

UK supermarket giants Sainsbury's, Asda clinch £13 bn merger deal (Update)

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Sainsbury's is currently Britain's second largest supermarket chain

Britain's second and third biggest supermarket chains Sainsbury's and Walmart-owned Asda have agreed to merge, the pair said Monday, creating a £13-billion (\$18-billion, 15-billion-euro) retail king that would

leapfrog Tesco.

The blockbuster deal comes as the UK retail sector faces squeezed profit margins due to fierce competition from German-owned discounters Aldi and Lidl—as well as online players like US titan Amazon.

The news sent Sainsbury's share price spiking more than 20 percent in initial deals on the London stock market, while Tesco sank almost four percent on fears the group could lose its retail crown.

"Sainsbury's and Walmart Inc. are pleased to announce that they have agreed terms in relation to a proposed combination of Sainsbury's and Asda Group Limited, a wholly owned subsidiary of Walmart, to create an enlarged business," they said in a statement after confirming advanced talks over the weekend.

The transaction values Asda at £7.3 billion. Sainsbury's stock market capitalisation stood at £5.9 billion at the close of business on Friday.

Walmart will own 42 percent of the combined business and receive £2.97 billion in cash, while Sainsbury's will hold a majority stake.

"This is a transformational opportunity to create a new force in UK retail, which will be more competitive and give customers more of what they want now and in the future," said Mike Coupe, chief executive at Sainsbury's.

'Significant and rapid change'

The deal still remains subject to approval from Britain's Competition and Markets Authority (CMA) regulator, amid concerns over the impact on consumer choice and jobs.

"The retail sector is going through significant and rapid change, as customer shopping habits continue to evolve," Sainsbury's said.

"This has led to increased competition across grocery, general merchandise and clothing, as customers seek ever greater value, choice and convenience.

"Bringing Sainsbury's and Asda together will result in a more competitive and more resilient business that will be better able to invest in price, quality, range and the technology to create more flexible ways for customers to shop."



The merger deal values Asda at £7.3 billion

The combined business would have total revenues of £51 billion and boast a network of 2,800 Sainsbury's, Asda and Argos stores.

No store closures are planned and both brand names will continue to operate side by side.

"We believe the combination offers a unique and exciting opportunity that benefits customers and colleagues," added Doug McMillon, Walmart's president and chief executive officer, in a separate statement.

"As a company, we've benefited from doing business in the UK for many years, and we look forward to working closely with Sainsbury's to deliver the benefits of the combination."

Sainsbury's will seek to lower prices on supermarket shelves by around 10 percent on many popular product ranges, and anticipates cost savings of at least £500 million.

In early deals in London, Sainsbury's shares soared more than 20 percent before settling at 316 pence, up 17.12 percent from Friday's closing level. Tesco was meanwhile 3.61 percent lower at 229.50 pence.

'Better position to fight'

"Discount grocers made the business for the supermarkets even tougher and now these supermarkets have started to respond," noted ThinkMarkets analyst Naeem Aslam.

"With this merger, the combined entity would not only be in a better position to fight the German discounters such as Aldi and Lidl but also Amazon's recent move in the grocery space."

In Britain's fast-changing retail landscape, Sainsbury's previously bought

catalogue retailer Argos in 2016 for £1.4 billion.

This year meanwhile, Tesco purchased wholesaler Booker—Britain's biggest cash-and-carry operator—for £3.7 billion in a deal that completed in March.

Booker sells goods to more than 500,000 customers, including grocers, pubs and restaurants. It also owns convenience store chains Budgens, Londis and Premier, as well as trade-facing divisions Makro and Booker Wholesale.

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