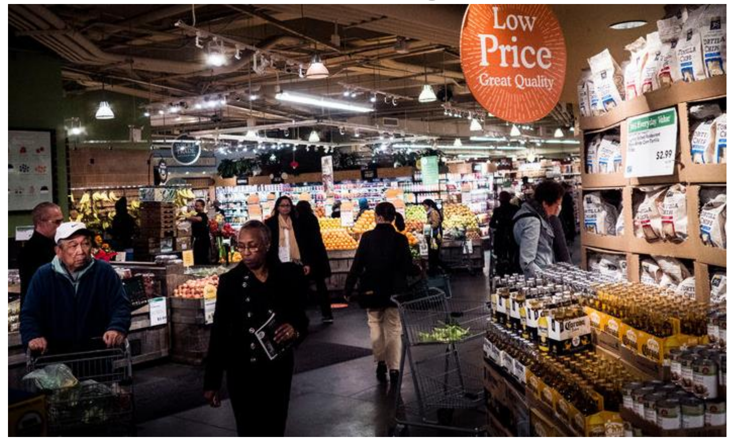
Amazon to Buy Whole Foods for $13.4 Billion

By NICK WINGFIELD and MICHAEL J. de la MERCED, NYT, June 17, 2017, on Page A1



Amazon agreed to buy the upscale grocery chain Whole Foods for $13.4 billion, in a deal that will instantly transform the company that pioneered online shopping into a merchant with physical outposts in hundreds of neighborhoods across the country.

The acquisition, announced Friday, is a reflection of both the sheer magnitude of the grocery business — about $800 billion in annual spending in the United States — and a desire to turn Amazon into a more frequent shopping habit by becoming a bigger player in food and beverages. After almost a decade selling groceries online, Amazon has failed to make a major dent on its own as consumers have shown a stubborn urge to buy items like fruits, vegetables and meat in person.

Buying Whole Foods also represents a major escalation in the company's long-running battle with Walmart, the largest grocery retailer in the United States, which has been struggling to play catch-up in internet shopping. On Friday, Walmart announced a $310 million deal to acquire the internet apparel retailer Bonobos, and last year it agreed to pay $3.3 billion for Jet.com and put Jet's chief executive, Marc Lore, in charge of Walmart's overall e-commerce business.

"Make no mistake, Walmart under no circumstances can lose the grocery wars to Amazon," said Brittain Ladd, a strategy and supply chain consultant who formerly worked with Amazon on its grocery business. "If Walmart loses the grocery battle to Amazon, they have no chance of ever dethroning Amazon as the largest e-commerce player in the world."

In Seattle, it recently opened two grocery drive-through stores where customers can pick up online orders, along with a convenience store called Amazon Go that uses sensors and software to let shoppers sail through the exits without visiting a cashier.

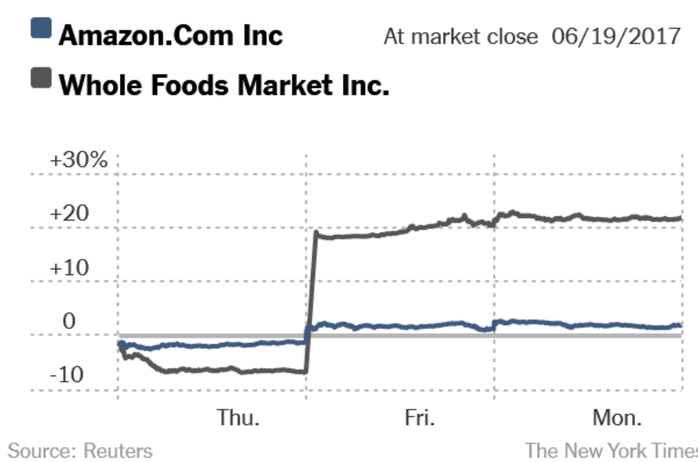
The addition of Whole Foods takes Amazon's physical presence to a new level. The grocery chain includes more than 460 stores in the United States, Canada and Britain with sales of $16 billion in the last fiscal year. Mikey Vu, a partner at the consultancy Bain & Company who is focused on retail, said, "They're going to be within an hour or 30 minutes of as many people as possible."

Founded in 1978 in Austin, Tex., Whole Foods is best known for its organic foods, building its brand on healthy eating and fresh, local produce and meats. It has also long been caricatured as "Whole Paycheck" for the high prices it charges for groceries. That conflicts with a core tenet of Amazon, which has made low prices part of its mission as a retailer.

Analysts speculated that Amazon could use its $99-a-year Prime membership service, which gives customers free, two-day shipping and other benefits, to offer Whole Foods customers a better price on groceries, as it does for books in its bookstores. The stores could also serve as an advertisement to get more customers to sign up for Prime; in September the financial firm Cowen & Company estimated that Prime had 49 million subscribers in the United States, representing about 44 percent of households.

Amazon has been on a multiyear offensive to open warehouses closer to customers so it can deliver orders in as little as two hours, and Whole Foods stores will further narrow Amazon's physical proximity to its shoppers. The stores could become locations for returning online orders of all kinds. Amazon could also use them to cut delivery times for online orders.

The $13.4 billion deal, which does not include net debt, immediately raised questions about whether Amazon's experiments with automation, like the cashier-less checkout technology it is testing in its Amazon Go store, could eventually lead to job losses at Whole Foods stores.



"Amazon's brutal vision for retail is one where automation replaces good jobs," Marc Perrone, president of the United Food and Commercial Workers International Union, said in a statement. "That is the reality today at Amazon, and it will no doubt become the reality at Whole Foods."

Drew Herdener, a spokesman for Amazon, said it has no plans to use the Amazon Go technology to automate the jobs of cashiers at Whole Foods and no job reductions are planned as a result of the deal. Whole Foods workers are not unionized.

The move to buy Whole Foods is a further sign of the outsize ambitions of Jeff Bezos, Amazon's chief executive and founder, who came under fire from Donald J. Trump during the presidential campaign last year, when Mr. Trump said Mr. Bezos had a "huge antitrust problem because he's controlling so much."

Nicole Navas Oxman, a spokeswoman for the Justice Department, declined to comment about whether its antitrust division saw any issues with the proposed acquisition. Law professors who specialize in antitrust said it was unlikely regulators would block the deal.

"One question would be, does an online seller of groceries compete with a brick-and-mortar grocery store, and I think the answer is 'yes, at some level, but that overlap is probably not terribly great,'" said John E. Lopatka, a professor of antitrust law at Penn State University.

If the deal goes through, Amazon and Whole Foods will still only account for about 3.5 percent of grocery spending in the United States, making it the country's fifth-largest grocery retailer, according to estimates by John Blackledge, an analyst at Cowen & Company.

Groceries are purchased five times a month on average by shoppers, compared with the four times a month Amazon Prime customers typically shop on the site and two times for people who do not have Prime memberships, Cowen estimates.

"If you open up groceries, it could increase the frequency," Mr. Blackledge said.

For Whole Foods, the deal represents a chance to fend off pressure from activist investors frustrated by a sluggish stock price as it has faced fierce competition from Costco, Safeway and Walmart, which have begun offering organic produce and kitchen staples, forcing Whole Foods to slash prices. Money managers, unhappy with the pace of the turnaround effort, have pushed for more, taking aim at the board, its grocery offerings and its pricey real estate holdings.

In response, Whole Foods has revamped its board and replaced its chief financial officer. Gabrielle Sulzberger, a private equity executive, was named the company's chairwoman. Ms. Sulzberger is married to Arthur O. Sulzberger Jr., the chairman and publisher of The New York Times.

Investors are betting there may be other buyers interested in Whole Foods, and by late Friday the company's shares rose above Amazon's $42 a share offer, nearly 30 percent higher for the day. Amazon closed at $987.71 a share, up 2.4 percent.

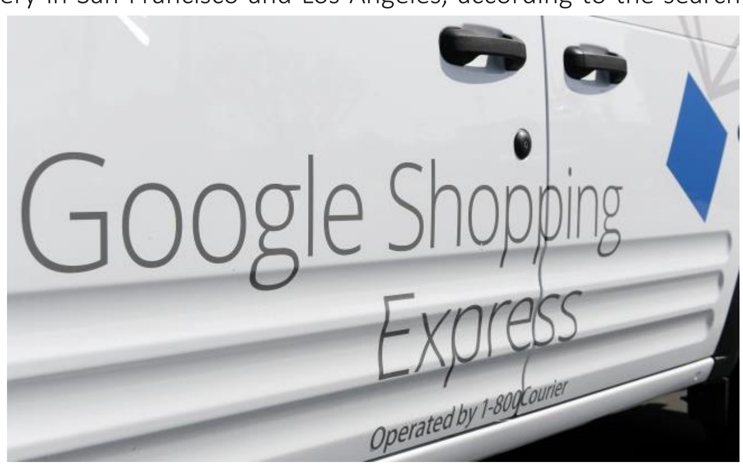
Even with the bigger physical presence Amazon will gain through Whole Foods, it will have far less reach than Walmart and its Sam's Club warehouse chain, which together account for about 18 percent of the grocery market. Walmart has almost 10 times the number of stores as Whole Foods does.

"We feel great about our position, with more than 4,500 stores around the country and fast growing e-commerce and online grocery businesses," Greg Hitt, a spokesman for Walmart, said in a statement.

Google Will Now Deliver Fresh Groceries To Your Door

Leena Rao, Fortune, Feb 17, 2016

Google will soon start offering same-day grocery delivery in San Francisco and Los Angeles, according to the search giant. The service is part of the company's on-demand delivery service, Google Express, which already delivers dry foods and other merchandise to customers.



The news, which was announced Wednesday, doesn't come as much of a surprise as rumors had been swirling that Google has plans to expand its territory into perishables and fresh foods, including vegetables, fruits, dairy, and meat products. This new offering places Google as a competitor to Amazon's grocery delivery service Amazon Fresh, as well as Canadian supermarket chain Safeway, Silicon Valley upstart Instacart, and New York's FreshDirect.

Google will offer fresh food delivery from Whole Foods , and other partners in select neighborhoods in San Francisco and Los Angeles, the company said Wednesday. For Google Express members, grocery delivery must meet a minimum of $35 per order and fees will start at $2.99 per order. Memberships cost $95 per year. For non-Google Express members, orders start at $4.99, depending on how fast items will be delivered.

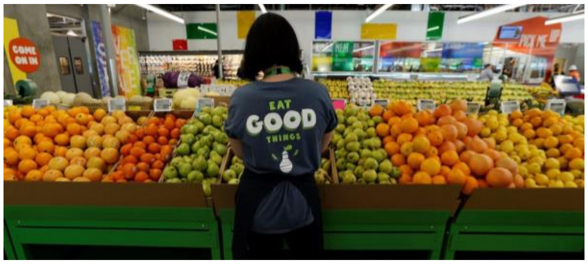
Instacart's fees start at $5.99 per delivery for non-members. Consumers can pay $149 per year to become a member, and access free two-hour and scheduled deliveries for orders above $35. In contrast, Amazon Fresh costs users $299 per year.

Why are technology giants like Amazon and Google getting into groceries? Online grocery shopping is a nearly $11 billion business in the U.S. with 9.6% annual expected growth. But profit margins are traditionally low in the industry.

But both technology giants see opportunity in catering to the on-demand world in cities, where consumers are increasingly expecting (and paying for) services to deliver items within a matter of hours. According to the *Wall Street Journal,*Google is keeping its costs down by making deliveries from its grocery partners, instead of holding inventory in costly warehouses.

Whole Foods' CEO described deal with Amazon as a 'dream come true' but investors want more

Alex Morrell, Business Insider, 6/21/17



When Whole Foods and Amazon announced their $13.7 billion merger Friday, John Mackey, CEO of Whole Foods, could barely contain his enthusiasm. In a town hall with employees, he gushed about the impending "marriage"— a metaphor he revisited repeatedly — which was announced just six weeks after a "blind date" with Amazon that he characterized as "love at first sight."

Some Whole Foods investors are decidedly more dour, however, and it appears they have a case that the deal was consummated hastily and in the best interest of Mackey rather than shareholders.

Not long after it came out that Amazon had offered $42 a share to buy the high-end grocer, the stock price began creeping above the deal price, signaling that investors believed a bidding war could emerge and drive up the final price for Whole Foods.

Walmart, Target, Costco, and Kroger — whose shares all plummeted after the deal was announced — have been named as potential rival suitors. But none has entered the fray yet, and it's uncertain whether any would have the firepower to outbid Amazon. Still, there's little evidence any of these retailers were even given a shot.

While Amazon's offer represented 27% premium over Whole Foods stock price, analysts and investors soon began questioning whether it was too cheap. After all, a little over two years ago the company was trading at $57 per share, which would value the company at over $18 billion.

Charles Kantor, managing director at Neuberger Berman Investment Advisers, a nearly 3% owner of Whole Foods, called the offer "thrifty" and said it undervalued Whole Foods' brand. "I think there's the argument that Amazon acquired Whole Foods for free," he told Reuters, noting that Amazon's market cap increased by almost the same amount it was paying for the acquisition. "The reaction of shareholders suggests that Amazon has left themselves lots of room to pay more for this strategic asset."

Mackey appears to have had a singular focus on Amazon since his first trip up to Seattle six weeks ago, possibly to the detriment of shareholders. The initial meeting lasted all of 2.5 hours, according to Mackey, but he and three other Whole Foods execs came away smitten. "We just fell in love," Mackey said at the town hall. "It was truly love at first sight."

Mackey had every reason to fall in love, given that he and his team would keep their jobs under the Amazon deal. Activist investors, specifically hedge fund Jana Partners, had become a thorn in his side and a threat to his power in recent months, pushing for a management shakeup. Shortly after Jana disclosed its holding in Whole Foods in April, Mackey and his team hired a top defense banker from Evercore with more than a decade of experience battling activist and hostile investors. Evercore helped facilitate the deal with Amazon, which would secure Mackey's future as CEO and provide some relief from the beating he'd taken on the public markets in recent years.

In the town hall, Mackey described Whole Foods as being "trapped" by the short-term demands of the quarterly earnings cycle — profits and stock price have steadily declined in recent years — and effusively endorsed Amazon's big-picture approach. "One thing I absolutely love, love so much about Amazon is they think long term," he said. "They have had the courage that almost no other public company has had the courage to, basically, resist the drumbeat of short-term, quarterly earnings that have had us trapped here for a couple of years, as our same-store sales — came down."

When an Amazon executive told the crowd that Mackey would stay on as CEO — Mackey interrupted him to chime in, "Until death do us part."

Walter Robb, who was co-CEO with Mackey from 2010 until the beginning of this year and remains a member of the board, embraced the deal as well. But he admitted at the town hall that he hadn't even met the Amazon team until the night before the deal was announced.

That begs the question: Did Mackey prioritize his own interests at the expense of shareholders?

A bidding war

Could Walmart swoop in and steal Whole Foods from Amazon?

An Amazon takeover of Whole Foods will almost assuredly make life easier for Mackey, but it isn't clear it's a good deal for shareholders. Wall Street analysts believe Whole Foods could fetch a significantly higher price for investors and believe a bidding war could still erupt. Rupesh Parikh, an analyst for Oppenheimer, said in a research note that there "could be money left on the table" and raised his target price for Whole Foods to $45.

Barclays analyst Karen Short thinks the price for Whole Foods could go higher yet. She raised her stock-price target more than 14% over Amazon's bid, to $48, though she said the company could go for as much as $57 a share — more than $18 billion. "Many will do anything to either make this acquisition more costly for Amazon or prevent the asset from landing in Amazon's lap," she wrote in a research note.

Short said that a competing retailer, such as Walmart, could unlock up to $600 million in cost savings that could make the Whole Foods deal more profitable than it would be for Amazon. Of course, Walmart would have to absorb the $400 million breakup fee if it outdueled Amazon for Whole Foods. But since its market value has fallen by more than $9 billion since the merger was announced, that may seem a small price to pay.

For Amazon, Now Comes the Hard Part

The web titan joins a crowd with its Whole Foods deal; the 'last mile' puzzle

By Julie Jargon, Annie Gasparro and Heather Haddon, 19 June 2017, Wall Street Journal, A1

With Amazon.com Inc. wheeling sharply into the grocery aisle, the business of selling food may never be the same.

Food retailing was already struggling with low margins and slow sales growth as shoppers shifted buying patterns. New players have swarmed the crowded market, with grocers ranging from giants Wal-Mart Stores Inc. and Kroger Co. to smaller chains fighting to attract consumers, in large part by slashing prices.

And the industry has been struggling to figure out how to sell fresh food online.

Amazon's agreement to buy Whole Foods could add to the saturated market as it puts more of its own groceries into the distribution system, while putting new pressure on grocers to figure out how to sell fresh food online lest the web giant beat them. The deal is "a seminal moment in the world of eating," said RBC Capital Markets LLC analyst David Palmer.

It isn't at all clear whether the king of e-commerce can do in fresh cabbages what it has done in CDs, books and just about everything else. Amazon and Whole Foods combined still have a small fraction of Wal-Mart's share of groceries. And Amazon faces a "last mile" logistics problem of getting fresh food to doorsteps that it doesn't with other goods.

"This is going to be one of the hardest areas for them to get into," said Kent Knudson, a partner at consulting firm Bain & Co., "because of some of the physical challenges of getting food into people's homes."

The challenges for grocers today include a new reality: The days of shoppers filling carts during a big weekly trip to their neighborhood supermarket appear over for now. Consumers are more targeted in their shopping habits. They are less loyal to retailers and more willing to buy groceries online. And they are buying more from stores at two poles: ones with cheap prices, and ones that offer high-quality fresh food, often at a premium.

Grocery sales last year barely budged from 2015 levels, after rising a bit more than 2% in each of the previous three years, according to market-research firm Nielsen. Kroger ended a 13-year streak of rising quarterly same-store sales this year, while Wal-Mart, which gets more than half its sales from groceries, and Target Corp., have struggled, too.

Consumers want "convenience, selection and the right price and they want it now," said Natalie Kotlyar, head of the consumer business practice at consulting firm BDO USA. "Everyone is trying to meld those concepts to create the perfect shopping experience."

Amazon, which has revolutionized the way people shop, is betting it can learn the business and solve at least part of the puzzle. It has shown a willingness to forgo profits for years to build market share in an industry. It has cash to burn, deep experience in logistics and a record of relentlessly driving down supplier costs. And its big push into fresh groceries will likely force other food retailers to accelerate efforts at making e-commerce work if they are to remain competitive.

E-commerce has been tough to crack for the more-than-$700 billion grocery sector since selling food online is inherently complex. Last year, online shopping accounted for 2% of the sector's sales, according to consulting firm Kantar Retail.

People want to squeeze their produce, pick out their vegetables and inspect their meat. Making sure fresh groceries stay that way through transit is challenging yet crucial for attracting shoppers. "It's really the fresh categories such as produce and meat that are driving people's decision of where to shop," said Bain's Mr. Knudson.

Wal-Mart, Peapod LLC and FreshDirect LLC have been competing to deliver groceries faster and more cheaply. But fresh-food delivery is typically unprofitable, analysts and some companies said.

"Amazon has obviously reinvented supply chain and logistics in a way nobody has," said Doug Ehrenkranz, a 25-year food industry veteran who is now a recruiter at Boyden Global Executive Search. Now, the more-than-460 Whole Foods stores across the country give Amazon access to the kind of refrigerated distribution system its regular fulfillment network lacks, all while tapping into the upmarket natural and organic foods market that it has barely touched.

"Wal-Mart and Kroger will feel pain for a while and the regional players that can't move fast enough will disappear," said Diana Sheehan, director of retail insights at Kantar Retail. "The bigger concern becomes, what does Amazon do next? Once they've navigated the Whole Foods space, they'll learn how to play in mainstream grocery, too."

Amazon and Whole Foods declined to comment for this article.

A Kroger spokesman said: "We're in the middle of a transition today both because of the operating environment and the competitive landscape. We will continue to evolve." Target said grocery is a key business for the company.

A spokeswoman for Peapod said it is profitable in its mature, established markets, "The grocery industry is a low-margin business and last mile logistics make margins even more challenging." Wal-Mart said: "We feel great about our position."

While Amazon could put pressure on others to step up their e-commerce game, it has struggled for years with a logistical challenge in fresh food that doesn't exist in books and electronics. A Cowen & Co. report points out: "The entire fulfillment process is more complex and time consuming from the moment a 'grocery' shipment arrives" at a fulfillment center until it is shipped, given the need for refrigeration and attention to "expiration dates, smell, and color, among others."

The Amazon-Whole Foods deal came together relatively quickly, according to people familiar with the matter, indicating Amazon may not yet have a fully formed strategy for Whole Foods.

Amazon will try to expand the appeal of Whole Foods by using its efficiencies to lower prices, which would bring a fresh wave of pressure to the beleaguered sector, said Chris Baker, a retail and consumer-goods expert.

The supermarket business has always been tough, in part because American consumers are accustomed to cheap food. Supermarkets arose out of the Depression, as the efficiency and scale of larger stores made food more affordable for consumers than shopping at local cheese and meat markets, said food historian Andrew F. Smith. As suburbs developed after World War II, grocery chains expanded and found that stocking more inventory provided greater economies of scale.

By the 1970s, there was saturation in the supermarket industry, according to Mr. Smith, and a national recession led to the creation of discount warehouse stores. Competition from fast-food chains and price wars in the grocery sector fueled a wave of consolidation in the 1980s.

A seismic change hit the industry in the 1990s when Wal-Mart began selling low-price food and within a decade became the nation's largest grocer. Ever since, traditional grocery chains have been scrambling to compete. In recent years, price competition has become even more fierce as the number of retailers has grown.

There were more than 262,800 stores selling groceries in 2015, up 17% from a decade earlier, according to an analysis by the Willard Bishop grocery consultancy. "There are so many places to food shop and there's not an infinite number of consumers," BDO's Ms. Kotlyar said. "All of these different stores are just splitting up the shoppers among themselves."

Recent commodities deflation has forced grocery stores to slash prices on such staples as milk, beef and eggs. Labor costs have risen, applying further pressure to profit margins.

Other changes have taken root in recent years. Consumers are far more curious and educated about the source and content of their food, thanks to books and documentaries about the food industry and the rise of television cooking shows. More upscale organic-food stores have opened in response, eating into grocers' market share while simultaneous demand for convenience has fueled the rise of meal-kit services such as Blue Apron Holdings Inc.

Grocery executives say they are willing to lower prices at the expense of profits if that's what it takes to keep shoppers from turning to online and discount stores. Even Whole Foods has taken a hit to its margins by lowering prices in an effort to win back customers.

"We are not trying to lead the market down on price," Kroger Chief Executive Rodney McMullen said in an interview last week. "But we want to make sure we won't lose a customer based on price."

Meanwhile, new discounters are still entering the U.S. market. German grocery chain Aldi said this month it planned to invest $5 billion over five years to open nearly 900 stores in the U.S. and remodel hundreds more. Rival Lidl, another German discounter, entered the U.S. market with 10 stores this month -- another "body blow" to the traditional U.S. industry, said Craig Johnson of Customer Growth Partners, a retail research and strategy group.

Aldi and Lidl have disrupted European grocery markets by offering low prices, and company officials have said they believe they can aggressively compete in the U.S. market as well.

Driving downward pressure on prices are frugal shoppers such as Meg Meyers, a 35-year-old psychotherapist and married mother of two in St. Louis, Mo. She said she buys food exclusively at Aldi to help stretch her household's $79,000 annual income, which also goes toward student loans. "We have no disposable income," she said, adding that she limits her purchases to about $100 a week using a meal-planning app that enables her to buy only what she needs.

Amazon, which first entered the food sector several years ago with dry groceries via its website, has slowly built its Fresh grocery-delivery business over years by targeting cities where it already owns large warehouses in part to avoid the need for refrigerated trucks. Still, Amazon has faced the same problem others have: Many consumers have been slow to buy produce and fresh items online.

Amazon has tiptoed into the brick-and-mortar grocery-store business this year, opening two Fresh Pickup stores in its hometown of Seattle and has explored various ideas for other types of grocery stores.

But Amazon's deal to buy Whole Foods for $13.7 billion, including debt, may help close a gap in its offerings. "Amazon can't compete in grocery without bricks and mortar," said Ms. Sheehan of Kantar Retail. "Fresh food is at the heart of what grocery is. Shoppers trust their grocery store for fresh meats, seafood, produce and dairy and Amazon has struggled to convince shoppers that they should be the store people go to for fresh food."

NPD Group Inc. food analyst David Portalatin said the Whole Food stores would solve much of "Amazon's 'last-mile' delivery challenge for fresh groceries." He said that logistics hurdle was a big reason Amazon hasn't been able to make a dent in the grocery shopping of the 60% of millennials who already buy other items from Amazon.

The migration online for at least a portion of grocery purchases, led by Amazon, almost certainly means a further shakeout in the industry. The online grocery industry could grow into a $100 billion business over the next decade, according to Nielsen and the Food Marketing Institute.

"I would be the first one to sign up for Whole Foods delivery and would probably never step foot in the store again," said Judah Ross, 29, an entrepreneur who lives near the Whole Foods flagship store in Austin, Texas, and shops there every other week. "Whole Foods is a pleasant place but I hate going out to shop for groceries. Even though it's so close, there's traffic, parking and waiting in line. The convenience of delivery would outweigh any benefit of picking out the food."

Whole Foods currently partners with delivery service Instacart to offer grocery delivery in some cities.

Chains that don't adapt quickly to the changes in consumer behavior and business dynamics won't survive, say analysts, who, along with some supermarket executives, expect more consolidation in the coming years and predict more grocery stores will close.

To compete with Amazon, Wal-Mart is offering curbside pickup and home delivery in test markets. Kroger is expanding its platform for customers to order groceries online and pick them up at the stores. It also said it has invested $3.8 billion in lowering its prices over the past decade.

Albertsons Companies Inc., which owns Safeway, says it will offer grocery delivery in eight of the 10 most populated markets in the U.S. by February. It declined to comment for this article.

Even though it is expensive for Albertsons, Chief Executive Bob Miller said in an interview earlier this year, he doesn't want Amazon to beat him to his customers. "Technology is changing rapidly. Amazon is a prime example of that," he said. "We don't want to be cutting edge, ahead of the curve, but we want to be understanding what's going on."

In Depth: Amazon Deal Unites Maverick Chiefs

By Laura Stevens and Heather Haddon, 19 June 2017, Wall Street Journal, A10

Amazon.com Inc.'s planned $13.7 billion acquisition of Whole Foods Market Inc. unites two maverick businessmen who will have to blend very distinct approaches to make the deal a success.

The acquisition, if it goes through, will require Amazon Chief Executive Jeff Bezos and Whole Foods CEO John Mackey to work together to combine Amazon's technology and customer know-how with Whole Foods' brick-and-mortar grocery expertise.

The two founders share some traits. Messrs. Bezos and Mackey -- who only got to know each other a few weeks ago, people familiar with the matter say -- are iconoclasts whose outsize personalities shaped their companies. They pioneered new strategies in their industries -- Mr. Bezos by shifting retail online, Mr. Mackey, by popularizing health food -- and they are intensely competitive, say people who have worked with them.

Mr. Mackey, a 63-year-old Texan, and Mr. Bezos, 53, also have sharply different strategies and missions that could prove tough to marry. Mr. Mackey's Whole Foods, whose sales totaled $15.7 billion last year, has catered to wealthier customers with boutique brands and hands-on customer service.

Mr. Bezos has appealed to the masses with low prices enabled in part by centralization and automation. And Amazon, with $136 billion in revenue last year, has achieved far larger success financially -- putting Mr. Bezos firmly in charge.

"On both sides, they will have challenges with accepting that they can learn from each other, and letting go of the 'that's how we've always done it' mentality," said Forrester Research analyst Brendan Witcher.

Amazon has experimented with physical retail for years, but the Whole Foods deal happened quickly. The companies signed a confidentiality agreement on April 27, according to people familiar with the matter and a federal filing -- amid a board shakeup at Whole Foods, and roughly two weeks after Jana Partners LLC disclosed a stake in the grocery and called for its sale.

Amazon and Whole Foods signed a second confidentiality agreement on May 7, the same weekend Whole Foods' board offered Jana two seats but rejected taking on a partner from the New York hedge fund. After the board changed, the deal coalesced quickly. Mr. Bezos was personally engaged and Mr. Mackey traveled to Seattle for negotiations, the people said.

Executives at Amazon and Whole Foods found they shared a willingness to let employees take risks and an emphasis on customer experience, according to people familiar with the matter.

The companies have said little about how they plan to integrate, and declined to make their CEOs available for interviews. But at least some benefits of the combination seem clear.

Mr. Bezos gains more than 460 stores across the U.S., a network that could let Amazon sell its private-label brands and devices in stores, expand its distribution network, and bolster its Prime Now and Fresh delivery businesses.

Whole Foods gets access to Amazon's data and technology, and the combined buying power of Amazon Fresh and Whole Foods could win better prices from suppliers. Amazon said Mr. Mackey will remain Whole Foods CEO.

Still, Mr. Bezos's team is likely to scrutinize Whole Foods' business practices seeking opportunities for change, former Amazon employees say. To better compete with rivals, Amazon likely will push for lower prices, new technology, and more uniform stores to save costs, they say.

Mr. Mackey has balked at activist investors for criticizing Whole Foods as too slow to innovate, despite the company's recent efforts to do so.

Mr. Mackey is more focused on the big picture than immersed in the details of everyday operations, former executives said. A strict vegan, he likes to cook dinners showcasing good eating to bring parts of the company together, said people who have attended.

Some say the close-knit culture has drawbacks. "It's been a very paternalistic culture where it's a job for life. If someone doesn't deliver, you don't necessarily suffer the consequences," said Burt Flickinger, a consultant.

At Amazon, performance is prized and, as with other tech companies, employees come and go more frequently, former employees say.

Mr. Bezos worked on Wall Street before founding Amazon in 1994. He "has this unique ability to stay focused on a long-term vision, while also staying very focused on the details," said Joseph Thompson, a former general manager of retail at Amazon and current vice president of marketing and growth at BuildDirect, a home-improvement online marketplace.

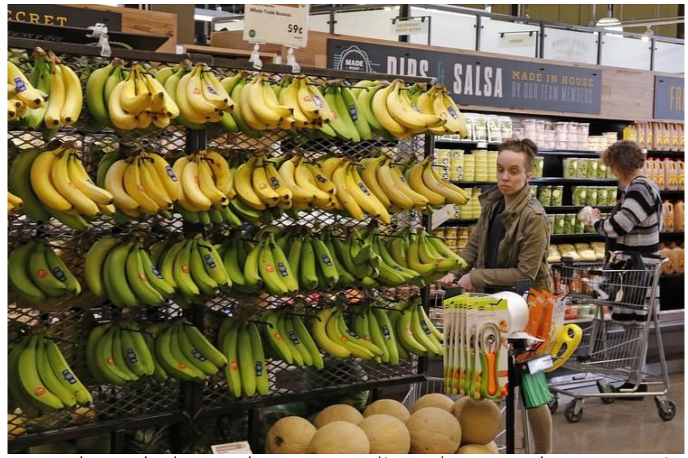
Despite Amazon's size, Mr. Bezos tries to maintain a startup culture. Teams are typically kept small and there is a strict process for developing new ideas and inventing devices.

Big Prize in Amazon-Whole Foods Deal: Data

Online retailer for years has been looking for more ways to gather information about how consumers shop

By *Laura Stevens* and *Heather Haddon, Wall St. Journal* June 20, 2017

Amazon.com Inc. spent two decades hastening the demise of the traditional brick-and-mortar retail industry. So why would the tech giant spend $13.7 billion to acquire an organic-grocery chain with more than 460 stores?



The deal for Whole Foods Market Inc., which people familiar with the matter said came together quickly, presents Amazon with several potential gains. It could use the stores as distribution hubs to build out its online grocery-delivery business. Amazon also could stock gadgets such as its Kindle e-readers and Echo speakers, as well as goods from its burgeoning private label.

The bigger opportunity, though, is data.

Amazon for years has been looking for more ways to gather information about how consumers shop. It has long been rumored to be on the prowl for a breakthrough deal, even as it set up its own much smaller Amazon Go and AmazonFresh Pickup stores as experiments.

If the deal goes through, the combination likely will be powerful. Amazon and Whole Foods can join their online and in-store knowledge to better predict what goods to carry in each store, said James Thomson, a former senior manager in business development at Amazon and now partner at the brand consultancy Buy Box Experts. “They’ll build better private labels and squeeze national brands even more,” Mr. Thomson said. “There’s lots of opportunity to experiment.”

The deal came together so rapidly—the companies signed a confidentiality agreement April 27—that Amazon’s strategy for the acquisition is still largely in the air, according to people familiar with the matter. Amazon shed little light on its plans for the chain of stores when it announced the deal Friday. A spokesman declined to comment on the company’s strategy. Whole Foods also declined to comment.

One enticing aspect of a deal between Amazon and Whole Foods is the significant overlap, analysts say, between the companies’ traditionally loyal customer bases. A Morgan Stanley survey shows about 62% of Whole Foods shoppers are members of Amazon’s Prime service, opening the door for cross-sell promotions to entice customers who shop at both to spend more.

Amazon, though, doesn’t know how those customers shop in stores—a gaping hole in data about its more than 300 million shoppers. If the deal goes through, Amazon is likely to put a team of employees to work examining Whole Foods’ strategy, cost structures and business practices—as well as their data, according to former Amazon employees. The online retail giant likely will add new ways to track in-store consumer spending. One option is letting people purchase with Amazon Pay, a PayPal -type solution that lets customers check out with their Amazon account information. Another option is creating a Whole Foods credit card, the former employees say.

“How consumers purchase in stores is drastically different from online,” said Kevin Howard, CEO of Adroit Worldwide Media Inc., a retail-technology provider that has worked with companies including Whole Foods. Primarily, consumers are more likely to browse and make impulse buys in store—driving up the total purchase—whereas shoppers are more targeted online, he said.

Amazon has spent time experimenting with brick-and-mortar already. Its bookstores, of which it now has eight open and another five coming, according to its website, have been used in part to start collecting data on how consumers naturally browse in stores, former employees said. Shoppers typically use their phone app to scan books for prices in the stores, connecting their online profiles with their browsing in the real world—not just online.

Amazon has had a more difficult experiment with Amazon Go, its convenience-style store in which customers scan their phones as they walk in, pick up items to purchase and exit without a traditional checkout. The public opening has been delayed, in part because of technological hurdles and Amazon’s limited experience in managing the flow of customers and products in a physical space.

Amazon likely will implement changes at Whole Foods based on what it finds out about the grocery chain’s shoppers, including changing prices and selection—something right now that can vary widely based on the region, according to the former employees.

The data Amazon collects will likely help it decide which of its growing roster of private-label brands to expand and which new ones to launch, especially when it comes to consumables and food. Whole Foods already has a large private-label business.

Bringing together online and offline data can help Amazon learn how to entice customers to make more impulse purchases online, according to analysts and retail consultants.

“I don’t think it’s a coincidence that they’re targeting these specific, highly affluent customers,” said Mark Elfenbein, chief revenue officer at artificial-intelligence firm Sentient Technologies LLC, which works with retailers to better match the in-store shopping experience online.

Deal drama: Amazon raised bid, beat out 6 other suitors to land Whole Foods, filing reveals

Lauren Thomas, Friday, 7 Jul 2017, CNBC.com

- Whole Foods was also approached by two unidentified companies and four private equity firms looking to explore opportunities.
- The grocery chain tried to get Amazon to raise its bid as high as $45 a share.
- Amazon then told Whole Foods $42 was its "best and final offer."

Amazon's offer to acquire Whole Foods for $42 per share wasn't Jeff Bezos' first, according to new details revealed in a proxy statement filed by the grocery chain with the Securities and Exchange Commission on Friday.

In fact, it was more than what Amazon wanted to pay. Whole Foods said it received an initial written offer on May 23 from Amazon to acquire the supermarket company for $41 per share. Amazon told Whole Foods its offer represented "compelling" value for shareholders, and it viewed this proposed transaction as a "strategic investment" for Amazon.com.

The grocery chain, meanwhile, was already fielding other potential deals, including approaches by four private equity firms and two unnamed companies identified only as "Company X" and "Company Y." U.S. supermarket chain Albertsons is reportedly Company X, a source familiar with the matter told Reuters later on Friday. Albertsons declined to comment.

Back to dealing with Amazon, Whole Foods wasn't satisfied with the internet giant's initial offer. After discussing potential responses to Amazon at a board meeting on May 30, Whole Foods directors decided to make a counterproposal at a higher price — $45 per share. This offer was communicated later that day to Goldman Sachs, which was acting as Amazon's financial advisor. The bankers didn't like it.

"The Goldman Sachs representatives expressed their disappointment at the price specified in [Whole Foods'] counterproposal as they had previously informed ... that Amazon.com believed that it had made a very strong bid," according to the chain of events described in Friday's SEC filing.

Then there was a bit of brinksmanship. Goldman Sachs, acting as Amazon's go-between, told Whole Foods the e-commerce giant was "considering other opportunities instead of acquiring" Whole Foods and was debating whether or not to respond to their counterproposal at all.

Nonetheless, "as a last stretch," Amazon was willing to offer Whole Foods $42 per share, the proxy statement revealed. This was Amazon's "best and final offer." Since the announcement of the Amazon-Whole Foods deal on June 16, shares of Whole Foods have trimmed back their initial gains, falling for the first time Wednesday below Amazon's $42 bid price.

Whole Foods' stock surged past Amazon's offer price almost immediately after the deal was announced because investors speculated that a sweeter offer would be made. In recent weeks, the gap between Whole Foods' stock price and Amazon's offer has narrowed, with a rival bid yet to surface.

Friday's filing revealed that Amazon wasn't the first to talk to Whole Foods. On April 18, the board received a letter from Company X, an "industry participant," asking if it would like to explore strategic opportunities. Then, in early May, it was approached by a second company. In between, and around the time it had begun to talk to Amazon, Whole Foods received inquiries from four private equity firms.

The filing also reveals that it was Whole Foods that approached Amazon, after a board member, an executive, and an outside consultant discussed a news report that Amazon might have been interested in a deal. The consultant put in a call to Amazon and eventually set up an exploratory meeting.

A week before Amazon sent its first written offer, Whole Foods said it arranged a meeting with Company X, and representatives from both parties met in person two days later. At that meeting, Company X suggested a merger of equals that would potentially be valued around $35 to $40 a share.

Meeting on May 30 to discuss their options, Whole Foods directors were told by their financial advisors at Evercore that Amazon's price likely exceeded what a private equity buyer could pay.

By June 1, Whole Foods said it was "willing to move forward to negotiate" a deal with Amazon at the $42-per-share price tag. Whole Foods said its company's board unanimously recommends that shareholders vote "for" the proposal to approve a deal with Amazon, according to Friday's filing with the SEC. "The Whole Foods Market board of directors concluded that entering into the merger agreement with Amazon.com was more favorable to Whole Foods Market shareholders than the other alternatives reasonably available," Whole Foods wrote.

The board also assessed Whole Foods' "competitive position and historical and projected financial performance," also considering the "nature of the grocery industry and potential changes and developments in that industry, including the growing and intensifying challenges faced by industry participants and the attendant risks attributable to continuing as an independent public company."

A separate filing from Whole Foods a few weeks ago revealed how CEO John Mackey personally felt about the deal with Amazon. Mackey told a room full of excited employees at a town hall meeting about his first 2½ hour meeting with Amazon — what he calls a "blind date" — and called the grocer's deal with the e-commerce giant a "historical moment."

"Mutual friends set us up on a blind date," he said about flying out to Seattle a little over a month ago. "It was truly love at first sight." Mackey told employees that his company and Amazon are "engaged," like a couple, but still waiting until their transaction gets regulatory approval. The $13.7 billion deal is expected to be completed in the second half of 2017.

The Math Behind Amazon's $1T Valuation And Whole Foods Deal Analysis

Galileo Russell , SeekingAlpha.com, July 7, 2017

- Amazon's acquisition of Whole Foods gives the company ~500 distribution centers/stores situated right next to a rising tide of wealthy millennial shoppers.
- Incorporating Just Walk Technology and leveraging a data-first approach to SKU curation could significantly improve Whole Foods earnings potential, while simultaneously allowing for lower prices.
- All the major physical retailers such as Wal-Mart, Target, Costco, Kroger, etc have shareholders who expect earnings and dividends, Amazon does not, resulting in a key business model arbitrage.
- Amazon + Whole Foods has the potential to post $324B in sales, and earn $39B in operating cashflow in 2020, justifying a $1T market capitalization.
- $1T isn't the end all be-all for Amazon, the company may be able to compound revenue at 15% for the next 10 years.

In early March, I laid out the case for Amazon (AMZN) acquiring Whole Foods (WFM) at $40/share, to turbo charge the growth of its newly unveiled Amazon Go grocery concept. Now several months later, a bid is out for $42 is out, and a deal appears likely to go through.

Justifiably, the news of this acquisition sent a tremor throughout the world of physical retail. The Internet's everything store, is officially making a major push into brick and mortar.

It's possible to argue something like this has been in the works for quite some time. Amazon made its first foray into physical brick and mortar with Amazon Books, in 2015. This modern take on a physical bookstore has arguably seen impressive traction, and now boasts 13 locations either open or coming soon.

If the Whole Foods deal goes through, Amazon will add another ~460 stores in the US, Canada and United Kingdom.

At $42/share, Whole Foods is worth $13.4B (using 319M shares outstanding). In its most recent fiscal year (ending September, 2016) Whole Foods postedrevenue of $15.7B, and operating income of $857M. Based on these numbers, Amazon will be acquiring the company for 0.85X price/sales, and 15.6X price/operating income. In several years, this is going to look like an incredible steal.

Whole Foods business has been struggling for the last two years, as competitors like Kroger (KR) and Wal-Mart (WMT), have begun to focus on expanding their offering of organic products. This also comes at a time when food industry newcomers such as Blue Apron (APRN) and (ironically) Amazon, are nibbling at grocery's market share. The combination of these factors led to both cyclically depressed earnings for Whole Foods (no growth since FY 13), and the market assigning a cheap multiple to those earnings based on a skeptical outlook for the business.

Now, nearly every negative trend for Whole Foods has been flipped upside down.

As a combined company with Amazon, Whole Foods immediately has access to several competitive advantages that will allow them to dominate the grocery industry.

The first is Amazon's Just Walk Out technology. Unveiled in late 2016, this was a huge clue that Amazon was going to make a much bigger move into grocery. Combining an app, cameras and sensors, this technology allows shoppers to walk into a store, pick what products they want, and simply walk out. They are then sent an email email notifying them of the purchase. This is undoubtedly the future of retail and it wasn't easy to build.

Amazon's expertise in analyzing big data through its AWS division, is a huge edge in integrating software into the retail experience. Just Walk Out tech will drastically reduce the number of cashiers in a given store, while significantly improving the customer experience (no more waiting in lines). Labor represents a significant chunk of the operating expenses for a store, and Amazon is quickly removing that from the equation. Whether Amazon will use this margin wiggle room to boost profits or lower prices (my guess) is yet to be seen.

Secondly, unlike Wal-Mart, Kroger, Costco (COST), Target (TGT), CVS Health (CVS) or any leading brick and mortar retailer, Amazon's shareholders aren't expecting big profits and consistently growing dividend payouts. This means Amazon can operate Whole Foods at break even while every other player is forced to build its legacy profit model into its pricing strategy. If one assumes Amazon will use its growing stream of profits from AWS to subsidize retail margins even further, things could get really interesting.

Overnight, Whole Foods has room to drop prices, improve the customer experience and no pressure to make a profit or pay a dividend. That makes the company's growth profile look a lot more attractive.

Conclusion

- It's official, Amazon is no longer just an e-commerce company, they are literally becoming the everything store.
- With Whole Foods and Amazon Books, the company will have nearly 500 retail stores open by the end of 2017.
- That is an exciting opportunity for Amazon shareholders, and an even scarier one for every brick and mortar incumbent.

Whole Foods Sales Struggle Shows Amazon Buying a Fixer-Upper

By THE ASSOCIATED PRESS, JULY 26, 2017

AUSTIN, Texas — Amazon is set to have a fixer-upper on its hands, with Whole Foods reporting that a key sales figure declined again. The grocery chain said Wednesday that sales fell 1.9% at established locations for the three months that ended July 2. That marks the eighth straight quarter the figure has dropped as Whole Foods sees more competition from traditional grocers, big box retailers and others offering more organic choices.

Facing pressure from investors to improve, Whole Foods agreed to be acquired by Amazon in a $13.7 billion deal announced last month. The companies have not said what might change for customers, but the announcement rattled the supermarket industry, given the track records of Amazon CEO Jeff Bezos and Whole Foods CEO John Mackey. Both of their companies changed the way people shop.

During a town hall with Whole Foods employees last month, Mackey gave some general clues about how the deal might revitalize the grocery chain he co-founded in 1978. He said he thought Amazon would help with efforts on cost-cutting and a loyalty program. He also noted Amazon is known for its innovation. "I think you're gonna see Whole Foods Market evolve in leaps and bounds," Mackey said then, according to a transcript of the talk filed with the SEC.

Mackey and Jeff Wilke, an Amazon executive, assured employees during the town hall that Whole Foods would not change its standards on food quality. In the meantime, Whole Foods has been struggling to set itself apart as organic and natural foods become more widely available, and had recently hit the brakes on its expansion plans. It currently has more than 465 stores in the United State, Canada and the United Kingdom. One strategy has been an offshoot chain that focuses on its store brand products, many of which go under the "365" name.

Though sales at established locations fell again in the most recent quarter, Whole Foods noted that the drop wasn't as steep as in the previous quarter. It also said that sales figure was positive overall during first three weeks of current quarter.

Whole Foods said it would not be updating its financial outlook for the year or holding a conference call to discuss its results, given the pending merger. Amazon and Whole Foods expect the deal — which Mackey said came about after a "whirlwind courtship " — to close later this year.

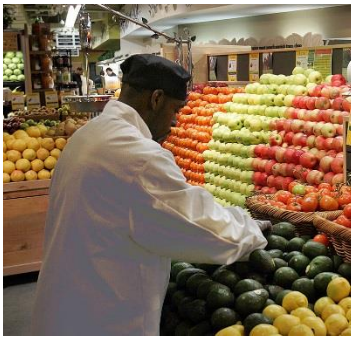
For the quarter, Whole Foods earned $106 million, or 33 cents per share. Not including one-time item, earnings were 36 cents per share. Analysts expected 34 cents per share, according to Zacks Investment Research. Total revenue was $3.73 billion in the period, also above expectations.

Before the results were released, Whole Foods shares had climbed 36% since the beginning of the year, while the Standard & Poor's 500 index has increased 11%.

7 Crucial Questions Whole Foods Probably Won't Answer Today

By, Nicholas Jasinski, Barron's, July 26, 2017

Executives are unlikely to open up about what comes next for Whole Foods, but here's what we'd ask them.



Whole Foods Market is set to report its third quarter earnings this evening, but it's fair to say that investors will be paying much more attention to any hints of future plans with Amazon.com than to the organic grocer's recent short-term performance. In typical Amazon style, few details on what comes next have been made publicly available. Here are 7 questions we at Barron's Next would like to know the answers to.

Will Whole Foods deliver? AmazonFresh, Amazon's existing grocery delivery service currently operates out of fulfillment centers around 10 U.S. metro areas. Whole Foods' 444 stores are within an hour drive of 70% of the U.S. population.

Will Amazon sell non-grocery products at Whole Foods? Amazon could use prime placement in Whole Foods stores to promote its own goods like Kindle e-readers, Fire Tablets, Echos, or its ever-expanding line of AmazonBasics products.

Will customers be able to pick up their Amazon.com grocery and non-grocery purchases at Whole Foods? Shop online during the day and pick up your order on your way home -- it's the 21st century dream come true. Wal-Mart has had success with the same model, and it's likely to save Amazon money on "last-mile delivery," moving goods between Whole Foods and Amazon warehouses rather than shipping lots of small individual orders to customers' homes.

Will prices fall at Whole Foods? Whole Foods' reputation and reality are for quality products but at a premium price. Amazon's approach has been to leverage its scale and any other tactic available to offer lower prices.

What will happen to the cashier? Earlier this year, Amazon opened a partially-automated physical grocery store in Seattle called Amazon Go. Sensors recognize customers when they enter the store by communicating with the smartphone in their pocket and keep track of objects they take from the shelves, automatically charging them when they walk out. No human interaction required. Whole Foods currently employs 90,000 people - many of them cashiers - and has been ranked as a top place to work.

Will there be Prime benefits at Whole Foods? Amazon's Prime subscribers already get free two-day shipping, streaming video and music, unlimited cloud storage, and exclusive products for $99/year. How will Whole Foods fit into that equation?

Was it really "love at first sight?" Amazon and Whole Foods have entirely different corporate cultures and philosophies. Whole Foods founder and CEO John Mackey has been fiercely protective of his company and is staying on after the acquisition. We'd like to know how he'll respond to Amazon applying its technology and own goals to Whole Foods.