A Work Project, presented as part of the requirements for the Award of a Master's Degree in Finance from the NOVA – School of Business and Economics.

WHOLE FOODS MARKET TAKEOVER BY AMAZON.COM

AFONSO BRITES – 3322

A Project carried out on the Master in Finance Program, under the supervision of:

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Abstract

The case-study describes the situation involving Whole Foods Market, Jana Partners and Amazon. The case-study describes the situation for Whole Foods Market and the shareholder activism by Jana Partners leading up to the take-over bid announcement by Amazon on June 16th 2017, when the Whole Foods Market management team invited shareholders to a special meeting to vote on the approval of the merger. The accompanying teaching note for the case-study addresses the financial analysis and valuation of Whole Foods, the rationale behind the merger, value creation through shareholder activism and the EPS fallacy as a measure of value creation.

Key words: Whole Foods Market; Amazon; Jana Partners; Shareholder Activism.

Deal Introduction

On June 16th 2017, Amazon.com Inc. ("Amazon") announced its plans to acquire Whole Foods Market Inc. ("Whole Foods") at $42 a share, a total deal value of $13.7 billion, representing a 27% premium on Whole Foods' closing price the previous day.

Whole Foods wrote a letter to their shareholders, inviting them to attend a special meeting and asking them to consider and vote to approve the merger agreement (see **Exhibit 1** for Letter to Whole Foods Market Shareholders for Merger Approval). They considered the offer to be of attractive value, the best alternative for maximizing shareholder value, high certainty of value (due to being an all-cash offer), had a high likelihood of completion and had the approval of their financial advisors, Evercore.

Jana Partners, the activist shareholders that held nearly 9% of Whole Foods at the time, having entered the position only a few months prior, was wondering how they should act in response to the Amazon offer.

After consecutive disappointing results, Whole Foods Market shareholders had grown impatient, expecting more action to be taken by the management team to turn the company around and return to the results Whole Foods had accustomed them to.

For Jana, the lack of demanded change in Whole Foods made Amazon's offer very attractive. At $42 per share, Jana was looking to make approximately $300 million in profit, a return of ~38%. Amazon made it clear that this was their final offer, as they were unwilling to participate in a bid war. The market seemed to expect more, as the Whole Foods share price rose above the announced $42 per share in the offer, eager for a higher bid (see **Exhibit 2** for Whole Foods share price evolution).

Whole Foods Market

About Whole Foods Market

Whole Foods Market is an American supermarket chain, founded in 1978 in Austin, Texas, when Safer Way Natural Foods and Clarksville Natural Grocery joined forces to launch themselves into the supermarket format in the natural foods industry. Starting at less than half a dozen stores, in the United States, they averaged 8 million store visits across their 456 stores, located in the United States, United Kingdom and Canada, although the United States stores are responsible for 97% of their sales and long-lived assets.

Whole Foods' product offering is varied, dividing themselves into the following departments: Bakery, Beer, Cheese, Coffee & Tea, Grocery, Meat & Poultry, Produce, Seafood, Whole Body and Pets.

The company prides itself on its strict quality standards (see **Exhibit 3** for list of quality standards) and food safety measures. The goal is to provide healthy food in a manner that is environmentally sustainable, hence why they name themselves "America's Healthiest Grocery Store". Their food safety measures include controlling the presence of arsenic in their rice, bisphenol-A in their plastic containers and methylmercury levels in their seafood. Further actions taken to ensure environmental awareness include sourcing from local farmers, which they work with to ensure responsible uses of pesticides and pollinators, and appropriate meat sourcing, to ensure animal right compliance by those who raise the cattle. Thanks to this control over their supply and manufacturing process, the company can be more transparent and use this transparency to educate their consumers.

A Struggling Company

Since peaking in 2015, Whole Foods stock largely underperformed over the next two years (see **Exhibit 4** for comparison of cumulative returns against the S&P500). Despite increasing sales over this period, margins were on a downward trend due to increased costs (see **Exhibit 5** for Whole Foods Market financial data). In early February 2017, the company announced through its quarterly earnings report that they were closing nine stores and updated their outlook to reflect lower expected sales growth and increased costs. Their sales growth expectations remained positive but same-store growth was fell (~2.5% decrease YTD), making it their sixth consecutive quarter of same-store sale decline.

Organic food had started as a market niche but over the years became part of the mainstream market, so much so that, according to the Organic Trade Association (OTA), mass-market retailers were responsible for over half of organic food sales in 2015, whereas natural retailers were only responsible for ~37% (see **Exhibit 6** for sale growth of organic market in the US). Taking Kroger, a major mass retailer, as an example: they launched an organic brand named Simple Truth in 2012, reaching $1 billion dollars in annual sales only 2 years after its launch, making it their most successful branch launch ever. Other retailers like Walmart and Aldi also increased the organic product offerings, with Costco believed to be the largest in terms of revenue (see **Exhibit 7** for information on peers).

This was initially unanticipated by Whole Foods and the increased competition, along with their delayed response, led to their poor results. For years they had the reputation of being overpriced, which earned them the nickname “Whole Paycheck”, alluding to how anyone going to Whole Foods would spend their whole paycheck at the store. According to a survey conducted by Morgan Staley in 2017, 69% of interviewees don't shop at Whole Foods because they can find lower prices elsewhere (70% in 2015 and 2016).

The industry trend in recent previous years was already of consolidation, with several major acquisitions. Transaction values have increased greatly, whereas the number of deals has remained relatively stable (see **Exhibit 8** for information on Food Retail M&A and Past Transactions). Large chains are able to take advantage of their infrastructure (smaller chain find it more difficult due to the high fixed costs) and can invest on other capabilities, such as optimizing supply chain, employing new technology to improve shopper experience and launching new products.

Jana Partners

Jana Partners is an investment management firm that describes itself as "specializing in event-driven investing", by identifying and buying stocks in undervalued companies and using their acquired power as shareholders to make the changes they deem necessary to improve the company and exit the position when the value is created. This is more commonly known as shareholder activism.

Between February and April 2017, Jana Partners acquired nearly 9% of Whole Foods, becoming its second-largest shareholder, with the intent of operational improvement, replacing members of the board of directors and finding potential buyers for the firm. Jana already had experience with other similar investments in the industry, like when they acquired 6% of Safeway in 2013 and sold off non-core assets or when they bought 7.2% of food packager ConAgra and divested underperforming assets.

After disclosing their position, Jana Partners were very vocal in their criticism and held back no punches. They criticized brand development, customer service and the company’s analytics and distribution strategy. They also proposed four new members for the board, arguing that it needed an overhaul in order to turn the company around and overcome the rough patch they were going through.

Whole Foods Conflict

Whole Foods management was unhappy with how the company’s issues were being dealt with publicly and attempted to bring to the table a peace offering: accept two of Jana’s board nominees if they agreed to stop the public agitation for two years. John Mackey, the CEO and one of Whole Food’s founders, said: “*If Jana wants to have their own directors on the board, then they ought to be willing to sign a cooperation agreement*”. Jana refused on the basis that “[they would] *rather keep all options on the table*”.

The lack of cooperation between both parties reflected the relationship between the management team and the activist shareholders. In fact, calling it unfriendly would be an understatement, given that John Mackey called Jana Partners “*greedy bastards*”[1] in an interview for Texas Monthly, accusing the hedge fund of attempting to destroying the company’s and the management’s reputation for a quick profit.

Despite the disagreements with Jana Partners, changes were still needed and expected by other shareholders to turn around the company. In May 2017, Whole Foods announced that a new CFO was hired, Keith Manbeck, former senior vice president of digital finance, strategy management and business transformation at Kohl's, and the previous CFO, Glenda Flanagan, remained as senior advisor to the company. Additionally, five new independent directors were appointed, with combined experience in retail, food industry, finance and leadership experience. These directors included the former State Street CEO,

[1] Direct quote by John Mackey.

Scott Powers; the chairman, president and CEO of Foot Locker, Ken Hicks; the former executive vice president, chief administrative and chief financial officer of Best Buy, Sharon McCollam; the founder and executive chairman of Morningstar, Joe Mansueto; and, founder, chairman and chief executive of Panera Bread, Ron Shaich. None of the new directors appointed were among the candidates Jana Partners had proposed.

At this point in time, a sale was already a very viable possibility. Another well-known activist investor, Neuberger Berman, also pressured Whole Foods by sending a letter to the board, urging them to consider "possible strategic mergers, partnerships, joint ventures [and] alliances".

Amazon

About Amazon and its history

Amazon is a Seattle-based e-commerce and cloud computing company, founded by Jeff Bezos in 1994. The company started as an online bookstore in July 1995, when the first Amazon website came online, with the desire to "Get Big Fast", not wanting to be a simple online retailer but instead a technology company that simplified transactions for costumers. This was evident through the way the company's website was built, allowing for customizable searches by names, writers, publishers and even broader search parameters for more undecided readers, such as mood, reading habits and preferences.

Amazon went public in May 1997 and invested their IPO proceeds into improving their website and logistics, opening a new distribution centre in Delaware and expanding their Seattle centre, while also setting the goal for 95% same-day shipping for in-stocks items. By the end of the year, Amazon became the first internet retailer to reach 1 million customers.

The company's great growth allowed for international expansion and to begin to branch out in the item selection in the following year. Amazon acquired two companies in Europe, Bookpages in the UK and Telebook in Germany, providing access to a new customer base. Internet Movie Database (IMDb) was bought to help their planned movement into the online video market, a very valuable resource and source of information. 1998 was also the year when Amazon announced the expansion into the online music business, allowing for costumers to listen to over 225 thousand sound clips before purchasing.

The trend continued in the following decade, with focus on growth as opposed to profits, both organically and inorganically (see **Exhibit 9** for timeline for major M&A deals by Amazon). More products and services were added throughout the years, resulting in Amazon becoming the largest internet-based retailer in the world (see **Exhibit 10** for Amazon financial data).

Products and Services

Amazon sells many different kinds of products, such as apparel, electronics, books, tools and consumer goods, on the company's buy-it-now marketplace. It works worldwide as a B2B2C business model, where third parties can sell through their websites, and a B2C business model, where Amazon sells its own products, the most well-known being Echo & Alexa devices, the Fire tablets, Fire TV and the Kindle e-reader (see **Exhibit 11** for Amazon core countries).

Arguably Amazon's most notable service is Amazon Prime. This is a yearly subscription programme costing $99 (increased in 2014 from $79 – price when launched in 2005) that offers free two-day shipping for all eligible purchases and discount on one-day shipping.

It was first launched in the United States in 2005 and by 2016 was also available in Germany, Japan, UK, France, Italy, Canada and India.

Throughout the years, Amazon bundled other services to the Amazon Prime subscription (likely the one of the reasons for the price increase in 2014) to render it more appealing and to gain consumer loyalty. Adding to the shipping advantages, Amazon Prime offers many advantage in the entertainment scene, such as Prime Video, a service similar to Netflix, where subscribers have on-demand access to thousands of movies and shows to watch on their devices; Prime Music, that allows for music streaming and downloads for offline use; Prime Reading, providing unlimited access to thousands of books, magazines and audiobooks; Twitch Prime, a gaming streaming platform where this exclusive membership allows for free access and pre-orders to certain videogames, ad-free viewing and a free subscription to a streamer of the subscriber's choosing; Prime Photo, an unlimited storage and image sharing platform. Other benefits include early access to certain deals and receiving money back on their purchases using Amazon cards.

Amazon's cloud computing services are grouped under Amazon Web Services. These are aimed mostly at businesses and content creators and encompasses several computer-based solutions for clients in areas such as computing, storage, network & content delivery, developer tools, machine learning, analytics and augmented/virtual reality. Despite being Amazon's smallest revenue driver, the main two being "North America" and "International" (geographical distinctions for their e-commerce core business), accounting for about 9% of revenue in 2016, it is Amazon's fastest growing division, with a net sales growth of 70% in 2015 and 55% in 2016. It is also Amazon's most profitable division in terms of operating income, accounting for 67.5% of Amazon's operating income in 2015 and 74.2% in 2016.

Transaction Control

Amazon's product and service offering is extremely diverse but not necessarily what distinguishes Amazon from the competition. The incredible logistics that allow the company to provide such reliable delivery and fast response times is part of the backbone that makes operations run smoothly. Amazon encourages sellers to use Fulfilment by Amazon, which allows sellers to create their own product listings on Amazon websites and ship the products to Amazon fulfilment centres rather than the buyer directly. Once customers place their orders on the Amazon website, the company itself handles the shipping and allows for tracking information on the product bought. This system allows for a full control over the supply chain, allowing the company to deliver on their promise for Amazon Prime subscribers of free 1- and 2-day shipping for eligible products. There is also the added security for the buyer, because he/she knows exactly where to ship the products and doesn't have to worry about complicated logistics for distant deliveries, and for the seller, who has the Amazon promise of timely and secure delivery of their orders.

Amazon also developed their own payment system, Amazon Pay, because transaction safety isn't limited to the physical delivery of the products; the financial aspect of the transaction is also important. This service allows shoppers to make purchases on the Amazon website (and third-party websites that accept the service as a payment method) with "*no transaction fees, no membership fee, no currency conversion fee, no foreign transaction fee and no other fees*".

Day 1 Mentality and Customer Obsession

"Day 1" are probably the best words to describe Jeff Bezos' philosophy for Amazon, so much so that he attaches his first letter to shareholders written in 1997 (year of the

Amazon IPO) to the yearly shareholder letter and to the annual report and has even named Amazon's Seattle office building after it.

"*Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And that is why it is always Day 1. (…) Staying in Day 1 requires you to experiment patiently, accept failures, plant seeds, protect saplings, and double down when you see customer delight. A customer-obsessed culture best creates the conditions where all of that can happen."* – Jeff Bezos, in Annual Letter to Shareholders 2016.

Amazon's transition into the Grocery industry and Brick-and-Mortar

Amazon Fresh was Amazon's first major endeavour in the grocery business. This was a grocery delivery service launched in 2007, only available in certain major US cities with large metropolitan areas. However, the online grocery business was still emerging. Only around 12% of US consumers bought grocery online in 2016, of which the greatest costumers were millennials. Given that grocery stores still account for 46% of all store-based retail, it would be unwise to miss out on such as a large component of their consumers' lives. Whole Foods Market was a change to dive in head-first into the grocery industry, as Amazon hoped to bundle further into their products and services, to the point where it is, as Jeff Bezos puts it, "*such a good value, you'd be irresponsible not to be a member*".

In December 2016, Amazon launched a trial grocery store in Seattle for its employees called Amazon Go where the shoppers could simply grab whichever items they wished to purchase and, through a variety of sensors, their Amazon account would be automatically charged with the bill for whatever they picked up from the store, completely negating the existence of queues. The project, despite innovative and guided by their consumer-obsession, the brick-and-mortar strategy is a significant shift from Amazon's historical online-only presence.

The strategic shift began before Amazon Go, with the opening of Amazon Books in late 2015, a physical bookstore in Seattle. This grew to 13 stores by late 2017, with plans to open at least three more. The advantage of having physical stores is the ability to market themselves to a greater audience and improve consumer relations to ultimately boost online traffic and sales. The website and bookstore are still strongly linked. The books available at the bookstores are selected according to pre-order and ratings on the Amazon.com website and each book is displayed such that the barcode is visible to allow the use of the Amazon app to check prices.

This trend has been noticed among other online retailers, of which most are clothing and specialty stores such as Casper, Bonobos, Warby Parker and Birchbox. The competitive and saturated e-commerce market made it harder for companies to stand out and "online real estate" was becoming more expensive too. For example, according to L2 Inc, Macy's and Nordstrom spent $6.4 million and $4 million respectively in Q1 2015 in paid search listings for the top 1000 apparel-related keywords. While the trend going forward was somewhat unpredictable and guided by consumer preferences, it seemed e-commerce and brick-and-mortar were suitable complements.

A Natural Marriage?

Amazon remained secretive as to why they wanted to buy the organic grocer but they had the potential of solving two of Whole Foods' major problems. The first problem haunting the organic grocer was its image of being too expensive, earning it the "Whole Paycheck" nickname. Conveniently, Amazon was known for its low-price offerings and a take-over could be sufficient for this image to be overturned. Another common critique received by Whole Foods was the lack of customer loyalty programme, which Amazon Prime could solve.

The benefits from the acquisition of Whole Foods weren't limited to the grocery industry. Amazon had also made a name for themselves with the convenient and speedy delivery of their products, especially to Prime members. Whole Food stores were typically located in dense urban areas, with affluent consumers. According to Quartz, a third of American households with an annual income of over $100 000 lived within 3 miles of a Whole Foods. With infrastructure closer to the consumer, they would be able to increase the efficiency of their supply chain. Furthermore, they would be able to introduce new services, like Amazon Lockers, that allowed their shoppers use their conveniently-located stores to return and pick-up orders placed on Amazon websites.

The Offer

Whole Foods had six different potential buyers at the time other than Amazon, including a suggested "merger of equals", a commercial agreement from a competitor and four private equity firms looking to buy out the grocer, according to an SEC filing.

Amazon, using Goldman Sachs as their financial advisor, was very aggressive in their negotiations: it offered a bid at $41 per share (when Whole Foods Market was trading at $35) and made it very clear that that secrecy of the bid was crucial and that if any there were any leaks, Amazon would exit the negotiations.

Whole Foods management wasn't confident that the offers from the private equity firms would be higher than the one Amazon made, as was indicated by their financial advisor Evercore, but counter-offered at $45. Amazon was not happy and informed Whole Foods that Amazon was considering whether it would just walk away or counter-offer, and would be looking at new opportunities elsewhere in the meantime.

Amazon made a final offer of $42 per share, which it expected to fund by issuing debt (see **Exhibit 12** for bonds issued to finance the deal), expecting a quick response. To avoid a bid war, they stated "*Amazon.com expected that the Company would not approach other potential bidders while the Company was negotiating with Amazon.com*". Whole Foods shareholders had to respond to the offer, being called to vote by the management who unanimously recommended that shareholders voted "YES".

Jana Partners had to decide on how to proceed. Whole Foods Market shares were trading above the announced $42 per share, in the expectation that higher bids would arise. The risk of the Amazon deal was also a consideration to take into account, given their firmly stated unwillingness to participate in a bid war. Should they sell their position before the deal takes place in order to take advantage of the overshoot? Should they encourage other shareholders to vote "No" on the deal to wait for better offers or continue their efforts to turn the company around?

Exhibits

Exhibit 1 – Letter to Whole Foods Market Shareholders for Merger Approval

July 21, 2017

Dear Fellow Shareholders:

You are cordially invited to attend a special meeting of the shareholders of Whole Foods Market, Inc. ("Whole Foods Market" or the "Company"), which we will hold at the Company's headquarters located at 550 Bowie Street, Austin, Texas 78703, on August 23, 2017, at 8:30 a.m. local time.

At the special meeting, our shareholders will be asked to consider and vote on a proposal to approve the merger agreement that we entered into on June 15, 2017 (the "merger agreement"), providing for the acquisition of the Company by Amazon.com, Inc. ("Amazon.com"). The acquisition will occur by means of a merger of a wholly owned subsidiary of Amazon.com with and into the Company (the "merger"), with the Company surviving the merger as a wholly owned subsidiary of Amazon.com. If the merger agreement is approved by our shareholders and the merger is completed, each share of our common stock will be converted into the right to receive $42.00 per share in cash.

The Whole Foods Market board of directors unanimously recommends that our shareholders vote "FOR" the proposal to approve the merger agreement.

The enclosed proxy statement describes the merger agreement, the merger and related matters, and attaches a copy of the merger agreement. We urge shareholders to read the entire proxy statement carefully, as it sets forth the details of the merger agreement and other important information related to the merger.

Your vote is very important. The merger cannot be completed unless holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting vote in favor of the proposal to approve the merger agreement.

On behalf of the entire board of directors, I want to thank you for your continued support.

Sincerely,

Gabrielle Sulzberger
Chair of the Board of Directors

John Mackey
Chief Executive Officer and Co-Founder

Neither the U.S. Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger, the merger agreement or the other transactions contemplated thereby or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This proxy statement is dated July 21, 2017 and is first being mailed to shareholders on or about July 21,2017.

Source: SEC filing

Exhibit 2 – Whole Foods Share Price Evolution

Source: Bloomberg.

Exhibit 3 – Whole Foods Quality Standards

Our Quality Standards

We carefully evaluate each and every product we sell.

We feature foods that are free of artificial preservatives, colors, flavors, sweeteners, and hydrogenated fats.

We are passionate about great tasting food and the pleasure of sharing it with others.

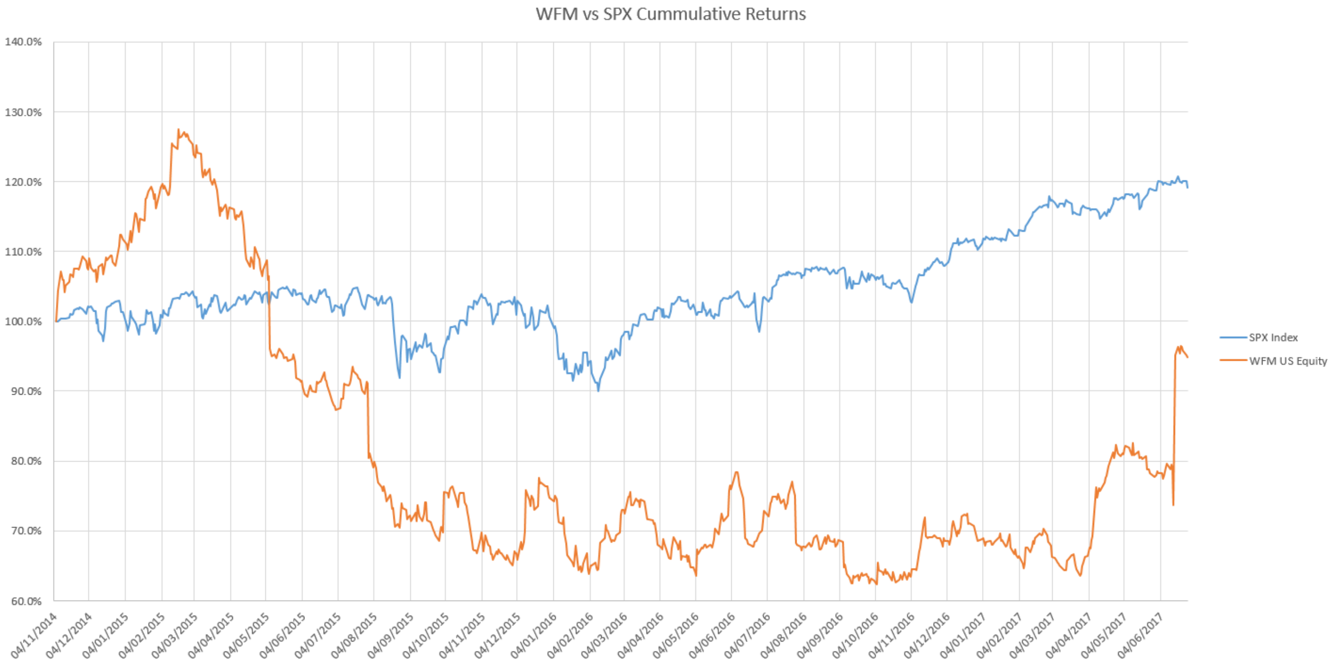
We are committed to foods that are fresh, wholesome and safe to eat.

We seek out and promote organically grown foods.

We provide food and nutritional products that support health and well-being.

Source: Whole Foods website.

Exhibit 4 – Whole Foods Cumulative Returns vs S&P500



Source: Bloomberg.

Exhibit 5 – Whole Foods Financial Data

Balance Sheet

(in million $)

Assets	2014	2015	2016
Current assets			
Cash and cash equivalents	190	237	351
Short-term investments	554	155	379
Restricted cash	109	127	122
Accounts receivable	198	218	242
Merchandise inventories	441	500	517
Prepaid expenses and other current assets	97	108	167
Deferred income taxes	168	199	197
Total current assets	1,757	1,544	1,975
Property and equipment	2,923	3,163	3,442
Long-term investments	120	63	0
Goodwill	708	710	710
Intangible assets	81	79	74
Deferred income taxes	132	144	100
Other assets	24	38	40
Total assets	5,745	5,741	6,341
Liabilities and Shareholders' Equity			
Current liabilities:			
Current installmens of capital lease obligations	2	3	3
Accounts payable	276	295	307
Accrued payroll, bonus and other benefits due team members	379	436	407
Dividends payable	43	45	43
Other current liabilities	557	473	581
Total current liabilities	1,257	1,252	1,341
Long-term capital lease obligations	60	62	1,048
Deferred lease liabilities	548	587	640
Other long-term liabilities	66	71	88
Total liabilities	1,931	1,972	3,117
Shareholders' equity:			
Common stock	2863	2904	2933
Common stock in treasury	-711	-1124	-2026
Accumulated other comprehensive loss	-7	-28	-32
Retained earnings	1668	2017	2349
Total shareholders' equity	3813	3769	3224
Total liabiliaties and shareholders' equity	5,744	5,741	6,341

Statement of Operations

(in million $, except per share values)	2014	2015	2016
Sales	14,194.0	15,389.0	15,724.0
COGS + Occupancy costs	9,150.0	9,973.0	10,313.0
Gross Profit	5,044.0	5,416.0	5,411.0
SG&A expenses	4,032.0	4,472.0	4,477.0
Pre-opening expenses	67.0	67.0	64.0
Relocation, store closure and lease termination costs	11.0	16.0	13.0
Operating income	934.0	861.0	857.0
Interest expense	0.0	0.0	-41.0
Investment and other income	12.0	17.0	11.0
Income before income taxes	946.0	878.0	827.0
Provision for income taxes	367.0	342.0	320.0
Net income	579.0	536.0	507.0
Basic earnings per share	$1.57	$1.49	$1.55
Weighted average shares outstanding	367.8	358.5	326.1
Diluted earnings per share	$1.56	$1.48	$1.55
Weighted average sales outstanding, diluted basis	370.5	360.8	326.9
Dividends declared per common share	$0.48	$0.52	$0.54

Source: Whole Foods Market Annual Reports.

Unaudited Cash Flow Projects by Management Team

Summary of the Whole Foods Market Projections [1]
(dollars in millions)

	2017	2018 [4]	2019	2020	2021
Revenue	$15,887	$16,490	$17,339	$18,217	$19,238
EBITDA [2]	$ 1,216	$ 1,331	$ 1,656	$ 1,815	$ 1,949
Free Cash Flow [3]	$ 324	$ 422	$ 639	$ 738	$ 814

Source: SEC Filing.

Other information

Cost of debt: 5.20% Source: Annual Reports.

US 10Y Bond Yield: 2.35% Source: Bloomberg.

Market Risk Premium: 5.69% Source: Damodaran.

Exhibit 6 – U.S. Organic Sales and Growth 2006-2015

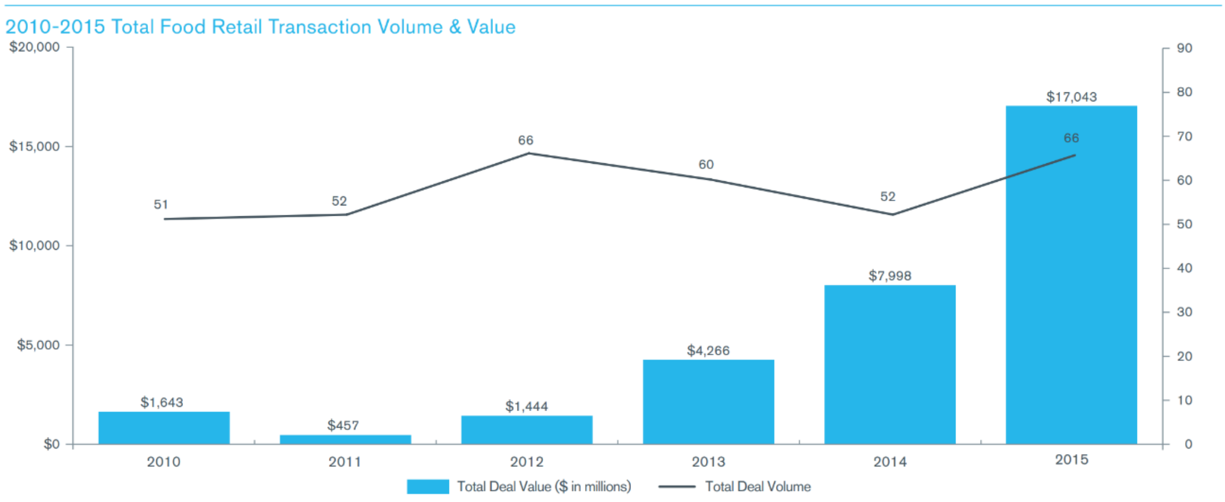
Source: Organic Trade Association.

Exhibit 7 – Whole Foods Market Peer Data

	Company	Equity	Net Debt	Levered Beta	EV as multiple of Revenue (LTM)	EV as multiple of EBITDA (LTM)
Organic Grocers	Sprouts Farmers Market, Inc.	673	372	1.00	1.12x	13.50x
	The Fresh Market, Inc.	363	-27	1.33	0.48x	4.50x
	Natural Grocers by Vitamin Cottage, Inc.	127	55	0.52	0.65x	8.20x
Small / Mid Cap Supermarkets	Ingles Markets, Incorporated	470	871	1.00	0.43x	6.80x
	Smart & Final Stores, Inc.	552	625	-0.06	0.43x	10.20x
	SpartanNash Company	825	407	1.41	0.17x	5.80x
	Weis Markets, Inc	927	-29	0.93	0.34x	6.30x
	Village Super Market Inc.	272	-44	0.28	0.22x	5.20x
Large Cap Supermarkets	Wal-Mart Stores Inc.	80,535	35,862	0.55	0.54x	7.60x
	The Kroger Co.	6,710	13,755	0.75	0.46x	8.90x
	SUPERVALU Inc.	383	957	1.60	0.21x	4.70x

Source: Duff & Phelps; Bloomberg; Annual Reports.

Exhibit 8 – Retail M&A



Source: Euromonitor.

Past Transactions

Buyer	Target	EV ($mm)	EV as multiple of LTM	
			Revenue	EBITDA
Supervalu Inc.	Unified Grocers, Inc.			10.0x
Onex Corp	Save-A-Lot			6.4x
Apollo Global Management, LLC	The Fresh Market Inc.			7.1x
The Kroger Co.	Roundy's	$803	0.2x	7.0x
Koninklijke Ahold N.V.	Delhaize Group	$12,274	0.5x	8.4x
Acon Investments	Fiesta Mart	$120		5.0x
Pace Food Retail	Dean & DeLuca	$140		14.0x
Albertsons	Safeway	$8,960	0.3x	5.5x
Victory Park Capital	Mi Pueblo Food Center	$51	0.1x	6.6x
Cardenas Markets; Northgate González Markets	Pro's Ranch Markets	$55	0.3x	4.0x
TPG Capital	Gelson's	$370	0.8x	10.7x
The Kroger Co.	Harris Teeter Supermarkets	$2,497	0.5x	6.7x
Sobeys	Canada Safeway Limited	$5,555	0.9x	10.7x
AUA Private Equity Partners	Associated Food Holdings	$155	0.3x	5.0x

Source: Duff & Phelps; SEC.

Exhibit 9 – Amazon Major Acquisition Timeline

Source: Zacks Investment Research.

Exhibit 10 – Amazon Financial Data

Balance Sheet

AMAZON.COM, INC.

CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	December 31, 2015	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,890	$ 19,334
Marketable securities	3,918	6,647
Inventories	10,243	11,461
Accounts receivable, net and other	5,654	8,339
Total current assets	35,705	45,781
Property and equipment, net	21,838	29,114
Goodwill	3,759	3,784
Other assets	3,445	4,723
Total assets	$ 64,747	$ 83,402
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 20,397	$ 25,309
Accrued expenses and other	10,372	13,739
Unearned revenue	3,118	4,768
Total current liabilities	33,887	43,816
Long-term debt	8,227	7,694
Other long-term liabilities	9,249	12,607
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $0.01 par value:		
Authorized shares — 500		
Issued and outstanding shares — none	—	—
Common stock, $0.01 par value:		
Authorized shares — 5,000		
Issued shares — 494 and 500		
Outstanding shares — 471 and 477	5	5
Treasury stock, at cost	(1,837)	(1,837)
Additional paid-in capital	13,394	17,186
Accumulated other comprehensive loss	(723)	(985)
Retained earnings	2,545	4,916
Total stockholders' equity	13,384	19,285
Total liabilities and stockholders' equity	$ 64,747	$ 83,402

Statement of Operations

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	Year Ended December 31,		
	2014	2015	2016
Net product sales	$ 70,080	$ 79,268	$ 94,665
Net service sales	18,908	27,738	41,322
Total net sales	88,988	107,006	135,987
Operating expenses:			
Cost of sales	62,752	71,651	88,265
Fulfillment	10,766	13,410	17,619
Marketing	4,332	5,254	7,233
Technology and content	9,275	12,540	16,085
General and administrative	1,552	1,747	2,432
Other operating expense, net	133	171	167
Total operating expenses	88,810	104,773	131,801
Operating income	178	2,233	4,186
Interest income	39	50	100
Interest expense	(210)	(459)	(484)
Other income (expense), net	(118)	(256)	90
Total non-operating income (expense)	(289)	(665)	(294)
Income (loss) before income taxes	(111)	1,568	3,892
Provision for income taxes	(167)	(950)	(1,425)
Equity-method investment activity, net of tax	37	(22)	(96)
Net income (loss)	$ (241)	$ 596	$ 2,371
Basic earnings per share	$ (0.52)	$ 1.28	$ 5.01
Diluted earnings per share	$ (0.52)	$ 1.25	$ 4.90
Weighted-average shares used in computation of earnings per share:			
Basic	462	467	474
Diluted	462	477	484

Source: Amazon 2016 Annual Report.

Exhibit 11 – Amazon's Core Countries

Country	Flag	Population (million)	Sales (USD billion)	Local Internet Share	Local Internet Ranking
US		322	102.8	33%	1
Canada		36	1.8	10%	1
France		64	3.8	11%	1
Germany		81	18.0	41%	1
Italy		61	1.4	14%	2
Spain		46	0.6	8%	1
UK		65	19.5	27%	1
Mexico		127	0.3	6%	3
Japan		127	14.7	20%	1
India		1281	2.6	12%	3
China		1368	4.7	1%	6
World		7,301	277.8	23.9%	1

Source: Euromonitor.

Exhibit 12 – Amazon Debt Issuance for Deal Financing

Maturity	Coupon	Yield at Issue	Spread at Issue	Issue Size ($mm)
8/21/2020	1.90%	1.92%	40	$1,000
2/22/2023	2.40%	2.42%	60	$1,000
8/22/2024	2.80%	2.84%	75	$2,000
8/22/2027	3.15%	3.17%	90	$3,500
8/22/2037	3.88%	3.89%	105	$2,750
8/22/2047	4.05%	4.09%	125	$3,500
8/22/2057	4.25%	4.29%	145	$2,250
	3.46%	3.49%	101	$16,000

Source: Seeking Alpha.

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THESIS TEACHING NOTES

Case Synopsis

In June 2017, Amazon.com Inc announced its plans to acquire Whole Foods Market for $42 per share, a 27% premium on the closing price of the previous day. Whole Foods Market had been struggling and this was a potential way to deliver value for their shareholders and Amazon saw the target as an opportunity to join the food retail business that it had already tried to develop organically in the past. In the months leading up to the acquisition announcement, Jana Partners, an activist hedge fund, entered a minority position by purchasing ~9% of the Whole Foods Market outstanding shares and began a public battle against the management of the organic grocer to overhaul the company and push towards a sale. With Amazon's announcement and the voting for its approval came up, Jana needed to decide how to proceed.

Teaching Purpose

The following teaching note should be used in conjunction with the respective case study, focusing on the following teachings: (a) financial analysis of a target company; (b) sources of value creation in a merger, (c) value creation through shareholder activism; (d) company valuation using different methods; (e) advantages and limitations of different valuation multiples; (f) EPS fallacy as a measure of value creation. All calculations are provided in the case's Excel spreadsheets.

Discussion Questions

1. What made Whole Foods Market an appealing target for a takeover?

Whole Foods Market was a struggling company, and there are several pieces of evidence that can be used to justify the claim.

Looking at the statements of operations, the evolution of several figures can be analysed by the students. Despite positive sales growth from 2014 to 2016, the growth rate decreases significantly: 8.4% from 2014 to 2015 and 2.2% from 2015 to 2016. Gross margin decreases only slightly from 2014 to 2016 (35.5% to 34.4%), and so does operating margin (6.6% to 5.5%), suggesting difficulties in cost efficiency. The students can point out that this can be justified by the decrease in same-store sales mentioned in the case, so the increase in sales is due to the opening of new stores as opposed to growth of existing stores. This is also reflected on the net profit margin, decreasing from 4.1% in 2014 to 3.5% in 2015 to 3.2% in 2016.

Another good measure students can analyse is the evolution of ROIC, calculating using the values for Debt and Equity from the Balance Sheet and the net income from the statements of operations. From 2014 to 2015 to 2016, ROIC decreases from 14.9% to 14.0% to 11.9% respectively (see **Exhibit 1 of Teaching Notes** for calculations).

Ultimately, this data is reflected on the Whole Foods Market's stock price, whose cumulative returns since early 2015 can be seen compared to S&P500 returns. Not only are the stock's returns much lower than the chosen benchmark, the company lost half its value since its peak in 2015, rising at the end of the data set when Jana Partners disclosed their position in an SEC filing on April 10th 2017 as the market expected a possible sale to come in the future.

2. Why would Amazon want to buy Whole Foods Market? What sources of value creation are there for Amazon to gain with the Whole Foods acquisition?

Amazon remained somewhat secretive regarding their future plans for Whole Foods but possible sources of synergies in an uncommon partnership in an M&A deal can be discussed.

Amazon had already shown a desire to enter the grocery industry through previous endeavours such as Amazon Fresh and Amazon Go, although their development and success was somewhat limited. An acquisition of a well-established company such as Whole Foods Market allows for a jump start towards establishing a food retail business line. This could easily be integrated with Amazon's already existing Prime programme and using it to create incentives to shop at Whole Foods, such as discounts in other Amazon services or products by shopping at Whole Foods or discounts at Whole Foods by purchasing other Amazon products.

The strategic implications of acquiring a company heavily focused on a brick-and-mortar are relevant. Amazon made a reputation for itself as an e-commerce company but increased its physical presence by opening several bookstores from late 2015 onwards. The reasons for this are mostly speculative due to the company's secrecy regarding the subject but possible advantages include greater contact and understanding of their costumers, physical marketing to counteract an increasingly saturated and expensive e-commerce, while leveraging on their existing know-how of their shoppers habits and likes.

The convenience of Amazon's speedy delivery time, particularly for Amazon Prime subscribers, comes at the cost of increased transaction control to guarantee their ability to deliver on their word. The privileged location of Whole Foods Market stores allows for greater proximity to their customers (and future, potential customers), providing potential hubs for storage in addition to the possibility of having a collection point for consumers to pick-up their online orders.

3. What is shareholder activism, what is its purpose and how is value created by activist shareholders?

An activist shareholder is an investor that uses his/her power as an equity holder to pressure the management of the company to motivate changes. Ultimately, the goal is to create value and profit from the transaction. This type of investing is particularly attractive due to the possible impact in relation to the stake acquired. Relatively small stakes, such as the one Jana Partners acquired in Whole Foods prior to the Amazon acquisition (under 9%), may be sufficient to motivate the intended changes and create value. This contrasts with takeover bids, which not only require much larger capital investments but often also a control premium.

Value can be created through different ways. In the case, we can see the first attempt by Jana Partners, who tried to replace 4 directors. Bringing in complying directors would make it much easier to implement the ideas they had for the company. Naturally, the company's management didn't take this well and a proxy fight was triggered. Given that the expectation for new management already existed, even from other shareholders, they brought in 5 new directors of their own choosing to comply with the shareholders' demands without losing control of the company to Jana.

The offer Whole Foods made to bring in only 2 directors from those suggested by Jana was smart, as the agreement would diminish the public stirring going on but wouldn't cause enough change to the board such that they wouldn't be able to control the company. Jana was also smart to decline, as they knew that 2 directors would be insufficient for them to reach their goals.

The inability to influence and to carry out their initial plan led to a more aggressive approach by Jana. They continued their public dispute against the Whole Foods, placing a target on their back to be acquired. To a certain extent, Jana made it so that a sale seemed to be the most reasonable and likely solution to be accepted by both the shareholders and the management: Jana Partners could profit from an acquisition premium and the Whole Foods management team could get Jana off the back and discuss changes with a different, more flexible party (the acquirer – Amazon). Unsurprisingly, this is what happened netting Jana Partners a profit of around $300m from the transaction (38% return) over a period of only a few months.

In some cases, such as in past investments by Jana mentioned in the case, spin-offs/divestitures may create value when the sum of parts worth more than the whole. This can happen when companies hold assets that are underperforming due to company negligence or lack of expertise. Investors may wish to invest exclusively in a particular business unit of a company but are unable to do so because they share the same corporate umbrella as other business units, so the separation can also provide more liquidity to the assets in question.

4. Provide a valuation analysis on Whole Foods Market. Do you think Amazon's offer is reasonable?

The data available in the case allows for several types of valuation: DCF, Trading Multiples and Transaction Multiples (and combinations).

The DCF can be done using the Whole Foods Market's management's projections for Free Cash Flows. To calculate the WACC, students must first arrive at the cost of equity (r_e) and should use the given cost of debt.

As for the cost of equity, the unlevered industry Beta should be derived by unlevering the Beta for Whole Foods Market's peers and averaging the Beta. The students should use the organic grocers' beta and not all the given betas. They should recognize that the organic food industry is more cyclical than the more diversified food retail industry as whole. Using the betas for all the listed companies would result in a lower Beta and would overvalue the company. This Beta should then be relevered using Whole Foods Market's capital structure. Using the risk-free rate (US long-term bond yield) and the market risk premium (from Damodaran) in the case, the r_e is calculated. Using the r_d given in the case and a tax rate of 35%, the resulting WACC is 7.00%. The Free Cash Flows should be discounted at this rate and the terminal value should be added onto the discounted cash flows. The terminal value can be calculated using a perpetuity, in which case a perpetuity growth should be assumed, or using a multiple on one of the cash flow metrics. Using a perpetuity growth rate of 2%, the final valuation for the company's equity would be $14 843 million ($45.4 per share) (see **Exhibit 2 of Teaching Notes** for DCF full calculations).

Another possible valuation method is through trading multiples. From the data available in the annexes, the available multiples are EV/Sales and EV/EBITDA. Different companies are available for comparison, split into organic retailers, small/mid cap retailers and large cap retailers. For the same reason stated in the DCF valuation, students should use the multiple for organic retailers because those are Whole Foods Market's "true" peers, despite the more limited sample.

To obtain the multiple itself, there is also the possibility of taking either the average or the median of the multiples. The advantage of using the median instead of the mean is to filter out the outliers, where the average is much more sensitive to extreme data points.

The difference in measures is relatively small for the EV/EBITDA multiple but is more significant in the EV/Sales multiple, as can be seen in the tables below:

Trading Multiples

	EV/Sales	EV/EBITDA
Average	0.75x	8.73x
Median	0.65x	8.20x

Equity Valuation (in $ million)	EV/Sales	EV/EBITDA
Average	11,215.25	9,919.73
Median	9,626.55	9,271.20

(see **Exhibit 3 of Teaching Notes** for trading multiples calculations)

A third valuation method is through comparable transactions. The available transactions are for the food retail industry, only one referring specifically to the acquisition of an organic grocer (The Fresh Market, Inc by Apollo Global Management). Therefore, this is the only "true" comparable transaction. The EV/EBITDA multiple (7.1x) is far lower than that of the Whole Foods Market's (11.9x) (see **Exhibit 4 of Teaching Notes**), which could be due to a number of company-specific factors and not necessarily regarding the organic grocer industry. The valuation method should be considered nonetheless, discussing the issues of its reliability due to the lack of other M&A deals for organic food retailers.

For all valuation methods, students can also choose to have a sensitivity analysis on important variables. For the DCF, variables like the WACC and perpetuity growth rate would be sensible choices, whereas for the other two valuation methods, the sensitivity analysis would be for the multiple itself. If performed, this provides valuation ranges where the "true" value of the company is likely to reside. All of the valuations should be taken into account (e.g.: football field graph) when providing their opinion regarding Amazon's offer.

Overall, the Amazon offer seems very appealing. The DCF valuation under the stated assumption values the company above the offer by Amazon but it is arguable that the projected cash flows seem inflated, given the company's track record over the previous 3 years. This is not particularly surprising, given that these are unaudited cash flow projections made by the management team and it is likely that they are overly optimistic regarding the company's future. The market sure seems to think differently than the management team, given the price discrepancy between the DCF and trading price (the Amazon offer of $42 per share already represented a premium of 27% to the price before the announcement and 41% premium to the price before the shareholder activism disputes became public). The offer is also very attractive when compared to the trading multiples for organic grocers, and even more attractive when compared to the comparable transaction (although the limitations for this valuation have already been stated).

5. Do you think EV/EBITDA and EV/Revenue are good financial measures for multiple valuation? Discuss their advantages and disadvantages, suggesting other viable alternatives.

EV/EBITDA is one of the most commonly used multiples in the financial industry for valuation. EBITDA is a good proxy for Free Cash Flow because of its sensitivity to the operations of the company (revenue generation and cost efficiency), while remaining unaffected by accounting gimmicks and tax treatments. The ratio allows for easy comparison of different companies within the same industry, as it also independent of capital structure. The ratio can become meaningless in the scenario where a company is struggling and its costs exceed their revenues for a particular year, making the EBITDA negative and the ratio obsolete.

EV/Sales has similar advantages, in that Sales is a hard number to manipulate and there is somewhat reflective to the situation of the company but excludes very useful information like the cost structure. It also overcomes the issue of the possibility for a negative ratio (although a negative EV is still possible), as Sales must be non-negative.

Variations upon these multiples are common, often adjusted according to the industry. Common alternatives include EV/EBIT or adjustments to the EBIDA such as subtracting Capital Expenditures or Changes to Net Working Capital. The idea is to make the estimate as close to FCF as possible while keeping it an accurate measure. These types of adjustments are usually employed in capital intensive industries, where large investments are required every year to run the business and therefore should be taken into account, although this is not the case for the grocer industry.

Yet another viable alternative, also heavily used in the financial industry, is the P/E Ratio. The ratio determines how much the average investor is willing to pay for every dollar of that company's earnings. It can be a good measure to compare companies within the same industry, as the ratio reflects the market sentiment regarding a company's future growth prospects (i.e.: a company with a higher P/E than their peers is believed to have greater growth prospects than the peers). The limitations with P/E ratio is that a company can much more easily manipulate its earnings than they can, for example, its EBITDA because it is affected by accounting methods. There is an incentive to do so, for example, to pay less taxes on corporate earnings. P/E ratio is also affected by market conditions, particularly in times of higher inflation, where inventory and depreciation costs are commonly understated and therefore the market may perceive the earnings as overstated.

6. What impact would the Amazon – Whole Foods merger have on Amazon EPS, assuming no synergies? What can you conclude about the value created by the acquisition?

This question serves to allow students to reach two important conclusions: 1. EPS accretion doesn't necessarily mean value is being created; 2. Debt tax shield can be used to compensate acquisition premiums.

Both conclusions can be proven mathematically. A possibility would be to calculate impact on Amazon EPS assuming acquisition with cash on-hand (i.e. Amazon # of shares doesn't change). In this scenario, no value is created; in fact, value is destroyed because the premium is paid but there is no synergies to compensate for it. However, the EPS increases from $4.90 to $5.95. The fallacy that EPS accretion = value creation is evident here, because EPS increases despite value being destroyed. The reason for the accretion is Amazon's higher P/E (203.1) compared to Whole Foods' P/E (27.1), meaning the Whole Foods earnings are now priced higher because they have moved into Amazon's financial statements.

The second conclusion can be shown assuming 100% debt financing, with an average cost of debt of 3.46% - the average coupon rate for the debt emitted to finance the deal (tax rate of 35% assumed). The value created by the tax shield is added onto the Amazon market cap (PV of tax shield – premium paid) and the debt repayment is subtracted from the sum of net incomes. Together, EPS increases from $4.90 to $5.31. In this case, value is created despite not having synergies purely from the leverage. Students can further discuss that although leverage can create value in M&A, there are other possible implications, such as increased default risk and limiting future financing options (like inability to borrow more or increased cost of debt).

Teaching Notes Exhibits

Exhibit 1 of Teaching Notes – Calculations for Whole Foods financial indicators

(in million $)	**2014**	**2015**	**2016**
Sales	14,194.0	15,389.0	15,724.0
Growth	-	8.4%	2.2%
COGS + Occupancy costs	9,150.0	9,973.0	10,313.0
Gross Profit	5,044.0	5,416.0	5,411.0
Gross Margin	*35.5%*	*35.2%*	*34.4%*
SG&A expenses	4,032.0	4,472.0	4,477.0
Pre-opening expenses	67.0	67.0	64.0
Relocation, store closure and lease termination costs	11.0	16.0	13.0
Operating income	934.0	861.0	857.0
Operating Margin	*6.6%*	*5.6%*	*5.5%*
Interest expense	0.0	0.0	-41.0
Investment and other income	12.0	17.0	11.0
Income before income taxes	946.0	878.0	827.0
Provision for income taxes	367.0	342.0	320.0
Net income	579.0	536.0	507.0
Margin	*4.1%*	*3.5%*	*3.2%*
Net Debt[1]	-128	-172	700
Book value of Equity	3813	3769	3224
ROIC[2]	*16.5%*	*15.6%*	*14.2%*

[1] $Net\ Debt = Book\ value\ of\ Debt - Cash\ and\ cash\ equivalents\ (from\ Balance\ sheet)$

[2] $ROIC = \frac{Operating\ Income \times (1 - Tax\ rate)}{Equity + Net\ Debt}$

Exhibit 2 of Teaching Notes – Whole Foods Market DCF Valuation

Unlevered Beta

	Equity	Net Debt	Levered Beta	Unlevered Beta
Sprouts Farmers Market, Inc.	673	372	1.00	0.74
The Fresh Market, Inc.	363	-27	1.33	1.44
Natural Grocers by Vitamin Cottage, Inc.	127	55	0.52	0.36

Average Unlevered Beta: 0.85

Levered Beta

$$\beta_L = \beta_U \times \left[1 + (1-t) \times \frac{D}{E}\right] = 0.85 \times \left[1 + (1-0.35) \times \frac{1051}{3224}\right] = 1.02$$

Cost of Equity (using Average Unlevered Beta) and Cost of Debt

$$r_e = r_f + \beta_L \times MRP = 2.35\% + 1.02 \times 5.69\% = 8.18\%$$

$$r_d = 5.20\%$$

WACC

$$r_{WACC} = r_e \times \frac{E}{E+D} + r_d \times \frac{D}{E+D} \times (1-t) = 7.00\%$$

Equity Value

WFM Projections		1	2	3	4	5
	2017	**2018**	**2019**	**2020**	**2021**	**2022+**
Revenue	15,887	16,490	17,339	18,217	19,238	
EBITDA	1,216	1,331	1,656	1,815	1,949	1,988
FCF	324	422	639	738	814	830
Discounted CF	324	394	558	602	621	12,668*

*assumed perpetuity growth rate of 2%

$$\sum Discounted\ Cash\ Flows = \$14\,843\ million$$

$$Implied\ Share\ Price = \frac{\$14\ 843\ million}{326.9\ million\ shares} = \$45.4$$

Exhibit 3 of Teaching Notes - Trading Multiples for Organic Grocers

Price Paid	13,725
Debt	1,051
Cash	351
Implied EV	14,425
Revenue (2017E)	15,887
EBITDA (2017E)	1,216
xRevenue	0.91
xEBITDA	11.86

Trading Multiples

	EV/Sales	EV/EBITDA
Average	0.75x	8.73x
Median	0.65x	8.20x

Equity Valuation (in $ million)	EV/Sales	EV/EBITDA
Average	11,215.25	9,919.73
Median	9,626.55	9,271.20

Transaction Multiples

	EV/Sales	EV/EBITDA
Average	-	7.10x
Median	-	7.10x

Equity Valuation (in $ million)	EV/Sales	EV/EBITDA
Average	-	7,933.60
Median	-	7,933.60

Exhibit 4 of Teaching Notes – EPS Calculations

CASH ON HAND AND NO SYNERGIES

	Amazon	Whole Foods	Combined
Number of shares (diluted - in millions)	484.0	326.9	484.0[1]
Market Cap (million $)	481,662.3	13,725.3	478,744.3[2]
Net Income (million $)	2,371.0	507.0	2,878.0[3]
Share Price ($)	995.2	42.0	989.1[4]
EPS ($)	4.90	1.55	5.95[5]
P/E	203.1	27.1	166.3[6]

[1] Assumed payment with cash on hand (no share issuance needed)

[2] No synergies: Final Market cap = Amazon market cap – premium paid (value destroyed)

[3] Sum of net incomes

[4] New share price = Market Cap / Number of Shares

[5] EPS = Net Income / Number of Shares

[6] P/E = Market Cap / Net Income

100% DEBT FINANCING AND NO SYNERGIES

	Amazon	**Whole Foods**	**Combined**
Number of shares (diluted - in millions)	484.0	326.9	484.0
Market Cap (million $)	481,662.3	13,725.3	483,548.2[7]
Net Income (million $)	2,371.0	507.0	2,569.5[8]
Share Price ($)	995.2	42.0	999.1
EPS ($)	4.90	1.55	5.31
P/E	203.1	27.1	188.2

[7] Final Market Cap = Amazon Market + Tax Shield – Premium Paid
Tax Shield = Price Paid × Tax Rate

[8] Final Net Income = Sum of Net Incomes – [Cost of Debt × Price Paid × (1 – Tax Rate)]

<u>Cost of debt for Amazon for deal financing</u>

Maturity	**Coupon rate**	**Issue size (mm)**
21/08/2020	1.90%	1000
22/08/2023	2.40%	1000
22/08/2024	2.80%	2000
22/08/2027	3.15%	3500
22/08/2037	3.88%	2750
22/08/2047	4.05%	3500
22/08/2057	4.25%	2250
		16000

$$r_d = \sum Coupon\ rate\ \times \frac{Issue\ size}{Total\ Issue\ size} = 3.46\%$$