Giant office supply company merger: Will the new company be here?

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Office Depot and OfficeMax, the No. 2 and No. 3 office supply companies, announced a merger Wednesday aimed at transforming the companies into a more competitive office-supply powerhouse.

But questions remain where that Fortune 500 company would be based: Boca Raton or suburban Chicago? For Office Depot's 1,700 employees at its Boca Raton headquarters, they'll have to wait until the transaction is closed — or nearly closed — which may not be until year-end.

"We think this is a unique opportunity for both companies to build a much stronger foundation," said Neil Austrian, Office Depot's chief executive, in an interview Wednesday. "We can have a significant change in the way we do business. We can make some big bets, which neither of us can do today."

Besides the headquarters location, the name of the company and leader of the company are up in the air. A board representing both companies will do a search for a new CEO, the companies said.

The choice of a CEO won't necessarily determine the headquarters, Office Depot's Brian Levine said in an e-mail. OfficeMax is based in Naperville, Ill.

"It would be very premature to select a CEO before we understand what the FTC is to do," Austrian said. The deal still needs shareholder and regulatory approvals that include the Federal Trade Commission.

Austrian, who turns 73 on Thursday, said a new CEO should be able to commit three to five years. "At a certain point in time, you lose a little off your fastball," Austrian said when asked if he wants the top job of the combined companies.

"We have great confidence our boards will make the best decision," said OfficeMax Ravi Saligram, 56, on conference call with analysts to discuss the merger.

Based on OfficeMax's closing price on Tuesday, the deal was worth about $1.2 billion. But the final price in what the companies call a "merger of equals" won't be known until later. One factor is that OfficeMax has the ability to issue a special dividend to its shareholders.
Under the merger agreement, Office Depot and OfficeMax will swap stock. Office Depot will issue 2.69 new shares of common stock for each outstanding common share of OfficeMax. The deal is equal to $13.50 a share, based on OfficeMax's closing price on Tuesday, which is a premium of about 25 percent, according to Bloomberg News.

Office Depot's largest shareholder BC Partners, with 20 percent of the stock, has agreed to vote for the merger when shareholders meet, Austrian said. In 2009, Office Depot sold a 20 percent stake to BC Partners for $350 million.

If BC Partners is bought out entirely, Office Depot shareholders would own 54 percent of the new company. If BC Partners retains 5 percent in the new company, Office Depot would still own a majority of 51 percent. OfficeMax shareholders would own 44 percent to 46 percent, depending on BC's decision.

The merger makes both companies more cost effective, saving $400 million to $600 million on an annual basis — and not counting any real estate held by the two office-supply retailers, the companies said. Savings will come from better purchasing power for products and advertising, and a reduction in employees when redundant headquarter positions are eliminated.

Office Depot has 39,000 employees worldwide, 3,500 of whom are in South Florida.

William Stronge, an economics professor emeritus at Florida Atlantic University and an Office Depot stockholder, said he thinks Boca Raton might have the edge in a location for the combined companies because Office Depot invested $100 million in the building in 2010. But with any merger, the workforce will be reduced as some headquarters positions aren't needed and stores are closed.

Morningstar analyst Liang Feng also said it makes sense for the corporate headquarters to be in Boca Raton, given it already houses more employees than OfficeMax's. But other factors, such as tax breaks and local incentives may enter the decision, he said.

Feng said Staples, the current leader in the industry, may benefit from the companies working through the transaction in the short-run. But in the long-term, a "more potent competitor" could steal mid-size to large companies away from Staples, he said.

The CEOs declined to talk about any retail store closings, though there is overlap in their North American operations. The companies don't compete with each other internationally, except for Mexico.

Regulatory approvals are expected to take seven to nine months, Austrian said, with the transaction expected to close by year-end. The companies say they are competing in a different landscape than in 1997, when Staples merger with Office Depot was blocked by the FTC.

"We're confident the market has changed sufficiently that we have a very strong case here," Saligram said.
Both companies' stock prices soared on the speculation of a merger on Tuesday. But after the merger news, Office Depot closed at $4.18, down 84 cents and OfficeMax closed at $12.09, down 91 cents.

Investors may have reacted to disappointing earnings posted Wednesday by the companies.

Office Depot reported a loss of $110 million, or 39 cents a share, for 2012 on sales of $10.7 billion, down 7 percent from 2011. The loss for the quarter was $17 million.

OfficeMax reported 2012 net income of $414.7 million, or $4.74 a share, on sales of $6.9 billion, a 2.8 percent increase over a year ago. But for the fourth quarter, OfficeMax reported a loss of $50 million.