

OfficeMax-Office Depot Merger Announcement Misfired

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Office Depot and OfficeMax announced their long-awaited merger Wednesday in a \$1.2 billion all-stock deal, but the news came out earlier than planned and without critical details, such as who would lead the company and where it would be based.

Experts say the omissions are unfortunate and highly unusual.

“I cannot remember another merger where these announcements [about the CEO, headquarters and other details] were not made,” said Darren Hensley, a partner at the Polsinelli Shughart law firm in Denver with more than 20 years’ experience in representing companies in mergers and acquisitions.

OfficeMax is based in Naperville, and Office Depot is based in Boca-Raton, Fla.

David Arenas, managing director with executive search firm Reilly Partners in Chicago, said the way the announcement unfolded “raises a lot of questions” when the companies should be providing “confidence, certainty and good information” to investors.

“Why is there a search committee [to find a new CEO]?” he asked. “What is the rationale? In what direction is the combined entity moving?”

“It doesn’t seem it was well-orchestrated or well-prepared,” he said.

Investors did not respond well: Office Depot stock ended the day down 16.7 percent, at \$4.18, while OfficeMax closed down 7 percent, at \$12.09. Shares had rallied on Tuesday, with OfficeMax soaring about 21 percent and Office Depot gaining 10 percent for the day.

The search committee, comprised of equal numbers of board members from each company, will consider outside candidates as well as Office Depot CEO Neil Austrian and OfficeMax CEO Ravi Saligram. It will announce its CEO pick after the merger wins regulators’ approval.

The confusion started when Thomson Reuters Corporate Services posted the merger announcement buried inside an Office Depot earnings press release at about 6:30 a.m. Wednesday, before the earnings and the merger were ready to be publicized. Office Depot’s earnings were scheduled to go public on Feb. 26. The error made the deal appear to be an Office Depot takeover of OfficeMax, even though the two companies took pains to call it a “merger of equals.”

Thomson Reuters issued a statement saying it regretted the error and would make sure it never happened again.

Analysts listening to the companies' joint conference call Wednesday didn't challenge the companies' description of a merger of equals that will create an office supply giant with \$18 billion a year in sales — still smaller than major rival Staples and challenged by a shrinking market — and that details will emerge as the deal moves forward. Office Depot will issue 2.69 new shares for each OfficeMax share outstanding, valuing OfficeMax at \$13.50 a share based on Tuesday's stock price close.

Saligram, thought by some analysts to have the edge in the CEO competition, and Austrian took turns reading the announcement, much like TV news co-anchors.

They said the merger would result in yearly cost savings of \$400 million to \$600 million by the third year because of layoffs and combined purchasing, advertising and supply chain savings. They made no estimates on how many layoffs or store closings would result.

Morningstar analyst Liang Feng told the Sun-Times on Tuesday he believes OfficeMax will end up closing its Naperville headquarters, which employs 1,500, because the company has fewer stores, employees and market capitalization than does Office Depot. He believes the companies could each close 200 stores in the next decade.

Saligram praised the two leadership teams for achieving good "chemistry" during the merger negotiations toward a common goal: Operating a "very powerful, global engine poised to transform the industry."

Saligram said he and Austrian even found out they "love" Italian wines. Then he ended the call with his signature line, "Onwards and upwards."