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FNAC–DARTY MERGER: FROM BIDDING WARS TO ENTITY INTEGRATION[[1]](#endnote-1)

Wiboon Kittilaksanawong and Hanna Tayeb wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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After an intense bidding war, a large French retail chain that sold electronics and cultural products, Groupe Fnac (Fnac), eventually succeeded in April 2016 in acquiring Darty Limited (Darty), a multinational electrical retailing company headquartered in London, England, for €1.16 billion[[2]](#endnote-2) —a price increase of over 60 per cent from its first offer.[[3]](#endnote-3) In September 2015, Fnac had engaged in a friendly takeover of Darty,[[4]](#endnote-4) aiming to counter the competition from online retailers, particularly American e-commerce giant Amazon.com, Inc. (Amazon).[[5]](#endnote-5) Fnac’s first offer of €720 million was not accepted by Darty, and then in November 2015, Fnac and Darty negotiated and agreed on a new offer of €864 million.[[6]](#endnote-6) Unexpectedly, however, in March 2016, South African-based international retail holding company Steinhoff International Holdings N.V. (Steinhoff) entered the bidding battle, but ultimately withdrew after Fnac offered a higher price.[[7]](#endnote-7) Thus, the two long-time competitors, having built iconic brands with strong recognition among customers over the past 40 years, became Groupe Fnac Darty. However, combining these two emblematic competitors was challenging. Not only did they have different identities, they also had distinct corporate cultures. The new group would have to convince its stakeholders—including investors, employees, and customers—that the acquisition would create better value for them.[[8]](#endnote-8) The outline of the merger was still not perfectly clear, and the strategy of the group was yet to be defined explicitly. Both employees and customers were unsure about whether some of Darty’s stores would be closed down.[[9]](#endnote-9) How should the group proceed to reach the announced €130 million in annual synergies by 2019 while maintaining the trust of its investors?[[10]](#endnote-10) Would the combined entity be able to survive the aggressive competition of e-commerce?

FNAC OVERVIEW[[11]](#endnote-11)

Company History and Development

Fnac was founded by Max Théret and André Essel in 1954.[[12]](#endnote-12) Beginning with photographic equipment, and later selling televisions and audio and recording equipment, the company’s aim was to increase the purchasing power of the working class by selling cheaper products. In 1960, Fnac began to test publishing products, which gained customer trust and allowed it to establish itself as an electronics specialist. By 1961, it had begun to sell compact discs, followed by books in 1974, thus asserting its position in the cultural field. The company launched a website in 1999, extending its in-store product offerings online. Between 1980 and 2000, Fnac continued to expand its stores network in France and abroad.[[13]](#endnote-13) It had managed to become the first book retailer in France and a widely recognized store in consumer electronics with a broad customer base.

Activity Slowdown and Turn Around

By 2011, Fnac had begun to experience an activity slowdown owing to the change in market structure and an unfavourable macroeconomic environment. To turn the company around, the board appointed a new chief executive officer (CEO), Alexandre Bompard, who launched the “Fnac 2015” plan to speed up the implementation of the company’s omni-channel, adapt to new purchasing habits, develop the sales network through opening franchised stores, reduce costs, and broaden product variety by integrating digitalization into the company’s existing product offerings. However, developing the omni-channel was particularly strategic, as Fnac needed to adapt to the growth of e-commerce and changes in consumer behaviour. The strategy was to leverage synergies between physical and online stores. In particular, customers could purchase items on fnac.com and collect them one hour later in their chosen store. If the product was not in stock, Fnac would dispatch it within four days, so that customers could enjoy their products with the least waiting time.

To extend its range of products, Fnac partnered with Canadian company Rakuten Kobo Inc. to create an e-reader to compete with the Amazon Kindle.[[14]](#endnote-14) Aiming to position itself in the digital market, Fnac established business sections dedicated to connected devices, as well as electronic games and toys for children.[[15]](#endnote-15) In addition to discs, books, and electronic products, in 2012 Fnac announced it would sell high-end small appliances, including coffee machines and blenders.[[16]](#endnote-16) This diversification was a bold move, as it would challenge the main incumbent, Darty. And Fnac continued to diversify, also selling stationery.

By 2015, two years after the company’s second initial public offering, Bompard had successfully turned Fnac around.[[17]](#endnote-17) Its stock price had risen from €17 per share to €60 per share,[[18]](#endnote-18) while its operating income was 76 per cent higher than in 2013 (see Exhibits 1A and 1B). It was believed the growing online business had also contributed to its turnaround.[[19]](#endnote-19) In 2015, Fnac owned 199 stores and had 14,000 employees. Its online business experienced two-digit growth, representing 15 per cent of the total revenue.[[20]](#endnote-20) At that time, Fnac was the third-largest e-commerce merchant in France in terms of number of unique visitors per month.[[21]](#endnote-21) Although its sales had not reached previous levels, Fnac was still the leader in the cultural and electronics French retail market. It was number one in terms of sales of books, CDs, DVDs, and BDs,[[22]](#endnote-22) as well as laptops, tablets, and photography products.

Pillars in 2015

Fnac described itself as a multi-specialist based on three core values: expertise, independence, and cultural promotion. Expertise and independence came from its laboratory and its staff, who were known for giving unbiased advice to customers. Fnac fulfilled its creative mission by promoting new and diverse talents in the cultural field, while encouraging innovative consumer electronics.[[23]](#endnote-23) Fnac continued to diversify its offerings to compensate for the decline of products affected by digitalization. In 2015, 58 per cent of its revenues came from consumer electronics, 37 per cent from publishing products, and 5 per cent from services.[[24]](#endnote-24) New products accounted for 15 per cent of the company’s revenues.

Fnac enjoyed a high level of consumer awareness, having 6.2 million members in its loyalty program in 2015.[[25]](#endnote-25) For a membership fee, customers enjoyed discounts, private sales, and exclusive offers. The program allowed Fnac to offer better-targeted sales promotions. The members accounted for 60 per cent of its revenue, as they came to the stores four times more than non-members did, and spent on average twice the amount of money. Fnac’s members usually had higher purchasing power, lived in urban areas, and were more capable of using the Internet.

DARTY BACKGROUND[[26]](#endnote-26)

Company History

Founded in 1957 by three brothers, Darty began as a retailer selling television and radio products. After visiting large-scale stores in the United States, in 1968 the Darty brothers opened the first French superstore, selling a wide range of electrical appliances with product delivery, installation, and after-sales services at very competitive prices.[[27]](#endnote-27) In 1973, Darty created the “Contract of Trust,” forging its commitment in every store to providing customers with the best prices, products, and services.[[28]](#endnote-28) The company’s after-sales services, including a two-year warranty and a 24/7 helpline, had been a key success factor in gaining recognition among customers. Darty had been listed on the London Stock Exchange since 2003.

A Service-Oriented Business Model

Over the years, Darty had grown to be a diversified electrical retail chain specializing in household electrical goods, computer equipment, and multimedia products. The company sold the most well-known electrical brands in the world, but also developed its own low-cost brand. In 2015, Darty offered four major product categories, including both large and small home appliances, visual and audio products, and multimedia products.[[29]](#endnote-29) The company also sold extended warranty and service contracts, which accounted for a large part of its revenues. Unlike those of many other retailers, Darty’s vendors received bonuses based on the number of services sold.[[30]](#endnote-30) Its high recognition came mainly from going beyond being simply a retailer to include excellent after-sales support.[[31]](#endnote-31)

Recent Development

Facing the e-commerce competition of the 2000s, Darty decided to implement omni-channel marketing, enabling customers to make purchases through its physical stores, website, and call centres. It was one of the first retailers to launch “Click & Collect” shopping in 2009, allowing customers to order products online and pick them up in stores.[[32]](#endnote-32) However, in 2012, Darty experienced a 9 per cent decrease in its sales and €314 million in losses. It undertook a turnaround, focusing on online sales and exiting from underperforming countries.[[33]](#endnote-33) Darty also acquired discount online electrical retailer Mistergooddeal.com in 2014 for €2 million.[[34]](#endnote-34) By 2015, Darty was the third-largest electrical retailer in Europe, with €3.5 billion in revenue, and had returned to being profitable with €13.8 million in net income. However, its sales did not reach their previous levels (see Exhibits 2A and 2B). Employing 12,600 people in 2015, the company owned 265 stores in France and 135 stores in Belgium and the Netherlands.[[35]](#endnote-35)

THE ELECTRICAL, ELECTRONICs, AND CULTURAL RETAIL MARKETs IN FRANCE

The Electrical and Electronics Retail Market

In 2015, the electrical and electronics retail market included products in three main categories: white, brown, and grey goods. White goods were small and large electrical machines for housekeeping, such as washing machines, refrigerators, kettles, microwaves, and irons. Brown goods were consumer electronics such as televisions, DVD players, audio equipment, and cameras. Grey goods included smartphones, laptops, keyboards, and printers. The market had four main players: specialized retailers (e.g., Darty and Fnac, which relied on physical and online stores); home furnishing retailers (those selling white goods); hypermarkets and supermarkets (those retailing small electrical and electronics products); and pure players (e.g., Amazon, PriceMinister, and RueduCommerce, which represented online sales).[[36]](#endnote-36)

Growing Online Competition

The rise of the Internet had enabled online retailers to rapidly enter the market and gain market share by offering a wide range of products conveniently and with fast delivery at aggressive prices, and had enabled customers to make orders 24/7 from anywhere, including from their smartphones.[[37]](#endnote-37) The development of the Internet had also disrupted the relationship between retailers and customers. Customers had increased awareness and better access to information about products and retailers.[[38]](#endnote-38) They could compare prices, read reviews, and monitor promotions, and had gained a voice through online social networks. According to Fnac, 81 per cent of customers did research online before making a purchase in a store, and 70 per cent visited a store before making a purchase online.[[39]](#endnote-39) Retailers therefore needed to improve their visibility and responsiveness online.

The market for electronics was one of the markets most exposed to online competition. The world-leading American online retailer Amazon was operating the most prominent e-commerce business in Europe. It had revenues of €123 billion in 2016, with its main markets in Germany and the United Kingdom generating, respectively, 10 per cent and 7 per cent of its global revenues.[[40]](#endnote-40) The company entered the French market in 2000 and had experienced strong growth ever since. Its competitive advantage came from product varieties with superior logistics, including free and fast shipping through Amazon Prime.

Asian online retailers were also looking to expand into Europe. In 2010, the Japanese company Rakuten, Inc. made one of the first moves by acquiring French e-retailer PriceMinister—the sixth most-visited e-commerce website in 2015 with 6.6 million unique visitors per month—for €200 million (see Exhibits 3A, 3B, and 3C).[[41]](#endnote-41) In 2016, its European sales represented 3 per cent of total revenues, while the company expressed growing interest in focusing more on the French and German markets.[[42]](#endnote-42) Aiming to build brand image in Europe, the Chinese conglomerate Alibaba Group Holding Ltd. (Alibaba), dominating the Chinese market with €14.5 billion revenue in 2016, opened offices in the United Kingdom, Germany, and France in 2015.[[43]](#endnote-43) It was believed Alibaba had the potential to disrupt traditional and online retailers.

Challenges for Traditional Retailers

Facing this new competitive landscape, many brick-and-mortar retailers developed their own online stores, while implementing a cross-channel strategy, giving consumers flexibility to order online, while still attracting them into physical shops.[[44]](#endnote-44) One in four customers who ordered online and came to collect the purchase in-store made an additional purchase while there, highlighting the importance of omni-channel marketing. Traditional retailers also became more consolidated by acquiring pure players in an effort to diversify and expand their customer base. For example, Darty and the French multinational retailer Carrefour S. A. bought Mistergooddeal.com and the website of Rue du Commerce S. A. in 2014 and 2016 respectively, with an aim also to narrow the price gap with online retailers.[[45]](#endnote-45)

However, specialized stores were still dominating the French market in 2015 with their historical presence in the market.[[46]](#endnote-46) Many households still wanted to see and touch actual products, and to receive both the in-person advice from staff and the after-sales support offered by traditional stores. Online retailers faced other hurdles, such as product returns and exchanges, delivery fees, and complex after-sales services. In 2015, pure players’ revenues represented 15 per cent of the total market share.

The Cultural and Editorial Market

Cultural products, including books, CDs, and DVDs, were traditionally sold by specialized superstores, hypermarkets, and pure players. With the introduction of digital media, such as Apple’s software iTunes, and the emergence of a new type of challenger using online streaming platforms, such as Spotify and Deezer for music, and Netflix, Hulu, and even Amazon for video-on-demand, traditional retailers saw their market shares decreasing. However, although Amazon had been at the centre of a passionate debate over whether its business model was killing traditional bookstores, e-books had not yet overthrown paper books. In 2015, only 2 per cent of French people had bought an e-book and 75 per cent claimed they did not intend to try e-book readers.[[47]](#endnote-47) In 2016, the United States registered a 19 per cent drop in e-book sales. Other countries had experienced a similar trend.

**FNAC’S OFFERS TO BUY DARTY**

At the end of September 2015, Fnac caused a sensation in the market when it announced its intention to acquire Darty.[[48]](#endnote-48) The press depicted the intention as a “surprise wedding proposal.”[[49]](#endnote-49) The announcement was indeed unexpected. According to analysts, the situation should have been exactly the opposite because Darty’s stocks in 2013 were worth three times more than Fnac’s stocks. Acquiring Darty would give the company an effective means for addressing the quickly changing market environment. Describing the acquisition as mostly a defensive alliance, Fnac CEO Bompard explained, “Amazon’s power has generated the disappearance of several cultural players and has led to a market consolidation. . . . Fnac–Darty will be a strong alternative model to Amazon.”[[50]](#endnote-50)

Even though Fnac and Darty were competing against each other in the consumer electronics and small electrical appliances segments, they were not identical. In particular, Darty offered a path for Fnac to diversify toward major electrical appliances and to decrease exposure to its cultural products, which had been hit hard by digitalization. In addition, Darty’s store network was extensive and well located. Darty was perceived as a well-known brand with strong positioning among customers, while providing experienced after-sales services.[[51]](#endnote-51) Fnac sold similar services, but it had not built a brand image around after-sales support; it lacked Darty’s experience and recognition in this area.

Fnac foresaw €130 million in annual savings by 2019 through the implementation of synergies between the two brands.[[52]](#endnote-52) In addition to the financial benefits, the new combined entity would have greater bargaining power over suppliers. Bompard stated:

The combination of Fnac and Darty is a major strategic opportunity for both groups, creating the leading retailer of consumer electronics, cultural products and electrical appliances in France, as well as a significant player on the European landscape. We are convinced that the proposed acquisition will benefit both groups and their respective employees and customers in particular, and that it is a unique opportunity to create value for Darty and Fnac shareholders.[[53]](#endnote-53)

Fnac’s initial offer aimed to take over 100 per cent of Darty’s shares by an exchange of shares between the two companies. Fnac offered Darty investors one Fnac share for every 39 shares they owned without any cash compensation, thus valuing Darty at €720 million.[[54]](#endnote-54) However, the majority of Darty shareholders were not convinced it was a good offer and decided to wait for a more ambitious proposal.[[55]](#endnote-55) Analysts commented that Fnac’s bid was too meagre to compensate for the risks of an all-share offer, adding that the 28.5 per cent bonus on the Darty stock price did not fully represent the company’s future profitability potential.[[56]](#endnote-56)

In November 2015, Fnac reconsidered its bid and valued Darty at €864 million by offering one Fnac share in exchange for 37 Darty shares.[[57]](#endnote-57) The company also offered Darty shareholders a cash alternative of up to €95 million if they did not want to hold Fnac shares. An agreement was reached, and the deal seemed to be closed. However, at the beginning of March 2016, the board of Darty confirmed a new bidder had entered the race for the company’s acquisition. Steinhoff had indeed made an unexpected—and better—offer of €893 million in cash.[[58]](#endnote-58)

It was not the first time Steinhoff had displayed such a ferocious appetite. A week before outbidding Fnac, Steinhoff had tried to buy Home Retail Group, which was to be acquired by British supermarket chain Sainsbury’s, but dropped its offer after Sainsbury’s offered and won the bid for almost €1.9 billion.[[59]](#endnote-59)

STEINHOFF INTERNATIONAL—THE UNEXPECTED OPPONENT

Steinhoff was a German international retail holding company based in South Africa and operating in 30 countries across Europe, Africa, and Australia.[[60]](#endnote-60) The company had operations in three main markets: household goods (e.g., furniture and homeware); general merchandise (e.g., clothing, footwear, accessories, and homeware); and automotive services (e.g., dealerships, insurance, and car rentals). It generated €9.8 billion in revenue and €929 million in net profit, and owned 40 brands and employed more than 90,000 people in 2015.[[61]](#endnote-61)

Steinhoff entered the race to acquire Darty through its subsidiary, Conforama. Created in 1967, Conforama was bought by Steinhoff in 2011 for €1.2 billion.[[62]](#endnote-62) Formerly, it had been part of Kering, an international luxury group based in Paris—the same group that had owned Fnac before spinning it off through an initial public offering in 2013. In 2015, Conforama had 204 stores and was the second-largest furniture and household goods retailer in France after Ikea. The company was also located in seven other countries across Europe.[[63]](#endnote-63) Conforama retailed home furniture; small and large electrical appliances; vision, audio, and multimedia products; and home decoration products, which accounted for 55 per cent, 31 per cent, 12 per cent, and 2 per cent, respectively, of its 2015 revenue of €3.2 billion.[[64]](#endnote-64)

The acquisition of Darty was to combine Conforama’s expertise in home furnishings and Darty’s strengths in white, brown, and grey goods in an effort to create a French leader in household goods retailing. The new combined entity would be able to provide a full range of equipment for the house. Conforama and Darty also possessed a relatively similar corporate culture, and Steinhoff, Conforama’s parent company, was financially strong and had experience in the merger and acquisition process.

Overall, Darty was appealing to both Steinhoff and Fnac for different reasons. Steinhoff saw the acquisition as a way to diversify its investments outside of Africa, which had been affected by economic and political turmoil, while Fnac was looking to reduce exposure to its cultural products, and to diversify and resist the growing online competition.

ERUPTION OF AN INTENSE BIDDING WAR

On March 18, 2016, Darty’s board recommended that the company’s shareholders accept Steinhoff’s offer.[[65]](#endnote-65) Under a great deal of pressure, on the same day Fnac urged Darty shareholders not to take any decisions while it was reviewing various options.[[66]](#endnote-66) Observers were unsure whether Fnac could afford to make a more aggressive offer or had sufficient cash to finance the acquisition.

In April 2016, Fnac was able to secure a capital increase of €159 million from French mass media conglomerate Vivendi, which agreed to take 15 per cent of the company’s shares.[[67]](#endnote-67) Observers wondered whether this arrangement meant that Fnac was aiming to make a bigger offer for Darty, or whether it was a sign that the company was giving up and preparing for its future without Darty.

In the meantime, Darty’s trade unions announced they favoured Conforama over Fnac.[[68]](#endnote-68) Even though the three groups (Darty, Conforama, and Fnac) were relatively similar in size, number of employees, and revenues, Darty employees perceived Conforama as a complementary brand and Fnac as a competitor, as it was seen as too similar to Darty (see Exhibit 4). In particular, Fnac was located mostly in urban areas and city centres, while Conforama was located in the outskirts of cities. As for Darty, its locations were a mix of both. In several cities, Fnac and Darty were particularly close to each other, and in some shopping centres, they were often separated by just one floor. The unions were afraid that such similarities would result in the closure of several Darty stores through a massive redundancy plan. As Fnac would need to assume a significant amount of debt to finance the acquisition, the unions also expressed their concern regarding the ability of Fnac to ensure the future of both companies.

On April 20, 2016, the bidding suddenly heated up as Conforama officially made a takeover bid. Conforma intensified the bidding pressure by raising its offer to 138 pence (£1.38)[[69]](#endnote-69) per share, valuing Darty for €940 million.The company announced it had acquired 19.5 per cent of Darty’s capital.[[70]](#endnote-70) The following day, Fnac countered the bid by raising its offer to 145 pence (£1.45) per share and announcing it would pay in cash. The two contestants engaged in a frenzied avalanche of offers, battling to buy as many Darty shares as possible on the stock exchange (see Exhibits 5A and 5B). Within less than two hours, Conforama, then Fnac, and then Conforama again raised their offers. Fnac made the ultimate offer, valuing Darty at €1.16 billion, and Steinhoff announced it would not submit a higher bid.[[71]](#endnote-71) Steinhoff issued a press release explaining the rationale behind its decision:

Our independent board and management had a clear valuation in mind for the standalone Darty business. . . . We remain of the opinion that, at this price, the Darty business would have been a good addition to the Steinhoff group of businesses but, at an increased price, it would no longer create sufficient value for Steinhoff shareholders, employees and other stakeholders.[[72]](#endnote-72)

As the highest bidder, Fnac quickly obtained 51 per cent of Darty’s shares.[[73]](#endnote-73) Fnac’s offer was in cash, but the company still offered a partial share alternative, allowing Darty shareholders to receive new Fnac shares. The exchange basis would be 25 Darty shares held for one new Fnac share. In August 2016, Fnac acquired 100 per cent of Darty’s shares, and Darty was delisted from the London Stock Exchange. Although Fnac had won the bidding war and successfully taken over Darty, the challenges of entity integration had just begun.

producing A EUROPEAN MARKET LEADER

Bompard faced several challenges in building a strong combined entity. He had managed to convince Darty’s board and shareholders of the synergistic value creation potential from the combined entity, but he also needed to reassure Darty’s employees and customers. On one hand, customers wondered whether the acquisition would be beneficial for their wallet. They often compared prices between the two brands, and the union between Fnac and Darty would likely mean less competition and therefore less pressure for them to offer lower prices. On the other hand, employees were concerned about a potential massive redundancy plan that would jeopardize their job security.[[74]](#endnote-74)

Facing growing interrogations and fears, the head of the Fnac–Darty Group, Bompard, announced he would not merge the two companies and would aim to preserve all of the stores. He expressed his confidence about preserving both brands, saying, “We will succeed in convincing Darty’s teams that it [the acquisition] represents an outstanding opportunity for them. It would have been extremely painful if we had chosen to take down one of the two brands, but it is absolutely not our strategy.”[[75]](#endnote-75)

Florian Ingen-Housz, head of strategy for the new combined group, announced that marketing synergy initiatives were to be launched, but dismissed possible confusion, saying, “We won’t mix the two brands. You won’t find a DVD next to a fridge.”[[76]](#endnote-76) Soon after the acquisition, the combined group began to implement initiatives to create revenue synergies. Fnac’s website dedicated space to Darty’s white goods, customers were able to purchase products from Fnac’s website and collect them at a Darty’s store, and a unified gift card was launched, allowing customers to purchase from both networks. The new group expressed its intention to strengthen the marketing synergies by creating Fnac corners in Darty stores, and vice versa. As for cost synergies, Fnac and Darty would merge various supporting functions, including information technology systems. The new group also hoped to save money through optimizing common purchasing and logistics functions.[[77]](#endnote-77)

Overall, the combined group aimed to become a European leader and one of the top three omni-channel distributors in the electrical, electronics, and cultural retail markets. To achieve this goal, the group needed to quickly implement the announced synergies and enhance its presence across the region.

THE NEXT STEPS

In a letter to employees, Bompard wrote, “From now on Fnac and Darty are part of the same group. . . . To build the future we now have to combine our strengths and put in common our competencies while respecting each company’s identity.”[[78]](#endnote-78) The acquisition could be summarized by the headline “one group, two companies.” Yet, would one company never prevail over the other, and would both companies be able to collaborate without creating friction? To finance the acquisition, Fnac had issued a €650 million bond and used €200 million of credit facility.[[79]](#endnote-79) Given such financial leverage and the high acquisition premium paid by Fnac, how should the integration be implemented to ensure the combined entity would generate sufficient synergies and sustain its operations? To what extent would the traditional retail market be disrupted by the growing dominance of e-commerce, and would the company be able to fight the competition? Amid these questions was growing speculation in early 2017 that Bompard, the architect of the acquisition, might be appointed as the new CEO of Carrefour S. A., one of the world’s largest hypermarket chains.[[80]](#endnote-80) Without his leadership, would the Fnac–Darty group be able to succeed in the post-acquisition integration process?

EXHIBIT 1A: FNAC INCOME STATEMENTs, 2012–2015 (IN MILLIONs of €)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Key Financials | Year | | | |
| 2015 | 2014 | 2013 | 2012 |
| Sales Revenue | 3,875.8 | 3,895.1 | 3,905.3 | 4,061.1 |
| Cost of Goods Sold | (2,730.0) | (2,751.2) | (2,740.9) | (2,841.8) |
| Gross Margin | 1,145.8 | 1,143.9 | 1,164.4 | 1,219.3 |
| Percentage of Sales Revenue | 29.6% | 29.4% | 29.8% | 30.0% |
| Selling, General, and Administrative Expenses | (1,070.1) | (1,075.9) | (1,121.3) | (1,286.2) |
| Operating Income | 75.7 | 68.0 | 43.1 | (66.9) |
| Percentage of Sales Revenue | 2.0% | 1.7% | 1.1% | (1.6%) |
| Financial Expenses | (13.1) | (12.1) | (11.7) | (15.0) |
| Pre-tax Income | 62.6 | 55.9 | 31.4 | (81.9) |
| Income Tax | (14.3) | (14.5) | (15.6) | (33.7) |
| Net Income | 48.3 | 41.4 | 15.8 | (115.6) |
| Percentage of Sales Revenue | 1.2% | 1.1% | 0.4% | (2.8%) |

Note: € = EUR = euro

Source: Created by the case authors based on Fnac, *Fnac Annual Report 2015*, 124, accessed November 22, 2017, www.fnacdarty.com/wp-content/uploads/2017/02/Registration\_document\_2015\_EN\_Fnac.pdf.

**EXHIBIT 1B: FNAC BALANCE SHEETS, 2014–2015 (IN MILLIONS OF €)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Key Financials | Year | |  | Key Financials | Year | |
| 2015 | 2014 |  | 2015 | 2014 |
| Intangible Non-current Assets | 403.8 | 400.5 |  | Share Capital | 16.7 | 16.6 |
| Property, Plant, and Equipment | 156.5 | 163.2 |  | Equity-related Reserves | 496.7 | 494.9 |
| Other Non-current Assets | 45.7 | 40.0 |  | Other Reserves | 50.9 | 83.9 |
| Total Non-current Assets | 606.0 | 603.7 |  | Total Shareholders’ Equity | 564.3 | 595.4 |
| Inventories | 466.9 | 469.4 |  | Long-term Borrowing | 0.3 | 0.3 |
| Account Receivables | 104.1 | 129.7 |  | Provisions for Pensions and Other Benefits | 77.4 | 69.1 |
| Other Current Assets | 190.9 | 154.2 |  | Total Non-current Liabilities | 77.7 | 69.4 |
| Cash and Its Equivalents | 544.7 | 535.6 |  | Short-term Borrowings | 0.3 | 0.2 |
| Total Current Assets | 1,306.6 | 1,288.9 |  | Account Payable | 817.0 | 767.7 |
| Total Assets | 1,912.6 | 1,892.6 |  | Other Current Liabilities | 453.3 | 459.9 |
|  |  |  |  | Total Current Liabilities | 1,270.6 | 1,227.8 |
|  |  |  |  | Total Liabilities and Equity | 1,912.6 | 1,892.6 |

Note:€ = EUR = euro

Source: Created by the case authors based on Fnac, *Fnac Annual Report 2015*, 126, accessed November 22, 2017, www.fnacdarty.com/wp-content/uploads/2017/02/Registration\_document\_2015\_EN\_Fnac.pdf.

**EXHIBIT 2A: DARTY INCOME STATEMENTS, 2011–2015 (IN MILLIONS OF €)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Key Financials | Year | | | | |
| 2015 | 2014 | 2013 | 2012 | 2011 |
| Sales Revenue | 3,512.1 | 3,404.4 | 3,375.4 | 3,465.0 | 3,547.9 |
| Retail Profit | 74.9 | 85.5 | 80.9 | 111.0 | 148.7 |
| Percentage of Sales Revenue | 2.1 | 2.5 | 2.4 | 3.2 | 4.2 |
| Pre-tax Profit | 32.9 | 37.4 | 18.9 | 81.9 | 119.4 |
| Income Tax | (17.8) | (26.6) | (15.0) | (22.4) | (34.2) |
| Post-tax Profit | 15.1 | 10.8 | 3.9 | 59.5 | 85.2 |
| Discontinued Operations | (1.3) | (17.4) | (111.8) | (373.4) | (54.5) |
| Profit/(Loss) | 13.8 | (6.6) | (107.9) | (313.9) | 30.7 |

Note: € = EUR = euro

Source: Created by the case authors based on Darty Plc, *Darty Plc Annual Report 2014/15*, 120.

**EXHIBIT 2B: DARTY BALANCE SHEETS, 2013–2015 (IN MILLIONS OF €)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Key Financials | Year | | |  | Key Financials | Year | | |
| 2015 | 2014 | 2013 |  | 2015 | 2014 | 2013 |
| Intangible Non-current Assets | 68.6 | 64.3 | 62.8 |  | Short-term Borrowings | 11.1 | 1.5 | 0.3 |
| Property, Plant, and Equipment | 321.2 | 343.9 | 369.0 |  | Account Payable | 837.0 | 887.7 | 884.0 |
| Other Non-current Assets | 24.8 | 26.8 | 40.6 |  | Other Current Liabilities | 17.7 | 15.1 | 22.1 |
| Total Non-current Assets | 414.6 | 435.0 | 472.4 |  | Total Current Liabilities | 865.8 | 904.3 | 906.4 |
| Inventories | 456.8 | 474.2 | 477.9 |  | Long-term Borrowings | 297.7 | 259.2 | 218.3 |
| Account Receivables | 218.3 | 221.5 | 197.2 |  | Other Non-current Payables | 347.6 | 363.8 | 370.0 |
| Other Current Assets | 9.6 | 4.2 | 15.4 |  | Total Non-Current Liabilities | 645.3 | 623.0 | 588.3 |
| Cash and Its Equivalents | 87.9 | 75.5 | 68.0 |  | Total Equity | (323.9) | (316.9) | (263.8) |
| Total Current Assets | 772.6 | 775.4 | 758.5 |  | Total Liabilities and Equity | 1,187.2 | 1,210.4 | 1,230.9 |
| Total Assets | 1,187.2 | 1,210.4 | 1,230.9 |  |  |  |  |  |

Note: € = EUR = euro

Source: Created by the case authors based on Darty Plc, *Darty Plc Annual Report 2014/15*, 61.

**EXHIBIT 3A: E-COMMERCE MARKET PENETRATION, BY SALES CHANNEL AND PRODUCT**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sales Channels | Consumer Electronics | Mobiles | Photography/ Visual Products | Small Electrical Appliances | Large Electrical Appliances |
| Online Sales (%) | 19.8 | 21.4 | 21.1 | 14.5 | 15.0 |
| Brick-and-mortar Sales (%) | 80.2 | 78.6 | 78.9 | 85.5 | 85.0 |

Note: € = EUR = euro

Source: Created by the case authors based on “French Competition Authority Fnac–Darty Report,” accessed December 5, 2017, www.autoritedelaconcurrence.fr/pdf/avis/16DCC111VNC.pdf, 19.

**EXHIBIT 3B: REVENUES OF FRENCH E-COMMERCE RETAILERS, 2005–2015**

**(FOR ALL TYPES OF PRODUCTS)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Revenues  (in billions of €) | 8.4 | 11.6 | 15.6 | 20.0 | 25.0 | 31.0 | 37.7 | 45.0 | 51.1 | 56.8 | 64.9 |

Note: € = EUR = euro

Source: Created by the case authors based on “E-Commerce : 10 Years of Continuing Growth,” lesechos.fr, accessed November 21, 2017, https://www.lesechos.fr/infographie/2016-02-05\_E\_Commerce2015/E\_Commerce2015.html.

**EXHIBIT 3C: AVERAGE UNIQUE VISITORS PER MONTH, 2015, BY RETAILER**

**(FOR ALL TYPES OF PRODUCTS, IN MILLIONS OF EUROS)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Company | Voyage-SNCF | La Redoute | Darty | E. Leclerc | PriceMinister | Carrefour S.A. | eBay Inc. | Fnac | Cdiscount | Amazon |
| Visitors | 5.8 | 5.8 | 5.9 | 6.0 | 6.6 | 7.1 | 8.3 | 11.1 | 11.8 | 19.4 |

Source: Created by the case authors based on “E-Commerce : 10 Years of Continuing Growth,” lesechos.fr, accessed November 21, 2017, https://www.lesechos.fr/infographie/2016-02-05\_E\_Commerce2015/E\_Commerce2015.html.

**EXHIBIT 4: COMPARISION OF THE THREE COMPANIES, 2015**

|  |  |  |  |
| --- | --- | --- | --- |
| **Key Characteristics** | **Darty** | **Fnac** | **Conforama** |
| Revenue (€ million) | 3,500 | 3,900 | 3,200 |
| Net Income (€ million) | 13.8 | 48.3 | N/A |
| Number of Employees | 12,600 | 14,000 | 13,400 |
| Number of Stores | 400 | 199 | 280 |
| In France | 265 | 124 | 204 |
| In Other Countries | 135 | 75 | 76 |

Note: € = EUR = euro; N/A = not applicable

Source: Created by the case authors based on Fnac, *Fnac Annual Report 2015*, 126, accessed November 22, 2017, www.fnacdarty.com/wp-content/uploads/2017/02/Registration\_document\_2015\_EN\_Fnac.pdf.

**EXHIBIT 5A: BIDDING SUMMARY**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Bidder | Bid per Share (£) | Darty’s Valuation | | Fnac Stock Price (€) | Darty Stock Price (£) | Exchange Rate (€/£) |
| Million £ | Million € |
| 29/09/2015 | Fnac | Exchange 1 to 39 | 533 | 720 | 53.00 | 0.78 | 1.35 |
| 05/11/2015 | Fnac | Exchange 1 to 37 | 615 | 864 | 60.37 |  | 1.40 |
| 02/03/2016 | Steinhoff | 1.25 | 662 | 893 |  |  | 1.29 |
| 20/04/2016 | Steinhoff | 1.38 | 731 | 927 |  |  | 1.27 |
| 21/04/2016 | Fnac | 1.45 | 768 | 974 |  |  | 1.27 |
| 21/04/2016 | Steinhoff | 1.50 | 794 | 1,007 |  |  | 1.27 |
| 21/04/2016 | Fnac | 1.53 | 810 | 1,028 |  |  | 1.27 |
| 21/04/2016 | Steinhoff | 1.60 | 847 | 1,075 |  |  | 1.27 |
| 25/04/2016 | Fnac | 1.70 | 900 | 1,157 |  |  | 1.29 |

exhibit 5a (continued)

|  |  |
| --- | --- |
| Company | Number of Shares Outstanding |
| Darty | 529,553,216 |
| Fnac | 16,659,746 (Before Capital Increase) |
| Fnac | 16,687,774 (After Capital Increase) |

Note: € = EUR = euro; £ = GBP = British pound

Source: Created by the case authors.

**EXHIBIT 5B: DARTY STOCK PRICE, JANUARY 2014–JULY 2016**

Note: Pence = p = penny sterling; 100 pence = £1; £ = GBP = British pound

Source: Created by the case authors.

endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Groupe Fnac Darty, or any of its employees. [↑](#endnote-ref-1)
2. € = EUR = euro; all currency amounts in the case are in euros unless otherwise specified; €1 = US$1.137935 on April 1, 2016. [↑](#endnote-ref-2)
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23. Fnac, *Fnac Registration Document 2015*, op. cit. [↑](#endnote-ref-23)
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