

Stock Merger Report

Amazon [AMZN] Acquires Whole Foods [WFM] for More than Fair Value

What is happening?

Amazon is acquiring Whole Foods for \$42/share, a price that reflects 132.6% Fair Value (Fv). Whole Foods is currently trading at 104.4% Fv.

Whole Foods took the grocery retail market by storm back in 1978 when it was founded on a basic principal of organic foods. Availability, display and upmarket locations were distinctive competencies that distinguished the grocer from rivals. Competition has more recently responded with expanded organic food selections at lower prices than Whole Foods. Relative high pricing has become a difficult barrier for Whole Foods to overcome. Sales have slowed recently resulting in closed stores most likely reflecting a position that the company had reached it's maximum market share than market segment weakness.

Does it make sense?

Acquisition of a grocery makes sense, but not Whole Foods. Amazon does not distinguish itself on product quality in a comparable manner as Whole Foods. Amazon is the manager of a highly efficient distribution channel. It makes no distinction on product quality or selectivity. Amazon has been attempting to enter the grocery distribution market through AmazonFresh. It is possible Amazon sees the countrywide retail locations of Whole Foods as an integrated national network of distribution centers. However, the stores have not been designed to be distribution centers and are not built on efficiency. There were better candidates available for such a strategic direction.

We are doubtful this acquisition will produce favorable financial results for the company.

