



# Staples buys Corporate Express

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**FOO YUN CHEE**

AMSTERDAM

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U.S. office supplies company Staples has won its battle to buy Corporate Express after the Dutch firm agreed to a sweetened bid of €1.7-billion (\$2.65-billion U.S.) and ended its own deal with Lyreco.

Staples said on Wednesday it was raising its all-cash offer to €9.25 per share from the €9.15 it announced last week and compared to the €7.25 it offered in February.

"Staples and Corporate Express will create the world's premier provider of office products," Corporate Express said in a statement, adding it has ended a plan to buy privately owned French rival Lyreco, seen as an attempt to fend off Staples.

Corporate Express shares were 1.7 per cent higher at €9.22 in early trade, outperforming a 0.2 per cent rise in the blue-chip index and almost triple the five-year low of €3.18 it touched in January before the bid battle began.

"We believe this means the bid by Staples will be successful and that Corporate Express will disappear from the Dutch market," Rabo Securities wrote in a note to clients.

Analysts said a tie-up between a retailer and a wholesaler of office supplies would make strategic sense and could lead to big savings as both face a slowing U.S. economy, where rivals like Office Depot have warned of weakness.

"Corporate Express is simply being realistic, they did what they had to do. I think it is more than fair value for Corporate Express," said Petercam analyst Fernand de Boer.

Corporate Express will pay a 30 million euro break-up fee to Lyreco, which said last week it had considered a counterbid for Corporate Express but market conditions were not favourable.

Lyreco Chief Executive Eric Bigeard told Reuters "the page has been turned" on Corporate Express and that his firm would now review its options on expanding in North America and consider acquisitions in Europe and the Asia-Pacific region.

Staples said the firms had combined annual revenues of \$27-billion with more than 94,000 employees in 28 countries.

The companies do not have details on synergies yet but do not see any material reduction in jobs, Corporate Express Chief Executive Peter Ventress told reporters in a conference call.

Savings are likely to be in the United States where the companies have overlapping operations and could come to €60-million in three years, said Petercam's de Boer.

Corporate Express said its boards unanimously recommended the offer, which expires on June 27 at 1530 GMT. It said it would still hold a shareholders meeting on June 18, but there would no longer be a vote on the proposed Lyreco deal.

While Dutch regulations meant Staples could not raise its bid again after it offered €9.15 last week, it bought about 1.1 per cent of Corporate Express shares at €9.25 each in an off-market transaction, meaning it has to pay that for the rest.

It said it now owns 13.4 per cent of the firm's ordinary shares and holders of about 23.3 per cent of the Dutch company have already committed to accept Staples' offer, which it will declare unconditional if it gets 51 per cent of shares.

Staples said the deal gave Corporate Express an enterprise value of about €3.1-billion, including about €1.7-billion in equity with 182.9 million ordinary shares outstanding.

In addition to offering €9.25 for its shares, Staples is also offering to buy Corporate Express' 2 per cent subordinated convertible bonds due 2010 and has already acquired most of its outstanding 2014 and 2015 notes.

Mr. Ventress will take a new position as president of Staples International to oversee business outside of North America and play a key role in managing the integration of the

two firms.

Staples said it expected settlement of the offer in July and that it had sufficient cash reserves and funds available under its existing revolving credit facility to fund the deal.

The Staples deal comes after activist investors put pressure on Corporate Express due to poor performance in the United States, where it generates around 50 per cent of sales.

It is just the latest in a slew of Dutch companies to be bought by a foreign rival, including bank ABN AMRO, electrical goods supplier Hagemeyer and food company Numico. Few government barriers to takeovers and a liberal Dutch corporate governance code have made them desirable targets.

Corporate Express trades at 16 times estimated 2008 earnings, compared with Staples at 15.5 times and Office Depot at 12.3 times, according to Reuters data.

Lehman Brothers Holdings Inc. is providing Staples with financial advice; Clifford Chance LLP and WilmerHale LLP are providing legal and tax advice; and Weil Gotshal & Manges LLP is providing antitrust advice.

