



Katz Group Canada Ltd

RATING REPORT

Apr 09, 2010

Toll Free Consumer Phone line:

President: Daniel Katz

Employees Canada:

Ownership: privately-held

Percent ownership:

Annual Revenue (millions): 4,800

Banners: Rexall, Meditrust Pharmacy, Medicine Shoppe, Herbies, Snyder Drugs (based in Minnesota, USA), and PharmaPlus.

Operations:

Ticker Symbol:

E-mail:

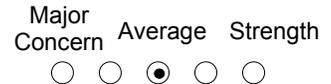
Employment world wide: 12,500

Founded In Canada: 1902

Edmonton-based Katz Group Canada Ltd is a drug retail chain that is a wholly owned subsidiary of the Katz Group of Companies. Founded by Daryl Katz in 1990, this retail drugstore chain, the sixth largest in North America, operates over 1,900 stores, both corporate-owned and franchise and independent banner, in Canada and the United States. The stores operate in nine Canadian provinces and three US states. Banner names include Guardian, IDA, Super Drug Mart, Drug Trading Company, Pharmx, Rexall and Payless. Associated corporate brands or banners include Rexall, Meditrust Pharmacy (a national mail order service), Medicine Shoppe, Herbies, Snyder Drugs (based in Minnesota, USA), and PharmaPlus. The company has a close business relationship with McKesson Corporation (the number one retail chain in the US) and Group PharmEssor (a buying company). About 125 of its total 1,900 stores are located in the United States. Sales at Rexall were \$343 million in 2008. Overall Katz Group sales were \$4.8 billion in fiscal 2008. Katz Group Canada sales in 2009 were not disclosed.

Equity and Family Issues

The Katz Group employs about 4,400 employees directly and 12,500 in total. Of this, the Rexall chain has 2,000 employees, of which an unknown proportion are women. Of the remainder, the Guardian, IDA, Super Drug Mart, Pharmx, and Payless chains have a further 2,400 employees, of whom an unknown number are women.



Women constitute an unknown number of store managers and none of the four person, Katz Group, Senior Management team.

Community Responsibilities

The Katz Group would not reveal its donations to charity in 2008. Its Rexall Sports subsidiary has an ownership position and sports promotional tie-ins with the Edmonton Oilers, the Edmonton Oil Kings and the Edmonton Capitals. The company supports Indy Edmonton and Charity Gala, an Alberta talent search contest as well as a commercial interest in the Rexall (Tennis) Centre in Toronto.



Progressive Staff Policies

No information is available on monies devoted to training staff.



Employee Relations

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Environmental Performance

The company would not disclose data on whether there have been any exceedances or other EHS compliance violations.

Environmental Management

Ethical Management Practices and Consumer Relations

Katz Group does not appear to have a written, corporate code of business conduct to govern the expected conduct of employees, buyers and suppliers. There would be a separate professional code for pharmacists.

One of the ethical challenges facing companies in this sector is shelf space: the payment of discounts or fees for listing over the counter (OTC) products for sale at pharmacies. A related challenge is rebates, discounts or benefits paid by generic drug manufacturers to pharmacists. This was the subject of professional hearings and lawsuits, including Binet vs Pharmascience. The company's position is not stated.

Sourcing and Trading

In addition to 355 corporate-owned drugstores, the Katz Group provides marketing and merchandizing for some 1,500 independently owned stores (such as Guardian and IDA) under several banners. As well, it oversees Propharm Ltd (a pharmacy computer records company), Meditrust (a mail order pharmacy) and Drug Trading Group, a 380 employee pharmacy retail services provider located in Markham, Ontario.

The companies in the Katz Group would not answer whether they source from repressive regimes or whether they invest directly in the development of pharmaceuticals, vaccines and devices.

Corporate Governance

There are critical comments about the company's share structure by certain shareholder rights advocates who are upset with different company shares having different voting rights.

Candor

The company has a 27% candor quotient, below the 62% for companies in this sector.

Canadian Content

The company is privately held, with part of that ownership involving the Calgary-based Katz family

Notable Facts

The Katz Group is one of Canada's larger privately held companies. The company's two flagship brands are Rexall in Canada and Snyder's Drug Stores (acquired in 2001) in the United States. The origins of the company's PharmaPlus group of stores date back to the Tamblin chain in Toronto in the early 1900s. The origins of the Rexall group of stores date back to a US chain created in 1902, although there is no relationship or business affiliation of the US and Canadian entities using that name. In addition to 355 corporate-owned drugstores, the Katz Group provides marketing and merchandizing for some 1,500 independently owned stores (such as Guardian and IDA) under several banners. As well, it oversees Propharm Ltd (a pharmacy computer records company), Meditrust (a mail order pharmacy) and Drug Trading Group, a 380 employee pharmacy retail services provider located in Markham, Ontario.

Sensitive Business Activities

Consistent with provincial and national laws, the company does not sell tobacco in its pharmacies. The company declined to answer whether or not it sells lottery products in its corporate-owned stores. Like other pharmacy chain retailers, the Katz Group does not have a corporate policy of labelling or refusing to stock foods containing genetically modified (GM) ingredients or organisms.

Some of the company's over the counter branded products raise health concerns. In 2007, a 38-member expert panel convened in Chapel Hill, N.C. by the National Institutes of Health concluded that experiments produced adverse effects in

lab animals at levels at or below the level of Bisphenol A (BPA) to which people are routinely exposed. (Epidemiological surveys by the U.S. Centers for Disease Control and Prevention have found BPA in 93 percent of Americans over 6 [years of age] tested, with significantly higher BPA levels in children and adolescents than in adults.) BPA exposure has been linked in laboratory tests to damage to the brain, neurological system and reproductive system, cardiovascular disease, cancer, obesity, diabetes, behavioral problems and other serious conditions. Since people ingest BPA from a vast array of sources, including infant formula and food can linings, baby bottles, polycarbonate plastic water and beverage bottles, medical devices and other plastics, a growing number of scientists, health groups and environmental groups are pressing for a ban on BPA in all food packaging. In 2008, Canada became the first Western nation to designate BPA as hazardous to human health and the environment. The Katz spokesperson declined to comment.

Rating Summary:

	A	B	C	D		A	B	C	D
EQUITY AND FAMILY ISSUES	F	1	F	F	ENVIRONMENTAL MANAGEMENT	F	1	E-	E
COMMUNITY RESPONSIBILITIES	F	1	E	F+	MANAGEMENT PRACTICES	F	1	F+	F+
PROGRESSIVE STAFF POLICIES	F	3	E+	E+	SOURCING AND TRADING	F	2	F	F+
EMPLOYEE RELATIONS	F	1	E-	E-	CORPORATE GOVERNANCE	F	1	F	E-
ENVIRONMENTAL PERFORMANCE	F	1	F+	F					

A: Letter Grade this company **B: Rank within sector** **C: Industry sector group average** **D: Corporate 1500 Database Average**

Sector: pharmacy/drug stores

Date Issued: 09/04/2010

Number Companies In This Sector: 3

The above independent assessment is accurate to the best of EthicScan Canada's knowledge. It includes information from the company, unions, advocacy groups, shareholder rights advocates and others. The company had two opportunities to comment upon the research underlying these reports. The grading scheme is described in detail at <www.ethicscan.ca>.

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