributing product to the end users—and these outlays constitute the vast majority of the capex needed for the overall enterprise. Thus, as large Coke shareholder Warren Buffett would tell you, manufacturing and selling syrup concentrate is an asset-light and extremely lucrative business model. ***Coca-Cola's gross margin for the year ended 2019 was 74%, its operating margin was 27% and its net income margin was a whopping 24%[10].*** The company also earned $9 billion in net income in 2019 on just $19 billion of total shareholder equity and $86 billion in total assets, representing a massive 47% ROE and a 10.5% ROA. (The only negative is that Coca-Cola is now so large, it has saturated the market for its beverages; however, this

[10] https://www.sec.gov/ix?doc=/Archives/edgar/data/21344/000002134420000006/a2019123110-k.htm

high-class problem obviously does not apply to Thrifty). Clearly, these numbers are vastly superior to any drug store chain's comparable figures[11]. Buffett has succinctly summarized the Coca-Cola business model (and other business models he likes) as "buying commodities and selling brands"[12].

While separate Thrifty historical financials are not publicly available, I believe that Thrifty could generate profit margins on par with those of Coca-Cola, assuming the brand were properly nurtured, developed and expanded. Similar to a syrup concentrate producer, Thrifty buys commodities (milk, sugar, etc.) and manufactures and sells a branded finished product in bulk to its distributors (mainly, currently, RAD stores)[13]. The product is fairly simple to make, and ongoing investment requirements, which consist principally of maintenance capital expenditures for its existing manufacturing facility in El Monte, CA, should be relatively small, unless and until Thrifty's expansion efforts necessitate that a new plant be constructed (for example, on the East Coast). Thus, assuming a certain level of inherent pricing power inherent in the brand, the end financial results should be ***very*** appealing, exhibiting high profit margins and free cash flow, as well as an enviable return on invested capital and shareholder equity.

Thrifty Retains Significant "Share of Mind" in California

Moreover, a quality brand stands for much more than just its underlying product, such as a can of soda or an ice cream cone. For consumers, a great brand represents an accumulation of pleasurable lifetime experiences, which are inextricably intertwined with the product. When a person thinks of Coca-Cola products, one might not just think of the taste, but might remember going to baseball games as a child with one's parents or hanging out as a teenager with one's friends on a hot summer night. A brand can thus be a portal through which someone can mentally travel back in time. Therefore, great brands have "share of mind" with consumers in addition to a purely numerical market share[14].

Thrifty appears to retain significant share of mind in California, despite being hidden away within a behemoth drug store chain. See, for example, the following evidence:

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[11] Note that, in FY2020, RAD *lost* \$470MM on \$675MM of shareholder equity and \$9.5 billion in total assets.

[12] See, e.g., the following: "Warren Buffett loves the idea of buying commodities and selling brands. Nathan's Famous (NASDAQ:NATH), while technically not a commodity business, produces its own products and licenses out its famous name for lucrative royalties. The result is a restaurant business with smoothed-out long-term earnings due to consistent royalty payments. The company recently negotiated a new royalty deal with John Morrell & Co. -- worth a bare minimum of \$10 million this year and more in the coming years. Healthy sales at the restaurants and other business segments are keeping both the top and bottom lines on an upward trend." https://www.fool.com/investing/general/2014/02/18/nathans-improves-but-downside-remains-prevalent.aspx

[13] The only real difference in these business models is that soda bottlers first have to mix the syrup with carbonated water prior to the packaging stage.

[14] See https://bizfluent.com/info-8407511-share-mind-marketing.html

- According to an article in the Las Vegas Sun from October 2012, entitled "Beloved Thrifty Ice Cream returns to Las Vegas, sans pharmacy"[15], the brand was rediscovered by an elderly couple and happily introduced to their grandkids:

    Herb Porras and Irma Soto, a Henderson couple who grew up in Southern California, drove past the store one day and were shocked by the Thrifty sign. ***They hoped it was the same brand they knew as kids. They now buy ice cream from [the] store about twice a week, often with their grandchildren in tow***. Porras said they feel comfortable there, partly because the store has outdoor tables where they can sit and relax and partly because of the brand's familiarity. ***"It reminds you of back home," Soto said***.

- Another article about Thrifty contains similar anecdotal evidence of persistent brand loyalty[16]:

    When Mike Becker's family visited Los Angeles this year, he took his three sons to a place that would help them understand his Southern California childhood. It wasn't the beach. It wasn't Hollywood. It was a drugstore selling Thrifty ice cream. The 43-year-old attorney lives in New York, and he hadn't enjoyed a Thrifty cone since he was 10, when he moved out of Burbank. When he spotted the Thrifty logo outside a Rite Aid store in downtown L.A., ***Becker wanted to show his sons what he experienced growing up. He pulled over and parked. He hauled the kids into the store. He bought them the ice cream, dipped to order in Thrifty's distinctive cylinder-shaped scoops***. "As a little kid, with change in your pocket, it was easy to get an ice cream cone," Becker recalled. "It was so cheap."

- In yet another article regarding Thrifty we find more commentary in the same vein as the above[17]:

    By the 1970s, Thrifty ice cream was a household name with scoop shops inside drug stores scattered across California. ***Its most loyal fans fondly recall piling into the family station wagon to get a cone for as little as 5 or 15 cents***.

    "Best ice cream around," writes Dennis Hart, 56, on Thrifty's Facebook fan page. "Their diner sold vanilla cokes – a favorite on a hot, summer day. And they didn't mind if you came in bare-footed, either… that cold, linoleum tile floor felt so good."

    Strangers routinely tell [Thrifty plant manager Ron] Simmer similar stories when they learn he runs the Thrifty ice cream plant.

    "I remember buying it as a kid, and now I buy it for my kids," fans tell him.

    For Simmer, that's the ultimate compliment.

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[15] https://vegasinc.lasvegassun.com/business/2012/oct/22/beloved-thrifty-ice-cream-returns-las-vegas/

[16] See https://www.latimes.com/business/la-fi-thrifty-ice-cream-20180518-htmlstory.htm. The article states the following re the Thrifty brand: "***Thrifty ice cream 'is the greatest power brand that any drugstore has created anywhere across America,' said Burt Flickinger, managing director of Strategic Resource Group, a retail consulting firm***. 'No matter what's happened to the retailer over the years, the brand has always been a key foundation for the ongoing viability of Rite Aid because of the ***tremendous loyalty to Thrifty***.'"

[17] See https://www.ocregister.com/2010/09/17/sneak-peek-inside-thrifty-ice-cream-factory/.

"It's a neat industry to be in. ***We make something that makes people happy***."

- The Las Vegas Sun article (referenced in the first bullet point above) states that "one person even tried bribing a Thrifty store clerk with $200 for a scooper. (The clerk turned him down.) The scoopers, which work like oversized caulking guns to push the ice cream out, are hot commodities among the Thrifty-obsessed. Last month, an item identified as a 'brand new' Thrifty ice cream scooper was listed for sale on eBay for $320".
- See also various positive reviews of Thrifty ice cream available on Yelp[18].

Pricing Power

Rabid customers are usually willing to pay a generous mark-up for beloved products. Think of hundreds of maniacal Apple fans lining up overnight around large city blocks, all desperate to get their hands on the next iPhone[19]. Not surprisingly, analysts estimate that ***Apple, despite selling only 1/5th of all smartphones worldwide, accrues to itself profits from the industry nearly equal to the aggregate income generated by all of its smartphone competitors combined***[20]. One would naturally expect this kind of pricing power also to apply to niche brands that enjoy significant "share of mind" in California. Luckily, there is a convenient precedent which proves out this thesis. Several decades ago, Berkshire Hathaway purchased See's Candies, which was founded in Los Angeles in 1921. In the late 1990s, Buffett described the economic considerations that went into Berkshire's purchase of See's[21]:

> We bought See's Candy in 1972. See's Candy was then selling 16 million pounds of candy at a $1.95 a pound and it was making [$0.25/pound], or $4 million pre-tax. We paid $25 million for it—6.25X pretax or about 10x after tax. ***It took no capital to speak of***. When we looked at that business—basically, my partner, Charlie, and I—we needed to decide if there was some ***untapped pricing power*** there. Where that $1.95 box of candy could sell for $2.00 to $2.25. If it could sell for $2.25 or another $0.30 per pound, that was $4.8 million (pre-tax) on (volume of) 16 million pounds. Which on a $25 million purchase price was fine. ***The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10%, then you've got a terrible business.***

Today I estimate that See's sells approximately $500 million in product annually (in a normalized, post-pandemic environment) and earns a profit margin in excess of 20%. At a 20X multiple, today See's should be worth at least $2 billion (20 X 500MM

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18 See, e.g., https://www.yelp.com/biz/thrifty-ice-cream-irvine

19 See https://www.youtube.com/watch?v=em7JuR0FlMY

20 "The bottom line is that while Apple only captured 19% of smartphone shipments per IDC in the December quarter, it seized 87% of the profits per Canaccord Genuity". https://www.forbes.com/sites/chuckjones/2018/03/02/apple-continues-to-dominate-the-smartphone-profit-pool/#49c1b1e761bb

21 See https://25iq.com/2016/11/25/a-dozen-things-warren-buffett-and-charlie-munger-learned-from-sees-candies/

X .20), or 80 times Berkshire's 1972 $25MM purchase price, representing a CAGR of 9.55% (note that this valuation excludes any credit for the large stream of dividends that has consistently flowed up to Berkshire's corporate HQ from See's over the past five decades).

Is Thrifty another See's Candies in the mind's of customers in California? Based on the data available online and cited above, it certainly appears to be. Interestingly, Thrifty apparently is currently priced well below competitors such as Ben & Jerry's, meaning there could be room for Thrifty to raise prices without sacrificing market share. A pint of this premium brand will set the customer back nearly $7 in a retail ice cream establishment or around $5 if buying at a Whole Foods. In comparison, based on my research, a pint of Thrifty ice cream at a retail shop costs around $4 on average, while a 1.5 quart container (equal to 2 pints) from the frozen section in a Rite Aid store can be obtained for approximately $5. Thus we find that a pint of Ben & Jerry's ice cream is 75% more expensive than Thrifty's if consumed in person (i.e., at an ice cream shop) and 100% more expensive when purchased at the grocery store (since the per pint price of Thrifty's at RAD boxes is $2.50). However, even if we blindly accept that this pricing differential is based on the brand and ingredient value of these products, respectively (and therefore ignore the scenario that Buffett discovered at See's, i.e., untapped pricing power), it remains a fact that historically Thrifty Ice Cream has demonstrated impressive pricing power of 7.4% annually over its history, as shown as follows[22]:

Year	***Single-Scoop Cost***
1976	$0.10
1981	$0.15
1991	$0.35
2010	$1.29
2018	$1.99
CAGR (1976-2018)	***7.4%***

Unlocking Thrifty's Intrinsic Value

If RAD's board determines that Thrifty is indeed a potential Ferrari trapped inside a Fiat, the next question becomes how best to unlock this value for the owners of the company, the shareholders. I believe the seven-step plan outlined above in this letter provides a good initial blueprint, which should be further fleshed out by the entrepreneurial-minded RAD executives assigned by CEO Donigan to the "Thrifty Two-Pizza Team". Ideally, the Thrifty brand would be contained in an operating subsidiary legally separate and apart from the rest of RAD. Such a structure would allow the relevant executives to receive part of their compensation in the form of Thrifty (as opposed to RAD) equity, to insure that they will be rewarded for the long-term performance of Thrifty rather than RAD as a whole (note, however, that there would need to be a mechanism for determining fair value, since Thrifty equity

[22] See https://en.wikipedia.org/wiki/Thrifty_PayLess#Thrifty_Ice_Cream

wouldn't yet be publicly-traded—see the usual method pre-IPO privately-owned companies use to handle this issue[23]). Alternatively, the same end could be accomplished by the issuance of a tracking stock for the Thrifty operating subsidiary. As the name implies, a tracking stock is a specialized equity offering issued by a (usually public) company that is based on the operations of a wholly owned subsidiary of that company. The tracking stock trades at a price related to the operations of the specific division being "tracked". Often, the reason for doing so is to separate a high-growth division from a larger parent company. The parent company and its shareholders remain in control of the subsidiary's or unit's operations.[24] Once this Thrifty operating entity is stood-up and in full expansion mode (which may take three or four years), the question then would be how best to monetize it. This question, however, can be answered at a later date.

Conclusion

For Rite Aid to ever fulfill its full potential, it must adopt a "Day One" mindset at the highest levels of the company. (As a reminder, "Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And that is why it is always Day 1.") Given RAD's recent painful history, it is essential for overall company morale that all employees be able to look to the future with hope for a brighter day. Otherwise, what's the point of even showing up? (It's hard to get excited about presiding over a funeral.) One way to achieve this is by instilling an entrepreneurial spirit into the executive ranks by championing ambitious growth plans. I believe that developing Thrifty ice cream as a high-margin, fast-growing niche retail brand apart from the main corpus of the company could be a key way to achieve this goal. A modest investment of time and financial resources (probably in the single-digit millions of dollars) should conclusively determine whether this plan is worth pursuing further. RAD should thus consider this akin to V.C. investment, where the possible rewards significantly outweigh the risk undertaken.

Thank you for considering this letter.

Sincerely,

Scott Klarquist
Seven Corners Capital Management, LLC

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[23] https://www.toptal.com/finance/valuation/pre-ipo-valuation
[24] https://en.wikipedia.org/wiki/Tracking_stock and https://www.friedfrank.com/siteFiles/Publications/Tracking%20Stock%20Awakens%20(2).pdf

Appendix A – Tesla Master Plan Part Deux

[RITE AID SHOULD ADOPT SIMILAR MISSION STATEMENTS FOR EACH OF ITS DISCRETE BUSINESS UNITS: HOW CAN YOU FIND YOUR DESTINATION WITHOUT A MAP?]

By Elon Musk July 20, 2016

The first master plan that I wrote 10 years ago is now in the final stages of completion. It wasn't all that complicated and basically consisted of:

- Create a low volume car, which would necessarily be expensive
- Use that money to develop a medium volume car at a lower price
- Use that money to create an affordable, high volume car

And...

- Provide solar power. No kidding, this has literally been on our website for 10 years.

The reason we had to start off with step 1 was that it was all I could afford to do with what I made from PayPal. I thought our chances of success were so low that I didn't want to risk anyone's funds in the beginning but my own. The list of successful car company startups is short. As of 2016, the number of American car companies that haven't gone bankrupt is a grand total of two: Ford and Tesla. Starting a car company is idiotic and an electric car company is idiocy squared.

Also, a low volume car means a much smaller, simpler factory, albeit with most things done by hand. Without economies of scale, anything we built would be expensive, whether it was an economy sedan or a sports car. While at least some people would be prepared to pay a high price for a sports car, no one was going to pay $100k for an electric Honda Civic, no matter how cool it looked.

Part of the reason I wrote the first master plan was to defend against the inevitable attacks Tesla would face accusing us of just caring about making cars for rich people, implying that we felt there was a shortage of sports car companies or some other bizarre rationale. Unfortunately, the blog didn't stop countless attack articles on exactly these grounds, so it pretty much completely failed that objective.

However, the main reason was to explain how our actions fit into a larger picture, so that they would seem less random. The point of all this was, and remains, accelerating the advent of sustainable energy, so that we can imagine far into the future and life is still good. That's what "sustainable" means. It's not some silly, hippy thing -- it matters for everyone.

By definition, we must at some point achieve a sustainable energy economy or we will run out of fossil fuels to burn and civilization will collapse. Given that we must get off fossil fuels anyway and that virtually all scientists agree that dramatically increasing atmospheric and oceanic carbon levels is insane, the faster we achieve sustainability, the better.

Here is what we plan to do to make that day come sooner:

Integrate Energy Generation and Storage

Create a smoothly integrated and beautiful solar-roof-with-battery product that just works, empowering the individual as their own utility, and then scale that throughout the world. One ordering experience, one installation, one service contact, one phone app.

We can't do this well if Tesla and SolarCity are different companies, which is why we need to combine and break down the barriers inherent to being separate companies. That they are separate at all, despite similar origins and pursuit of the same overarching goal of sustainable energy, is largely an accident of history. Now that Tesla is ready to scale Powerwall and SolarCity is ready to provide highly differentiated solar, the time has come to bring them together.

Expand to Cover the Major Forms of Terrestrial Transport

Today, Tesla addresses two relatively small segments of premium sedans and SUVs. With the Model 3, a future compact SUV and a new kind of pickup truck, we plan to address most of the consumer market. A lower cost vehicle than the Model 3 is unlikely to be necessary, because of the third part of the plan described below.

What really matters to accelerate a sustainable future is being able to scale up production volume as quickly as possible. That is why Tesla engineering has transitioned to focus heavily on designing the machine that makes the machine -- turning the factory itself into a product. A first principles physics analysis of automotive production suggests that somewhere between a 5 to 10 fold improvement is achievable by version 3 on a roughly 2 year iteration cycle. The first Model 3 factory machine should be thought of as version 0.5, with version 1.0 probably in 2018.

In addition to consumer vehicles, there are two other types of electric vehicle needed: heavy-duty trucks and high passenger-density urban transport. Both are in the early stages of development at Tesla and should be ready for unveiling next year. We believe the Tesla Semi will deliver a substantial reduction in the cost of cargo transport, while increasing safety and making it really fun to operate.

With the advent of autonomy, it will probably make sense to shrink the size of buses and transition the role of bus driver to that of fleet manager. Traffic congestion would improve due to increased passenger areal density by eliminating the center aisle and putting seats where there are currently entryways, and matching acceleration and braking to other vehicles, thus avoiding the inertial impedance to smooth traffic flow of traditional heavy buses. It would also take people all the way to their destination. Fixed summon buttons at existing bus stops would serve those who don't have a phone. Design accommodates wheelchairs, strollers and bikes.

Autonomy

As the technology matures, all Tesla vehicles will have the hardware necessary to be fully self-driving with fail-operational capability, meaning that any given system in the car could break and your car will still drive itself safely. It is important to emphasize that refinement and validation of the software will take much longer than putting in place the cameras, radar, sonar and computing hardware.

Even once the software is highly refined and far better than the average human driver, there will still be a significant time gap, varying widely by jurisdiction, before true self-driving is approved by regulators. We expect that worldwide regulatory approval will require something on the order of 6 billion miles (10 billion km). Current fleet learning is happening at just over 3 million miles (5 million km) per day.

I should add a note here to explain why Tesla is deploying partial autonomy now, rather than waiting until some point in the future. The most important reason is that, when used correctly, it is already significantly safer than a person driving by themselves and it would therefore be morally reprehensible to delay release simply for fear of bad press or some mercantile calculation of legal liability.

According to the recently released 2015 NHTSA report, automotive fatalities increased by 8% to one death every 89 million miles. Autopilot miles will soon exceed twice that number and the system gets better every day. It would no more make sense to disable Tesla's Autopilot, as some have called for, than it would to disable autopilot in aircraft, after which our system is named.

It is also important to explain why we refer to Autopilot as "beta". This is not beta software in any normal sense of the word. Every release goes through extensive internal validation before it reaches any customers. It is called beta in order to decrease complacency and indicate that it will continue to improve (Autopilot is always off by default). Once we get to the point where Autopilot is approximately 10 times safer than the US vehicle average, the beta label will be removed.

Sharing

When true self-driving is approved by regulators, it will mean that you will be able to summon your Tesla from pretty much anywhere. Once it picks you up, you will be able to sleep, read or do anything else enroute to your destination.

You will also be able to add your car to the Tesla shared fleet just by tapping a button on the Tesla phone app and have it generate income for you while you're at work or on vacation, significantly offsetting and at times potentially exceeding the monthly loan or lease cost. This dramatically lowers the true cost of ownership to the point where almost anyone could own a Tesla. Since most cars are only in use by their owner for 5% to 10% of the day, the fundamental economic utility of a true self-driving car is likely to be several times that of a car which is not.

In cities where demand exceeds the supply of customer-owned cars, Tesla will operate its own fleet, ensuring you can always hail a ride from us no matter where you are.

So, in short, Master Plan, Part Deux is:

- Create stunning solar roofs with seamlessly integrated battery storage
- Expand the electric vehicle product line to address all major segments
- Develop a self-driving capability that is 10X safer than manual via massive fleet learning
- Enable your car to make money for you when you aren't using it