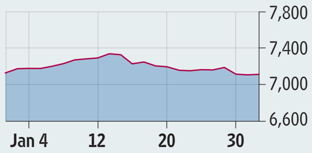
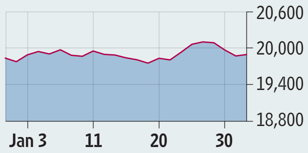
Business

WORLD MARKETS (Change on the day)

FTSE 100
7,107.65 (+8.50) ▲

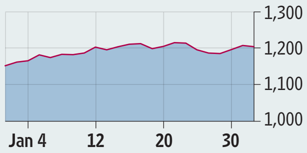


Dow Jones
19,890.94 (+26.85) ▲

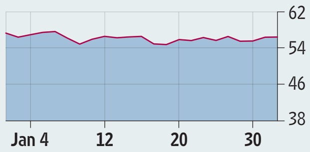


COMMODITIES

Gold
$1,203.52 (-5.79) ▼

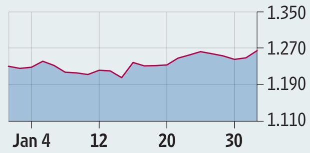


Brent crude (6pm)
$56.29 (+0.01) ▲

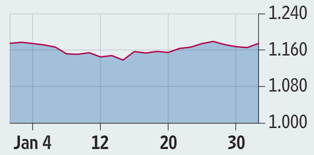


CURRENCIES

£/$
$1.2643 (+0.0059) ▲



£/€
€1.1753 (+0.0097) ▲



Watchdog could force Tesco to sell 635 stores

Analysis raises competition fears over Booker deal

SPECIAL REPORT

Alex Ralph, Tom Wills, Louis Goddard

Tesco could be forced to dispose of more than 600 stores unless it can convince regulators that its £3.9 billion merger with Booker will not harm competition.

Analysis by the data team at *The Times* has found there are 635 Tesco stores situated less than 500 metres from a shop in Booker's network of Premier, Londis and Budgens stores, raising fears about the impact on consumers, suppliers and rivals.

In an attempt to convince the competition regulator that it does not need to sell off stores, Tesco and Booker have enlisted some of the City's largest law firms and brightest economists.

The companies have spent a year secretly plotting one of the most ambitious and transformative mergers in the food and drink industry in the hope of avoiding a complex and lengthy investigation. Nonetheless, industry experts expect the Competition and Markets Authority to examine the proposed tie-up closely. Officials have the option of forcing the combined company to offload stores.

Reading, Fleetwood, Nottingham, Swansea and Croydon are among places where Britain's biggest supermarket chain and its largest food wholesaler have a particularly high number of overlapping stores.

The analysis by *The Times* was based on stores listed online on the retailers' store locators and third-party data.

Tesco, which has a 28.3 per cent share of the overall grocery market, and Booker have played down competition concerns, arguing that Booker owns only nine stores and that its franchise network operates independently, with little influence beyond supplies and optional services.

The drive to push the merger past regulators is being masterminded by Frontier Economics, a consultancy with links to Whitehall. Frontier, whose chairman is Lord O'Donnell, the former head of the civil service, has separate teams advising Tesco and Booker on strategy, planning and competition policy. The consultancy is working alongside lawyers at Freshfields Bruckhaus Deringer and Clifford Chance, who have been enlisted by Tesco and Booker, respectively.

The merger would create Britain's biggest wholesale and retail food business, with annual sales of almost £60 billion and a network of about 8,000 convenience stores.

Booker has a 10.7 per cent share of the convenience market and Tesco, which operates its smaller-format Express and Metro stores, as well as owning the One Stop chain, has 17 per cent, according to Euromonitor.

The regulator is under pressure to consider the overlap of stores, but Tesco and Booker are likely to resist such an investigation, arguing that the deal does not involve the acquisition of stores as Booker does not own its network of 5,000-odd outlets.

Charles Wilson, chief executive of Booker, has said that the merger was "pro-competition" for retailers and caterers, who would get better choice, service and price. "We've had good advice on this and that's why we think we've got a very compelling story to take them [the CMA] through," he said.

The industry has changed dramatically since 2003, when the regulator forced Wm Morrison to sell 53 Safeway stores as part of its £3 billion takeover and blocked counter-offers from Tesco, Asda and J Sainsbury as it would "operate against the public interest at both a local and national level".

The regulator's 500-page report used a highly intricate analysis that scrutinised the driving time from Safeway stores in urban and rural areas.

Tesco and Booker are likely to argue that there is no overlap on a retail level

Continued on page 47, col 1

ALAMY

The Dutch brewer is confident that its bid will be passed by the competition regulator, despite pub campaigners' concerns

Emerald decides to pull its Punches

Dominic Walsh

Emerald Investment Partners withdrew from the bidding for Punch Taverns yesterday, leaving the field clear for Heineken and Patron Capital Advisers to complete their recommended £1.8 billion deal.

Sources said that although Emerald had raised the funding to launch a counterbid, it had decided the terms of the financing were too onerous.

It is understood that Alan McIntosh, Emerald's founder, had assembled a consortium of backers and partners from Britain, Ireland and the United States, including the billionaire Reuben brothers and C&C Group, the maker of Magners cider. The former Punch Taverns finance director and erstwhile lieutenant of Hugh Osmond at Sun Capital Partners was being advised by Bank of America Merrill Lynch.

Emerald had been given a deadline of close of play tomorrow to lodge a firm proposal, but it confirmed that it "does not intend to make an offer for Punch". Nevertheless, it reserved the right to revive its interest if Heineken and Patron withdrew or if another bidder entered the fray.

The Punch board said that it noted Emerald's announcement and added the timetable for the recommended deal with Vine Acquisitions, the bidding vehicle set up by Heineken and Patron, was unchanged. Punch shareholder meetings would take place next Friday, with completion expected by the end of June.

Heineken and Patron are offering 180p per share, valuing Punch at £402.7 million, or £1.78 billion including net debt. Although their offer is 5p lower than Emerald's opening gambit, the Punch board — and shareholders speaking for 52 per cent of its shares — opted to back the lower offer because of the certainty of funding. The Dutch brewer, which would take 1,900 of Punch's 3,275 pubs, increasing its own estate to almost 3,000 pubs, has expressed confidence that the deal will be passed by the Competition and Markets Authority.

Pub campaigners have called on the competition watchdog to scrutinise the takeover amid claims that Heineken would reduce consumer choice by pushing its own beers and ciders.

According to the offer document, advisory and financing fees of more than £30 million will be generated by the deal, with Patron spending £4.25 million on financial and corporate broking advice from Rothschild and Heineken paying £5 million to Nomura. Punch will incur advisory fees of up to £5.2 million with Goldman Sachs.

Shares of Punch lost 11¼p to 176¾p yesterday, a fall of almost 6 per cent.

Tesco could be forced to sell 635 stores

Continued from page 41

and it is more akin to Booker's £40 million acquisition of Londis and Budgens, which was approved by the CMA in September 2015, five months after it was announced. An initial phase one review found that the supply of certain wholesale services to retailers would continue to face competition and third parties told the CMA that member stores could switch to alternative sources of wholesale supply.

Officials also found that the enlarged Booker would not be able to increase prices or reduce quality, partly because of the independence of member stores in setting prices and sourcing from other suppliers.

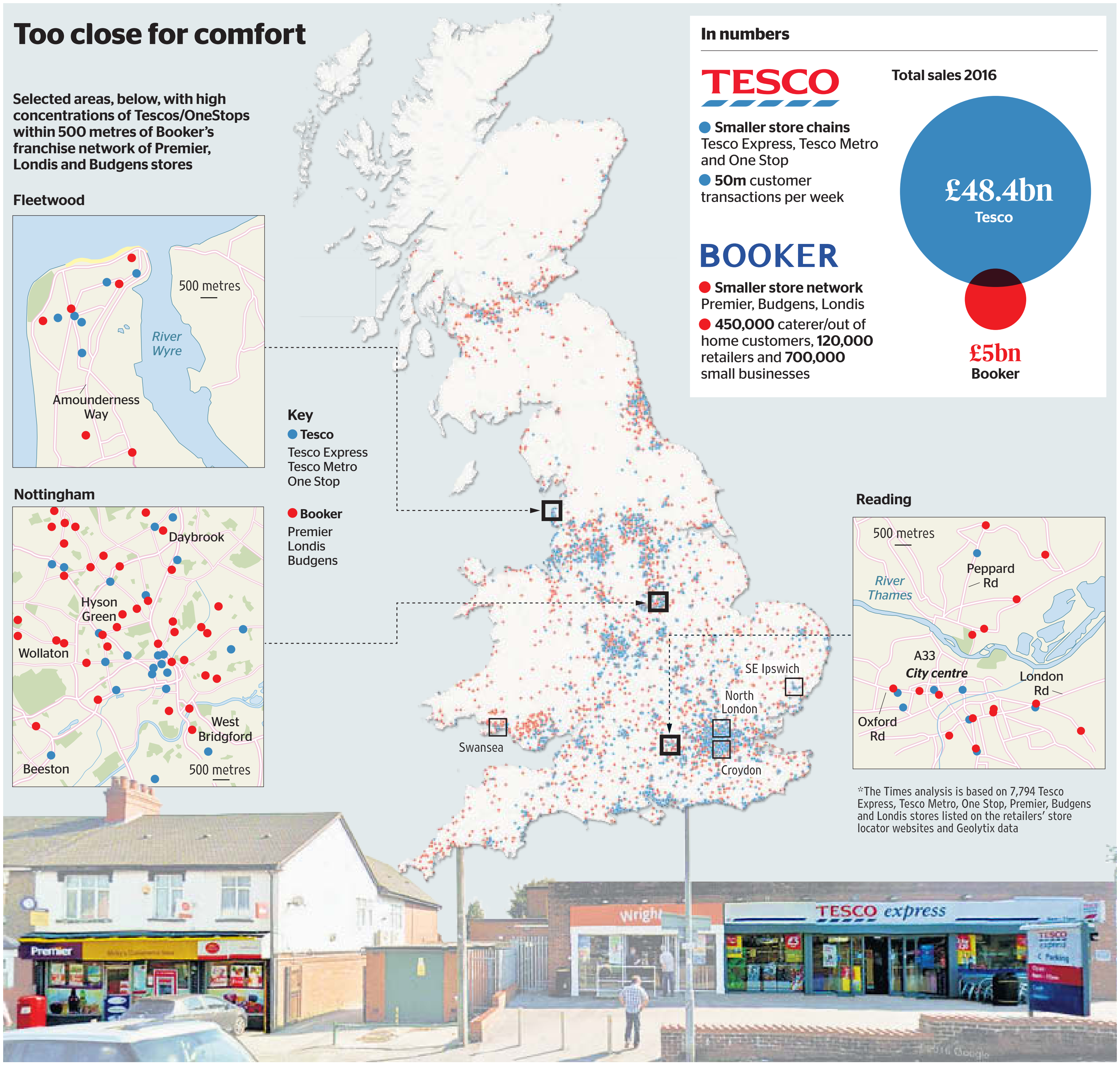
Mike Greene, founder of My Local, a shortlived convenience chain that bought 140 stores from Morrisons in 2015, said Mr Wilson was a "modern wholesale genius" and "would have spent a lot of money and time to ensure they don't fall foul of the regulator".

However, the deal is set to meet stiff resistance. Rival convenience chains, which include Nisa, Spar and Costcutter, are understood to be planning a challenge.

Tesco snaps up Booker in surprise £3.9bn deal The Times reported the deal last Friday

One leading supermarket industry veteran said: "Tesco has played a CMA inquiry right down and said they weren't acquiring stores. Well, of course, technically they are not, but I think the CMA will find it very difficult not to look through the commercial arrangements Booker has with thousands of stores and say that's it's clearly a store acquisition in all but the technical sense."

James Lowman, chief executive of the Association of Convenience Stores, which is expected to highlight rivals' concerns, said: "The potential competition issues arising out of the deal are complex, as the vast majority of Booker stores are owned by independent retailers who make their own trading decisions. The CMA will have to consider how these independent stores will compete with stores owned and operated by the same company that supplies many of their goods."



Bookseller turns page and returns to profit

Deirdre Hipwell Retail Editor

After five years of losses and a tough restructuring programme, Waterstones is back in the black, helped by a fox who lived in a deep, dense forest.

Britain's biggest high street bookseller said that soaring demand for children's books, such as *The Fox and The Star*, as well as a resurgence in demand for traditional non-digital fiction books, had helped the group to report profit after tax of £17.6 million, a sharp rise from a loss of £4.7 million in 2015.

The performance was built on record sales of £409.1 million, up 4 per cent, a more efficient operating model and higher-margin products. Waterstones is benefiting from demand for children's educational and fiction books, games, toys, stationery and general fiction, all of which are more profitable than academic books, which are in sharp decline.

James Daunt, managing director of Waterstones, said that Coralie Bickford-Smith's book about a fox whose only friend is Star, who lights the forest paths each night, sold 50,000 copies in December. He said that adult fiction books such as *The Essex Serpent* by Sarah Perry also had sold well.


Coralie Bickford-Smith's book The Fox and The Star was a bestseller

Mr Daunt said that the results were welcome after some dark days for Waterstones, when it was losing tens of millions of pounds as it struggled to contain costs while coping with fierce competition from Amazon and the rise of ebooks. He said that some of the operational efficiency had come from a reduction in staff numbers — "a third of our booksellers have gone" — as well as from decentralising head-office functions.

"We have changed from being a book chain that slugged it out with supermarkets to see how many Wilbur Smiths we could sell," he said. "We have returned to being a much more old-fashioned, traditional bookseller with a much broader range of titles. Bookselling online is still driven by Amazon, but our focus on customer service and our store atmosphere are helping us to grow and justifies our position on the high street."

Waterstones has about 275 stores in the UK and Europe and is owned by Alexander Mamut, a Russian billionaire, who bought the chain in 2011 from HMV for £53 million and has supported it since then. He has not taken a dividend since he bought the chain.

Last summer Waterstones reduced the size of its board with the departure of Miranda Curtis, its chairwoman, and three non-executives. Marina Groenberg, who represents Lynwood Investments, Mr Mamut's company, is now chairwoman of Waterstones.

Accounts for Waterstones Holdings show that one director, who is not named but is not Mr Daunt, received £7.6 million last year. It is thought that the sum was paid to one of the departing executives who had equity options that were redeemed when they left.

Mr Daunt said that the group's return to financial health showed that "the tidal wave" in the bookselling sector had "really subsided".