Unit: MGT306 - Strategic Management

Submission Date: 19 Aug 2016 before 4.00 pm

Weighting: The assignment is worth 40% of the total unit weight.

Instructions:

1. Students are required to complete three case studies.
2. Your answer must be both uploaded to Moodle in word file and handed over a printed copy with signed coversheet.
3. You need to support your answers with appropriate Harvard / APA style references where necessary.
4. Only include information in your appendixes that has been directly referred to in the body of your document.
5. Include a title/cover page containing the subject title and code and the name, student id numbers.
6. Please save the document as MGT306AT1_first name_Surename _Student Number
   Eg:MGT306AT1_John_Smith_20140000

Case Scenario

In April 2014, Australian retail industry (especially for department chain store) is undergoing an earthquake when the South African retailer Woolworths Holdings Limited (JSE Code: WHL) announced A$2.15 billion acquisition offer to one of the largest Australian department chain store company, David Jones Limited (ASX Code: DJS). On Wed (9th April 2014), David Jones board recommends this $4.00 cash per share offer made by Woolworths. This action has immediately received significant attention from the public. (Please read attached articles from media release about this acquisition)

Note: Woolworths Holdings Limited (JSE: WHL) is not Woolworths Limited (ASX Code: WOW).

Assignment Task

You are now required to use knowledge learned from MGT306 to analyse this real world case in accordance with following instructions:

1. From the vision, mission and core values of WHL and DJS to analyse whether or not this acquisition will fit both of these two companies;
2. Analyse both WHL's and DJS's current competitive strategies (i.e., low-cost provider, broad differentiation, market niche, and best-cost provider, etc.)
3. Use five force model to analyse why WHL want to acquire DJS? What are the competitive advantages for this acquisition?
4. Use SWOT model to analyse if the acquisition is successful, will it strengthen WHL's competitiveness? If yes, will this competitiveness be achieved in Australia or globally?
5. Analyse this South African retailer's international marketing strategies. Why does it choose acquisition strategy?
6. Analyse why WHL choose now to acquire DJS. Is it a good timing for it to implement this acquisition strategy?
7. Analyse if this acquisition is successful, what would be the defensive strategies for their major local market competitors (i.e., Myer, Kmart, etc.) and global rivals (e.g., Inditex SA, Hennes & Mauritz AB)?

Woolworths to buy David Jones for $2bn

April 9 2014 at 01:04pm

Independent Newspapers

Woolworths. Photo by Simphiwe Mbokazi

Sydney - South Africa's Woolworths agreed to buy Australian retailer David Jones for A$2.15 billion ($2 billion), to expand in a market targeted by global rivals including Inditex SA and Hennes & Mauritz AB.

David Jones shares rose by a record 23 percent today to close at A$3.91 in Sydney, below the A$4 cash offer.

Myer Group, its main listed department store competitor, also withdrew an all-stock, zero-premium merger proposal first made October 28 when the target company's shares closed at A$2.71.

Buying the 38-outlet Australian chain increases Woolworths' presence in a country Credit Suisse Group AG says is the world's second-wealthiest.

The deal also gives the retailer buying power to compete against global fast-fashion groups including Zara, H&M and Arcadia Group Plc's Topshop, which are expanding into both countries.

"Those chains are in a global arms race to open new stores now," Caroline Finch, a senior analyst at Ibisworld in Melbourne, said by phone.

Local retailers in Australia and South Africa have to work harder, she said, because "the H&Ms and Zaras of this world have been nipping at their heels, taking the attention of a very fashion-focused consumer."

Woolworths Holdings, South Africa's second-largest retailer by market value, isn't related to the Australian supermarket chain Woolworths Ltd.

Southern Hemisphere

"We're buying this business to build a bigger southern hemisphere brand," Ian Moir, Woolworths chief executive officer, told reporters in Sydney today.

"We've got real scale in the southern hemisphere, we've got the same seasonality, so we've got a real competitive advantage over northern hemisphere entrants."

Southern hemisphere winters fall in the north's summer, creating a challenge for incoming clothing retailers from Europe, North America and North Asia, Moir said.

The deal, which has already been agreed to by David Jones's board, is Australia's largest retail takeover since 2007, when Wesfarmers bought Coles Group, according to data compiled by Bloomberg.

It values the target at about 11.1 times the last 12 months' its A$192.7 million in earnings before interest, tax, depreciation and amortisation, according to data compiled by Bloomberg.

That’s a 13 percent premium to the median valuation in developed-market retail acquisitions over $1 billion in the past five years, the data show.

‘Looks Expensive’

“It does look expensive currently, but they’ve obviously done their sums,” Evan Lucas, a market strategist at IG in Melbourne, said by phone, referring to Woolworths Holdings.

Woolworths slumped as much as 6 percent to 69.10 rand in Johannesburg before trading at 69.99 rand as of 9:03 a.m. local time.

Myer made its initial approach on October 28 last year, when David Jones shares closed at A$2.71.

The retailer said today it was dropping the merger proposal in light of the Woolworths offer.

“We have always maintained a disciplined approach to valuation,” the company said in a regulatory statement.

Woolworths’ offer is “a decent price which I probably will accept,” Simon Marais, chairman of Allan Gray Australia, said by e-mail.

The fund manager is David Jones’s fifth-biggest shareholder with a 5 percent stake, according to data compiled by Bloomberg.

Moir had a “robust negotiation” with David Jones chairman Gordon Cairns over the price, the Woolworths chief executive told the media call.

The acquisition would be funded through a mix of cash, debt and a sale of new shares, with the value and other details of the equity raising to be disclosed in a shareholder letter in mid-May, Moir said.

Upmarket Retailer

Buying 176-year-old David Jones will give Woolworths control of an upmarket retailer in a country that has the world’s highest wealth per adult after Switzerland, according to Credit Suisse.

“The Australian economy is a little sluggish but this is a strong economy and it will come back,” Moir said.

The strong Australian dollar “creates a natural rand hedge for our business in South Africa,” he said.

David Jones, which has seen sales from stores open at least 12 months decline in all but two of the past 13 quarters, now stands to benefit should spending from higher-end consumers in Australia rise, Michael Simotas, a Sydney-based analyst at Deutsche Bank AG, wrote in a February 11 note to clients.

The Reserve Bank of Australia has cut the benchmark interest rate to a record-low 2.5 percent as it seeks to avoid a growth gap emerging in the economy from waning mining investment.

Consumer Spending

That’s helped boost Australian house prices, retail sales, and confidence.

The nation’s household savings ratio, a key measure for forecasting consumer spending, fell below 10 percent in the fourth quarter of 2013 for the first time since 2010.

The offer “recognises the potential of the David Jones business, the positioning of the department store here and the value of the property” owned by the Australian company, Grant Saligari, an analyst at Credit Suisse in Melbourne, said by phone.

Woolworths already owns 88 percent of fashion chain Country Road Ltd. in Australia, so “they’ve got experience in this market,” Credit Suisse’s Saligari said.

The South African company currently gets about 16 percent of its revenues from Australia, where sales by Country Road have more than doubled over the last four fiscal years to A$706 million in the year ended last June.

If the two companies had been combined during their 2013 fiscal years, Australasia sales of 22.6

billion rand ($2.16 billion) would have amounted to about 43 percent of total revenue, according to a calculation by Bloomberg.

That size will help compete with offshore entrants, Moir said: “You’ve either got to accept that competition’s there and compete with it, or roll over and die.” - Bloomberg News

Woolworths wins retail battle for David Jones with A$2.15bn offer

By Jamie Smyth in Sydney and Andrew England in Cape Town April 9, 2014 3:50 am

©Bloomberg

David Jones has agreed a A$2.15bn (US$2bn) takeover by South African retailer Woolworths, which trumps a merger approach from rival Australian department store group Myer. The board of David Jones on Wednesday recommended a A$4-a-share offer by Woolworths to its shareholders – a 25 per cent premium on Tuesday’s closing price of $3.19.

“This is a compelling proposal that represents a significant premium to not only our intrinsic value but also to broker valuations and to recent share prices,” said George Cairns, chief executive of David Jones.

The deal scuppers a $3bn proposed merger between David Jones and Myer, which came to public attention in late January.

Myer had approached its rival with an offer of 1.06 of its shares for each David Jones share, but the merger was turned down in favour of the Woolworths approach.

Myer on Wednesday confirmed it had pulled out of the running for David Jones.

“While we believe in the strategic merits of our proposal and the potential value accretion for both sets of shareholders, we have always maintained a disciplined approach to valuation, and as a consequence we will advise David Jones today of the withdrawal of our proposed merger of equals,” Myer said.

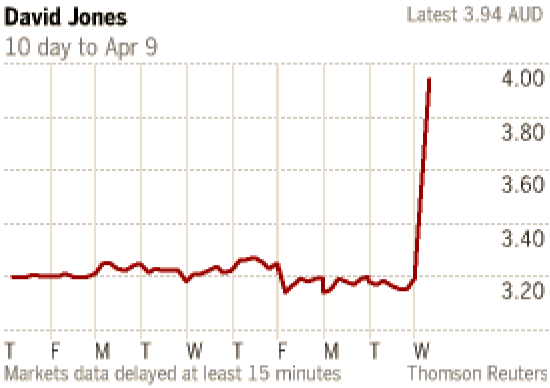
The proposed acquisition by Woolworths – which is not linked to the Australian retailer of the same name – is the latest example of a surge in corporate deals in the Australian market since the start of the year.

Deal volumes reached $19.4bn in the first quarter, compared with $9.6bn in the same period a year earlier, according to Dealogic. That is the highest level of M&A activity since the first quarter of 2011, reflecting an improved economic outlook for the country.

Jaclyn Riley-Smith, partner at Corrs Chambers Westgarth, a law firm that advises on deals, said overall market sentiment remained cautious but there had been a pick-up in cross-border deals, which boded well for general M&A activity.

“There are some factors that would appear to be conducive to increased deal flow – low interest rates, readily available acquisition financing, a weaker Australian dollar and pent up acquisition demand after a quiet period in M&A,” she said.

“The political uncertainty of last year has eased and there have been few ‘big ticket’ M&A deals announced in Australia, and globally, which could also help get the ball rolling again,” she said.



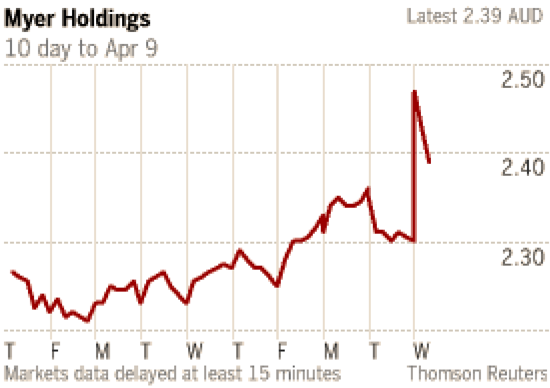
Woolworths already owns retailer Country Road in Australia.

The deal – one of the biggest outward bound acquisitions for South Africa – highlights the increasing ambitions of South African companies as they look to expand beyond their domestic market, which has been struggling with lacklustre growth.

South African retailers, by far the largest and most developed in Africa, have generally been focusing on increasing their presence across their home continent, with Woolworths looking to double the number of its stores in African countries.

Ian Moir, Woolworths chief executive, said the combination of the two retailers would create a southern hemisphere-based retailer with meaningful scale, able to leverage common fashion seasonality with better sourcing capabilities.

David Jones is among the most well known Australian retailers, and claims to be the oldest department store in the world still operating under its original name.



It has endured a turbulent few years with growing competition from online retailers and foreign fashion groups such as H&M, Topshop and Gap, which have begun targeting Australia as part of a wave of globalisation.

The takeover requires approval by a majority of both company’s shareholders. David Jones shareholders are expected to vote on the proposal in June.

Shares in David Jones surged 23 per cent on Wednesday while Myer rose 3.9 per cent.

How the bid for David Jones unfolded

By Brett Cole April 09, 2014 4:00pm

In January, the chief executive of South Africa’s Woolworths Ian Moir and his investment banking advisers at **Rothschild** were dumbfounded when news emerged that Myer had proposed a merger with David Jones that offered no takeover premium.

Mr Moir and his bankers sensed an opportunity for the South African retailer to further broaden its Australian footprint and snare an asset that had been among the potential acquisitions Woolworths has been contemplating in the southern hemisphere.

Mr Moir knew Australia well. He was CEO of clothing retailer Country Road for a decade before he returned to parent company Woolworths.

After consulting with his Woolworths board and receiving their approval, Mr Moir contacted David Jones chairman Gordon Cairns last month. Both men established a rapport, helped, in part, by their shared Scottish ancestry that made the following weeks of negotiations between the companies and their advisers relatively smooth.

Woolworths is offering $4 cash a share or $2.1 billion to acquire David Jones. The takeover offer is a 25 per cent premium over David Jones' closing share price yesterday. Myer in January disclosed it had proposed an "all stock, nil-premium merger" with David Jones, which had been swiftly rejected.

"I think Woolworths' offer is vindication of the action taken by David Jones' management not to take the Myer proposal seriously," Paul Xiradis, chief executive of fund manager Ausbil, the fourth-biggest shareholder in David Jones with a 5.1 per cent stake as of September 30 last year, according to Bloomberg data.

Woolworths is paying a multiple of 23.8 times forecast 2014 earnings per share for David Jones. That is a price too rich for Myer, which said it had dropped its proposal to merge with David Jones. **Goldman Sachs** and **Flagstaff Partners** were Myer's investment banking advisers.

South-African listed Woolworths Holdings has a market capitalisation of about A$5.6 billion and annual revenues of $3.6 billion. About 16.4 per cent of revenues are derived from Australia.

David Jones shareholders will vote on the Woolworths takeover in late June. Woolworths hopes to close the transaction in July with the help of its lawyers at **Gilbert + Tobin**, **Webber Wentzel** and **Linklaters**.

Since January, Mr Moir has been in and out of Australia, meeting with his advisers and taking a sounding of the Australian retail market. Woolworths has leaned heavily on its South African advisers at **Standard Bank** who have been advising the company's board on strategy but also co-lead a financing effort to fund the proposed acquisition.

Woolworths' debt financing for the transaction are in place courtesy of Standard Bank, **Citigroup** and **J.P.Morgan**. Details of the debt financing have yet to be disclosed but will include bridge financing and a share sale that will partly fund the proposed acquisition.

Teams of bankers and lawyers in South Africa, Australia, the UK and the US have now been working on the deal for nearly three months. For Rothschild, it is the second high-profile M&A transaction in months after its role advising Canada's Saputo on the hotly contested takeover of Warrnambool Cheese & Butter.

Rothschild advised Woolworths-owned Country Road on the $US175 million acquisition of Witchery Group in 2012. On the basis of that work, Mr Moir hired Rothschild to study the potential for Woolworths to do more M&A in Australia and in other southern hemisphere countries.

Rothschild concluded that David Jones was a preferred target. Myer's merger approach to David Jones opened the door for Woolworths to launch its bid.

David Jones is being advised by **Gresham** and **Macquarie**.

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