Woolworths delays David Jones vote

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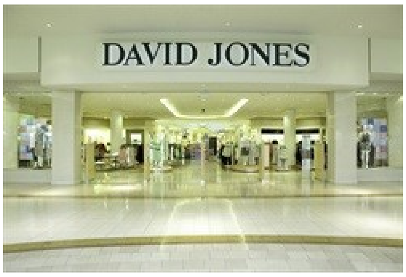
23 Jun 2014

Woolworths' (WHL) bid to become one of the southern hemisphere's largest retailers by buying Australian department store chain David Jones was dealt a blow on Thursday, 19 June 2014, when a shareholder vote to approve the deal was delayed by two weeks due to the emergence of billionaire investor Solomon Lew as one of the company's major shareholders.



The vote on the R23.3bn deal had to be postponed to allow "sufficient" time for the David Jones board, which supports the offer, to assess the implications for shareholders, the company said in a statement to Australia's bourse.

Lew built up his stake in David Jones to 9.89% between 9 May and 16 June this year, a month after Woolworths first announced its bid to acquire the struggling chain of department stores. There was talk that Lew may have another 5% holding through derivatives, taking his ownership to 15%, said Noah Capital Markets consumer analyst Roger Tejwani.

"If he does have 15%, he could be a significant shareholder because of the fairly poor turnout at voting meetings," he said.

Woolworths needs a minimum of 90% of David Jones stock in order to force out minorities and de-list the company.

Lew has been a thorn in the side of Woolworths in Australia for years. He has successfully blocked the Cape Town-based retailer from gaining full control of its Country Road unit in that country since 1997. If the billionaire investor succeeds in keeping David Jones listed, it would leave Woolworths as owner of two separately listed entities, the other being Country Road.

Woolworths would not comment on the postponement of the shareholder meeting, referring *Business Day* to its most recent Stock Exchange News Service statement on the shareholder approval it received for the deal.

Speculation

Despite speculation about potentially blocking a de-listing, Lew's exact intention with his stake in David Jones is unclear. Some analysts have suggested that he may use it as leverage to ensure the merged company does not increase the proportion of private label goods in stores as he is a supplier.

One of Woolworths' stated plans to help boost profit at David Jones is to increase sales of in-house clothing brands and cut supply-chain costs. Profits at the Australian retailer have declined over the past three years; the business is riddled with inefficiencies in what is a slow growth market.

Another possible angle to Lew's interest was that the former board member of the Reserve Bank of Australia might want Woolworths to raise its offer price for the Australian retailer, BPI Capital Africa analyst Luis Colaco said. "The main risk to Woolworths' shareholders is if the company ends up having to increase its offer," he said.

"If they pay a higher multiple for the same business, it will impact the value of its (Woolworths) shares," Colaco said.

The market was concerned that Woolworths' A$4 offer for David Jones was steep, with the share falling 7.6% on 9 April, the day the deal was announced.

However, since then, Woolworths shares have gained 15%, while the Australian-listed shares of David Jones have been a marginal 0.3% weaker at A$3.90.

Refocusing

After surprising the market with its decision to pull out of its Nigerian operations, Woolworths CEO Ian Moir focused on the Australian opportunity. Should it be successfully concluded, the company would become one of the world's top 10 department store chains with 1,151 stores across 16 countries.

Its size would enable the company to better compete with the world's leading retailers such as Inditex, which owns Zara. If the deal did not transpire, it would not be much of a concern for Woolworths shareholders, Colaco said. With its food business and its exposure to emerging markets, the company was still in a favourable position, he said.

Source: Business Day