

Amazon to Acquire Whole Foods Market for \$13.7 Billion in Cash



- 1) Amazon announced the signing of a definitive agreement to acquire Whole Foods Market, including the company's net debt, for \$13.7 billion in cash. The transaction is expected to close in the second half of 2017.
- 2) Whole Foods, founded in 1978, is the leading natural and organic foods supermarket, with sales of approximately \$15.7 billion in fiscal year 2016. The company has more than 460 stores in the US, Canada and the UK. Based on data from Deloitte and InsiderMonkey.com, it was the 10th-largest US grocery chain in 2016.
- 3) The two companies' statement included few details. Whole Foods CEO John Mackey said that the deal represents an opportunity for Whole Foods to maximize value for shareholders while "extending [its] mission and bringing the highest quality, experience, convenience and innovation to [its] customers." Whole Foods will continue to operate under its own brand and Mackey will remain with the company.
- 4) Amazon's grocery sales were estimated at \$350 million in the first quarter of 2017, representing an annual run rate of \$1.4 billion.
- 5) As the acquisition has not yet closed, we can only speculate regarding Amazon's plans for combining the Whole Foods stores with its own AmazonFresh service, using the stores as distribution hubs to expand its Prime Now service and integrating the technology currently being tested in its Seattle Amazon Go store.

Amazon to Acquire Whole Foods for \$13.7 Billion in Cash

Amazon announced the signing of a definitive agreement to acquire Whole Foods Market for \$13.7 billion in cash, which includes the assumption of roughly \$1 billion in Whole Foods' net debt.

The two companies' statement included few details. Whole Foods CEO John Mackey said that the deal represents an opportunity for Whole Foods to maximize value for shareholders while "extending [its] mission and bringing the highest quality, experience, convenience and innovation to [its] customers." Whole Foods will continue to operate under its own brand and Mackey will remain with the company.

The transaction, which is expected to close in the second half of 2017, requires approval by Whole Foods' shareholders as well as by regulatory bodies and is subject to other customary closing conditions.



Source: iStockphoto

Creating an E-Commerce/Brick-and-Mortar Powerhouse

The deal would combine e-commerce titan Amazon, which recorded net sales of \$79.8 billion in North America last year, with Whole Foods, which had sales of \$15.7 billion in fiscal 2016 (ended September). In fiscal 2016, 97% of Whole Foods' revenues came from the US and the company's net income was \$507 million.

According to the US Bureau of Economic Analysis, consumers bought food and beverages for at-home consumption at an annual rate of \$937.5 billion in 1Q 2017, which compares to a \$782.7 billion restaurant industry, according to data from the National Restaurant Association. Grocery store sales amounted to \$627.0 billion in 2016, according to the US Census Bureau.

Amazon's total grocery sales were \$350 million in the first quarter of 2017, according to OneClickRetail.com; that would equate to \$1.4 billion annualized. Adding Whole Foods' fiscal 2016 revenues and Amazon's grocery run rate indicates that the combined entity would generate about \$1.7 billion in annual revenues. Still, the combination would account for only 3% of the US grocery market.

Within organics, Whole Foods calls itself the leading natural and organic foods supermarket, and the first national "certified organic" grocer. Total US organic food sales were \$47 billion in 2016, according to the Organic Trade Association, putting Whole Foods' share at about 33%.

Amazon's Acquisition History

The Whole Foods acquisition would be Amazon's largest to date. The company's acquisitions have averaged \$520 million (excluding Whole Foods), based on available data. Amazon has averaged about 4.5 acquisitions per year over the past seven years. A table of selected acquisitions is included below.

Figure 1. Selected Amazon Acquisitions (USD Mil.)

Closed Date	Target	Size
—	Whole Foods Market	\$14,611*
Mar 31, 2017	Souq.com	650
Dec 31, 2015	Biba Systems	—
Sep 25, 2015	Safaba Translation Solutions	—
Apr 29, 2015	Clusterk	50
Apr 10, 2015	Shoefitr	—
Mar 12, 2015	2lemetry	—
Sep 25, 2014	Twitch Interactive	842
Jul 1, 2014	Songza	—
May 28, 2014	Iconology	—
Feb 5, 2014	Double Helix Games	—
Sep 30, 2013	TenMarks Education	—
May 13, 2013	Liquavista	—
Mar 31, 2013	Goodreads	—
Jan 24, 2013	Ivona Software	—
Jul 2, 2012	UpNext	—
May 1, 2012	Kiva Systems	775
Dec 27, 2011	Quorus	—
Sep 8, 2011	Yap	—
Jul 28, 2011	Push Button Holdings	—
Apr 30, 2011	Quidsi	545
Jan 31, 2011	Lovefilm International	115
Sep 30, 2010	Woot	—
Sep 8, 2010	Amie Street	—
Nov 1, 2009	Zappos.com	895
Apr 27, 2009	Lexcycle	—
Dec 1, 2008	Abebooks	—
Oct 21, 2008	Reflexive Entertainment	—
Aug 24, 2008	Tastemakers	—
Jun 25, 2008	Fabric.com	—
Mar 18, 2008	Audible	291
Average (ex Whole Foods)		\$520

Note: * Gross figure representing Whole Foods' enterprise value, whereas announced figure was net of debt.

Source: S&P Capital IQ



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Our Take

As the acquisition has not yet closed, we can only speculate regarding Amazon's plans for combining the Whole Foods stores with its own AmazonFresh service, using the stores as distribution hubs to expand its Prime Now service and integrating the technology currently being tested in its Seattle Amazon Go store.



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