

After merger with Office Depot dies, Staples shareholders revolt



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Office Depot is the number two US office-supply chain. Above, one of its stores in New Jersey.

By Megan Woolhouse and Deirdre Fernandes | GLOBE STAFF MAY 12, 2016

After its proposed buyout of Office Depot Inc. died Tuesday, Staples Inc. presented investors with Plan B: cutting costs and closing stores, a possible exit from Europe, and a pledge to compete aggressively for mid-size corporate

Shareholders voted with their feet.

Staples' stock fell 18.3 percent Wednesday, the biggest drop in its 27 years as a public company. Office Depot was hit even harder, losing 40.4 percent, also a one-day record.

The Staples sell-off wiped out gains earlier in the year, when some investors bet that the Framingham company would complete the Office Depot deal, which was initially valued at \$6.3 billion and seen as crucial to the survival of both companies. The stock ended at \$8.46 Wednesday, just above its five-year low.

“Staples is faced with a reorganization if it hopes to survive,” said James V. McTevia, founder of the strategy firm McTevia & Associates in Michigan. “If I were a shareholder, I would come to the conclusion that they need to do something — and do something quickly.”



Judge blocks merger with Office Depot

Share prices for the struggling companies went into a tailspin late Tuesday in after-hours trading.

Staples, the largest US office supply retailer, and number two Office Depot pulled the plug on their marriage plan after a federal judge on Tuesday backed the Federal Trade Commission's decision to block the merger. The FTC was opposed on the grounds it would reduce competition and jack up prices for big companies.

Ron Sargent, Staples' chairman and chief executive, had pitched the combination as a key element of its revival to help counter shrinking revenue, a shift to online sales, and stiff competition from Amazon.com and Walmart.

After the judge ruled, Staples said it would consider "strategic alternatives" for its European business, cut \$300 million of costs by 2018, and close an undisclosed number of stores.

The company also said it would reduce prices and hire more sales people in a bid to grab a bigger share of the mid-size corporate market.

The company declined to comment further Wednesday, except to say it would elaborate on its strategy during a May 18 earnings call.

Analysts said Plan B included steps in the right direction. But whether those measures would be enough was unclear.

"They're doing the right things; it's just a question of whether it's going to be enough," said Anthony Chukumba, an analyst at the North Carolina bank BB&T Capital Markets.

The way consumers and business handle their stationery and other office-supply needs is changing profoundly. With the ability to store data in the cloud, many people have less need for paper and packaging and shipping supplies. At the same time, companies like Amazon.com and Walmart are chomping at Staples' heels.

This month, Amazon said its recently launched business marketplace generated \$1 billion in sales in its first year. Amazon offers products such as computer equipment and office supplies, and the online retailer said it added 300,000 businesses to its customer rolls.

“Fundamentally, what you sell isn’t what people are going to go out of the way to get,” said Bob Phibbs, chief executive of a New York consultancy, the Retail Doctor. “I don’t think the merger is the issue; it’s the fundamentals. I don’t think they know who they want to be anymore.”

Industry experts differ about whether Staples will be an acquisition target for another retailer or for private equity firms. Private investors eventually want to be able to sell a company and make money, said Joseph Feldman, a senior managing director at Telsey Advisory Group in New York.

“They want a path to an exit,” Feldman said. “But there’s concern that this is a very challenged industry and there may not be an exit strategy.”

McTevia, the Michigan consultant — he specializes in crisis management — said Staples is ripe for a takeover by a firm looking for a distressed business to buy, overhaul, and sell at a profit. The climate is right, he said, because many investment firms are “sitting on a lot of money, on the sidelines.”

“I wouldn’t be surprised if they’re considering all the options available,” he said of Staples.

It’s imperative for Staples to find a way to modernize and improve operations to compete with online retailers and remain relevant to a younger generation of customers, said Ben Gomes-Casseres, a professor of strategy at Brandeis International Business School.

Staples has been testing new concepts, such as a partnership with the Boston coworking startup Workbar, to convert some stores into shared work space. And in 2013, the company redesigned Staples.com with faster speeds and more personalized product offerings, to better compete with Amazon.com.

But, Gomes-Casseres said, more needs to be done. Investors' reaction to the nixed merger signaled "that people really think that these two don't have a chance of surviving well enough on their own."

"If they don't find a way to get into the modern flow of e-commerce," he said, Staples "will slowly fritter away."

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