



Deal Logic

Whole Foods Market / Amazon.com

WHU Finance Society

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Abstract

Amazon is entering the stationary food trade in the US on a large scale. The world's largest online retailer acquires the organic chain Whole Foods Market for around USD 13.6bn. It is by far the largest acquisition in the company's history only followed by its purchase of the video game streaming platform Twitch and the online pharmacy PillPack, each for approximately USD 1 bn. Amazon had put pressure on stationary retailers in recent years and has shown an increasing interest in getting involved in their own business. Amazon opened several bookstores and also drives plans for high-tech supermarkets, which can be operated by only few employees. The group has also been expanding in the fresh food trade and the insurance sector for some time.

THEN:

Amazon buys Whole Foods - the news caused a stir in the markets. Whole Foods, once the hipster star of supermarkets, had increasing problems. The entry of the tech giant reversed the downtrend, while shuffling the food industry. Stock market prices expressed a drama. Supermarket giant Kroger fell by eleven percent and market leader Walmart by almost five percent. In one fell swoop, billions of dollars of market capitalization were lost. The purchase of the supermarket chain is a turning point in retail. At the same time, it is also a kind of confession, because with the deal, Amazon says goodbye to its online model. Behind this is the insight that certain goods such as food cannot be sold well over the Internet.

Amazon's interest in stores is not new. The online giant opened a number of bookstores, experimenting with store concepts in Seattle. It all rather resembled an experimentation and learning phase. But the purchase of Whole Foods shows: Amazon CEO Jeff Bezos must have a plan how he wants to redesign the retail industry. There are hints. More technology, fewer queues, more seamless collaboration of digital and analog data. The merger of physical and Internet-based stores begins.

NOW:

Amazon has made only small changes in the Whole Foods stores. It began selling its own electronic equipment such as echo speakers and organic food. In addition, lockers were installed from which customers can pick up orders from Amazon. By and large, Whole Foods stores still look like they did before the acquisition.

However, Amazon has quickly expanded its prime membership to retail outlets known for their high prices. Prime members get discounts for

every purchase. Members with an Amazon credit card will even receive a 5% refund when paying.

It is becoming clearer why Amazon bought Whole Foods. For one, it is getting its hands on lots of shopping data, which will come in handy as Amazon expands its online grocery business and private label offerings. As Amazon combines its Prime service and Whole Foods shopping experience, it is getting even more insight into how the same person shops on- and offline. That means a better ability to target ads and promotions than a grocer typically is able to. Because many shoppers still browse groceries online but shop in person, this combination threatens to be particularly powerful.

Through Whole Foods stores, Amazon has renewed efforts to deliver fresh food — a service that has been a struggle for it in the past. Unlike shampoo or paper towels, fresh food can spoil quickly. It is costly and complicated to deliver. It is expensive to store. Those challenges plagued its efforts with prior delivery service -- Amazon Fresh. Whole Foods' stores provide a more cost-effective way to take care of fresh food, while also providing a launching pad to transport those groceries. Shoppers are more likely to order and trust fresh food and meat from a retailer branded Whole Foods than they are from one named Amazon.

But there is one question still not answered: Whole Foods footprint is far smaller than its largest grocery competitors, but is it big enough for Amazon to accomplish all it wants within the grocery space? There is often speculation about Amazon doing another large deal to augment its footprint. Observers note, though, that doing so would thrust Amazon into regulatory scrutiny.

All values in USDm, except Price, Initial (USD) & Price, Paid (USD)

Summary

Target	Amazon.com Inc.
Acquirer	Whole Foods Market Inc.
Date, Announ.	16.06.2017
Date, Effective	28.08.2017
Deal Attitude	Friendly
Consideration	100% Cash
%Held/%Acq.	0.0 / 100.0
Deal Value	13,561
Price, Initial	42.0
Price, Paid	42.0
Total Fees	70.7
Premium*, 1d	35.2
Premium*, 1w	41.1
Premium*, 4w	45.1

* Pre-bid (%)

Sources: Thomson Reuters Eikon

Synopsis

- Amazon.com Inc. acquired Whole Foods Market Inc. (Whole Foods), an Austin-based owner and operator of natural and organic food supermarkets, for USD 42 per share in cash, or a total value of USD 13,561m.
- Originally, in April 2017, Whole Foods announced that it was seeking a buyer for the entire share capital of the company.
- Amazon.com Inc. and Albertsons Cos Inc. were rumoured to be potential bidders.

LTM Trading Multiples

	Target	Acquirer	Industry†
EV/Sales	0.9x	3.3x	0.4x
EV/EBITDA	10.2x	38.1x	10.7x
EV/EBIT	17.2x	71.2x	13.0x
P/B	3.8x	15.2x	3.3x

† Of Target, SIC: 5411

Rationale

- The addition of Whole Foods takes Amazon's physical presence to a new level as the grocery chain includes more than 460 stores in the United States, Canada, and the United Kingdom.
- Buying Whole Foods also represents a major escalation in Amazon's long-running battle with Walmart, the largest grocery retailer in the United States, which has been struggling to play catch-up in online shopping.
- For Whole Foods, the deal represents a chance to fend off pressure from activist investors frustrated by a sluggish stock price as it has faced fierce competition from Costco, Safeway, and Walmart, which have begun offering organic produce and kitchen staples, forcing Whole Foods to slash prices.

Financial Advisors

Target	Fees	Acquirer	Fees
Evercore Partners	45.0	Goldman Sachs & Co	14.5
		BAML	11.3

All values in USDbn, except EPS

Recent News*

- **2018/02** Amazon's Whole Foods slightly exceeds expectations, company officials told analysts in a conference call
- **2017/08** Federal Trade Commission clears Amazon.com Inc. purchase of Whole Foods Market Inc.
- **2017/07** US regulators demand further time to review Amazon's acquisition of Whole Foods, after anti-trust concerns have been raised
- **2017/07** Amazon to buy Whole Foods for USD 13.7bn, including debt, transforming Amazon into a key player in the bricks-and-mortar retail sector

* Prior To Deal
Sources: Thomson Reuters Eikon, Whole Foods Market, Supermarket News Wall Street Journal, BBC, Washington Post

Company Description

- Whole Foods Market, based in Austin, Texas, is one of the leading natural and organic foods supermarkets worldwide.
- Whole Foods Market offers a broad and differentiated selection of high-quality natural and organic products with a strong emphasis on perishable foods.
- The company operates approximately 456 stores in the United States, Canada, and the United Kingdom.
- Whole Foods Market had a total of 89,000 employees at the end of 2017.

Key Management & Ownership Structure

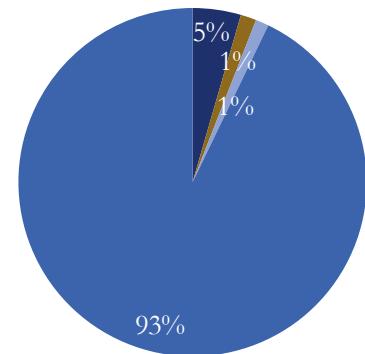
FY2017



John Mackey
CEO
Since 2010



Keith Manbeck
CFO
Since 2017



- Norges Bank
- Murphy (Glenn K)
- St. James Palace Wealth Management
- Freefloat

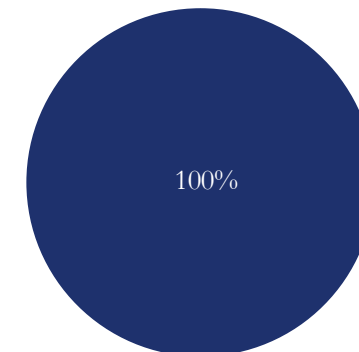
Key Financials

	2016A	2017A	2018E	2019F	2020F
Sales	15.7	16.0			
% growth	2.1	2.0			
EBITDA	1.4	1.0			
% margin	8.7	6.0		n/a*	
NI	0.5	0.3			
% margin	3.2	1.6			
EPS	1.6	-			

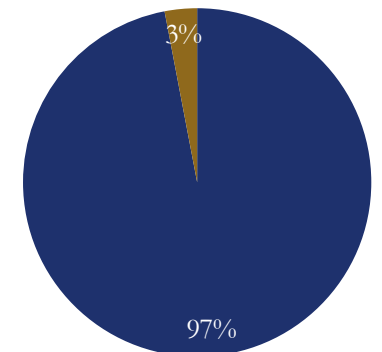
* Not available as Whole Foods has been delisted from the stock market

Sales Split

FY2017



- Natural and organic food supermarkets



- United States
- United Kingdom and Canada

All values in USDbn, except EPS

Recent News*

- **2017/06** Amazon loans more than USD 3bn to over 20,000 small businesses
- **2017/06** Amazon is to create 1,000 full-time jobs at new fulfilment center in Georgia
- **2017/04** Amazon.com Inc. announces first quarter sales up 23% to USD 35.7bn
- **2017/03** Amazon is to acquire SOUQ.com
- **2017/02** Amazon.com Inc. announces fourth quarter sales up 22% to USD 43.7bn
- **2017/01** Amazon acquires grateful dead documentary long strange trip from director Amir Bar-Lev and executive producer Martin Scorses
- **2017/01** Amazon to create more than 100,000 full-time jobs across the U.S. over the next 18 months
- **2017/01** Sellers on Amazon are thriving; Amazon fulfilled delivery more than 2bn items for sellers worldwide in 2016

* Prior To Deal
Sources: Amazon.com

Company Description

- Amazon.com, Inc. (NASDAQ:AMZN) is among the world's highest-grossing online retailers. It serves consumers through online and physical stores and focuses on selection, price, and convenience. It further designs stores, manufactures and sells electronic devices, and develops and produces media content.
- The North American and international activities include retail sales of consumer products and subscriptions. Amazon Web Services involves in the global sales of compute, storage, database, and AWS service offerings for start-ups, enterprises, government agencies, and academic institutions.

Key Management & Ownership Structure

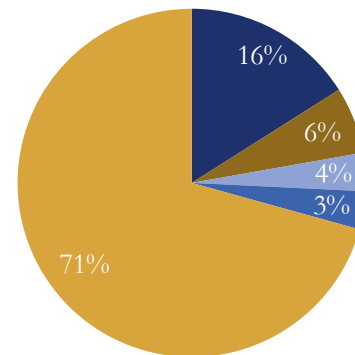
FY2019



Jeffery P. Bezos
CEO
Since 1996



Brian T. Olsavsky
CFO
Since 2015



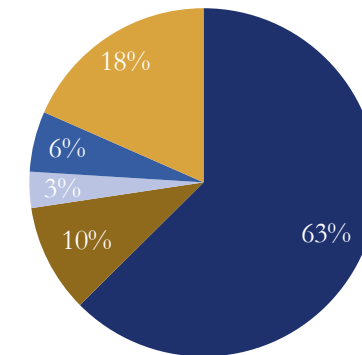
■ Bezos (Jeffrey P) ■ Vanguard
■ Fidelity ■ BlackRock
■ Freefloat

Key Financials

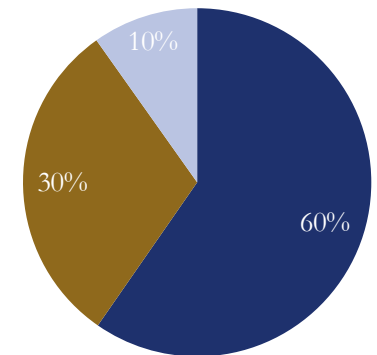
	2017A	2018A	2019E	2020F	2021F
Sales	177.9	232.9	275.0	324.6	380.7
% growth	30.8	30.9	18.1	18.0	17.3
EBITDA	20.0	33.5	42.2	53.9	67.2
% margin	11.2	14.4	15.3	16.6	17.7
NI	3.0	10.0	13.7	20.2	29.8
% margin	-2.2	232.1	36.2	47.0	47.9
EPS	4.56	20.68	27.09	39.33	56.31

Sales Split

FY2017



■ Online stores ■ AWS
■ Physical stores ■ Subscription
■ 3rd party seller



■ North America ■ International
■ AWS

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