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ODP.OQ - Office Depot Inc. Conference Call on Guilberts`s Acquisition

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OVERVIEW:

ODP announces it has made an offer to acquire Guilbert, one of the largest contract stationers in Europe. ODP intends to acquire 100% Guilbert stock from parent PPR. Purchase price is 815m Euros, plus contingency payment. ODP will use available cash and revolving credit to fund the transaction. Acquisition will be accretive to EPS in first full year of operation, 2004. Q&A Focus: Organic growth rate, operating margin, integration costs and timing and synergies.

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PRESENTATION

Operator

Good morning. We would like to welcome you to the Office Depot conference call. All lines will be on a listen-only mode for today's presentation, after which instructions will be given in order to ask a question. At the request of Office Depot today's conference is being recorded. I would like to introduce Ms. Eileen Dunn, Vice President of Investor Relations and Public Relations who will make a few opening comments. Ms. Dunn, you may begin.

Eileen Dunn - *Office Depot, Inc. - Vice President Investor Relations and Public Relations*

Thank you. Good morning and thanks for joining us today. Before we begin today's call I'd like to remind you that except for historical data, comments on this call should be considered forward looking within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements, including projections as to revenue or earnings and other statements related to expected future performance by Office Depot involve risks and uncertainties, which may cause actual results to differ materially from those discussed on this call. Please refer to our filings with the SEC, including our 10-K filed on March 13, 2003 for further information.

Now I'd like to turn today's call over to Office Depot's Chairman and Chief Executive Officer, Bruce Nelson.

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Thanks Eileen and good morning to all of you and thanks for joining the call. I do have on the call with me Rolf van Kaldekerken, who is President of our European Operations, and Charlie Brown, who is the CFO, both of whom are in France on the conference call. I'm here in Delray Beach.

As you know, this morning we announced the acquisition of Guilbert, one of Europe's premier contract stationers. I'll go through this — give you a little bit about Guilbert, a little bit about the transaction, its strategic rationale, some issues on synergy, and some comments, and then I'll open the call up for questions.

First, a little bit about Guilbert for those of you who are not familiar. This is clearly one of Europe's leading contract stationers, premier brand names and a presence in nine European countries. It's one of the largest contract stationers in Europe. It has a leading position in the UK and France, and a number two position in Germany. As I said, there are nine different countries, 18 warehouses, 32 Call Centers, and 5,700 employees. And as I've said, this is really a premier company by any way you want to measure premier.

A little bit about the transaction, most of which was in the press release. We're going to acquire — it's our intent to acquire 100 percent of the stock of Guilbert from its parent, PPR. The purchase price was 815 million Euros, plus a contingent payment: a 550 million Euro payment at closing date — and I might add this is a debt-free company we're purchasing — a 265 million Euro payment on June 30th, or the closing date, whichever is later, and there's an additional 40 million Euro price if Office Depot stock hits $20 for any five consecutive days in 18 months following the closing.

We will use our available cash and revolving credit to fund the transaction. And as outlined in the earnings release, the acquisition will be accretive to EPS in its first full year of operation, 2004, and we believe that accretion to be conservatively five to 10 percent.

A little bit about the strategic rationale. First, as many of you know, we've been in Europe since 1990 with a highly successful business model and this offers us a unique opportunity to strengthen our already-strong European market position. It doubles the size of our existing European business. It provides critical mass to our newly established European contract business. It fits our multi-brand, multi-channel strategy here in North America, and we acquired two great names: Guilbert, as the contract stationer, and a private branding name called 'Nice Day', which is recognized as Europe's — or one of Europe's leading brands with a significant amount of Guilbert's business done in this brand name. They're both highly regarded.

It gives us a meaningful competitive position in the large customer segment in the UK, France and Germany, and it compliments our existing catalogue operations in nine additional countries. Europe, as many of you know, is a large fragmented market that does provide outstanding opportunities for growth. Large customers throughout Europe are demanding single-source providers and this acquisition gives us the opportunity to service across the continent within Europe and across oceans, which more large customers are demanding.

The four top players in the European market account for less than three percent of the total market. This is fragmented, as I said. This is an opportunity to grow. And clearly this acquisition gives us untapped e-commerce opportunity. There isn't any question that we're a leader in e-commerce, have been from the very beginning, a leader not only in the public dot.com e-commerce sites, but in our business sites for our customers. And we feel very strongly that we can leverage this technology and expertise to our new European large customers.

It further diversifies Office Depot's business. It fits into an existing business platform. It is complimentary versus redundant. We have started up contract businesses in Europe, going now back to almost two years, and our primary focus has been on small and medium-sized accounts. Guilbert's business is predominantly in the large customer segment, so it fits in a complimentary way, not in a redundant way. And the result is this is about growing two businesses faster.

It somewhat mitigates our dependence upon U.S. retail results, although retail will always be, continues to be an important part of Office Depot. Last year our International Division accounted for 14 percent of our revenues. On a two-goal pro forma basis, looking at Guilbert's side, we would have had — it would have been — 23 percent of our business would have been internationally. By the way, Guilbert last year did in EBITDA 82 million Euros in EBITDA on about 1.4 billion Euros, and so the transaction is for 10 times EBITDA.

But it does change the complexion of our Company. It offers significant synergy opportunities in purchasing, in supply chain, in G&A costs, in the avoidance of startup costs to enter new segments, and in tax rate savings as well. Let me speak one moment to synergies.

I said earlier that this transaction in the first full year of operation, 2004, will be accretive to earnings five to 10 percent and we believe that to be a very conservative number. I said earlier that the purchasing synergies — just to give you some examples, we're anticipating purchasing synergies in the range of 1.5 to two percent. We believe that is realistic; we believe it's conservative.

On supply chain, we are planning on synergies of the two to three percent range. Again, we believe those to be conservative numbers. One of Guilbert's core competencies is the ability to deliver customer orders on their own fleets. We do not have that capability in Europe today. We think they're very good at it; it's a Best Practice. We intend to learn from it and exercise it across the Company.

G&A savings, again, we've anticipated conservative amounts, five to eight percent G&A savings on the combined companies.

Again, we believe these synergies are conservative; they're attainable, and we'll work hard to get them as quickly as we can get them. And in 2003, we're not quite certain how quickly they will come and that's why our forecast for 2003 is either neutral or slightly dilutive, depending on how quickly we can achieve these synergies.

This acquisition, together with our existing operations, results in a very strong competitive position in the UK, France/Germany, and the Netherlands, along with the rest of Continental Europe. It gives us a contract business in three countries — Spain, Portugal and Belgium — that we would have started up on our own. And it gives us presence in those countries by acquiring Guilbert.

Back to the synergy side for a minute, we can rationalize it to you. We can look at Best Practices and contracts. We can leverage our scale. We can harmonize our operating procedures and our management of G&A. And we can [indiscernible] our value-proposition customers. All of this should give you confidence of our ability to deliver this transaction and integrate it successfully within Office Depot. Certainly it has its risks, but we're coming off a highly experienced business model in Europe, having been there, as I said earlier, since 1990.

Let me summarize for a minute and then we'll open up the call for questions.

First, you might ask the question, "Why would we consider acquiring an international company who has got a headquarters in France in the current geopolitical environment?" We have carefully studied and considered the current world events and the potential customer impact and have concluded, after long conversations and discussions, that this opportunity is strategic and that any impact of the short-term geopolitical things are in fact short term, not long term. We think large corporations are rational when they choose suppliers and they're rational in the combination of value-added services, products, and they buy, in essence, from relationships. And in the case of Guilbert, these relationships are over many, many, many years.

The second question I'm sure you will ask us is, "Will this cause us to lose management focus and attention on our North American retail business?" Our North American retail business and improve our top line represents our number-one priority and that has not and will not change. We have been in Europe with an experienced management team since 1990. We have highly experienced and proven leadership with significant depth and embedded strength throughout Europe. Guilbert adds more to that already proven business model.

We already have successful operations in the nine countries in which Guilbert does business. They'll just add more scale and size and strength to our organization. Clearly, the integration will require some U.S. involvement, predominantly in IT and Finance. In those two areas they do not distract from North America retail growth.

Merchandising, marketing and operations for Office Depot has always been European-based, and will continue to be European-based in this transaction.

From a merchandising perspective, one of the synergies I didn't talk about was global purchasing. Clearly, that's where we put our efforts on both sides of the globe and we think the acquisition of Guilbert will already add scale and size to our industry-leading position as the largest importer of global office products across the United States and Europe and this just adds to it.

In summary, before I turn the call over to you for questions, I would point out that: 1) we have a highly conservative management team and approach to our business. That's reflected in our balance sheet; that's reflected in our financial reporting; it's reflected in our communications to our stakeholders, shareholders, employees, and customers; and, it's all based on building confidence and trust, something that I set out to do as the CEO of the Company almost three years ago.

We have carefully considered, planned, analyzed, discussed and come to an agreement on the things we then choose to flawlessly execute. Sometimes that means Office Depot takes longer to act than some of you would like. But we do so with a lot of discernment. We have been actively engaged in discussions with PPR for well over a year. We have done significant amounts of due diligence. We understand this business well. We understand its position in Europe. We understand the strength. We have our organization to integrate it. We understand where the risks are, and we have a management team, both in Europe and in North America, that have had extended experience in integrating businesses.

We are calculated risk takers, but we are not risky. This deal is financially sound. It's financed by our existing cash, paid in installments to allow us to take the cash from the business we acquire and help pay for it at a later date. It's a debt-free transaction. It's five to 10 percent conservatively accretive in the first full year of consolidation and in every year thereafter. The synergies are conservative; they are reasonable; and, we believe they're highly achievable. And frankly, we think the synergy case as outlined is the worst case, both in 2003 and beyond.

This acquisition finally is highly strategic. It achieves our objective, our long-stated objective, of being the undisputed European industry leader. It positions us as either number one or number two in every country where we operate in Europe. That means we have scale; that means we have leverage; that means we have brand recognition; that means we have customer recognition. And I might add, by the way, we still have very, very good competitors, but we believe it positions us well.

It adds size, scale, and critical mass to our existing highly profitable European business. We did not have to buy this business to achieve profitability in Europe. We already have it and we've got 13 years of doing it. This just adds to what we already do. It is complimentary to our small and medium-sized business startup obviously, as I said earlier. And it gives us entry to three important new contract markets — Spain, Belgium, Portugal — where we already have our presence.

And this clearly fits our successful model of multi-channel, multi-brand business all across the globe. We are enormously excited about the opportunity to buy Guilbert. This has been a company that has a long rich history in Europe. And as I said earlier, it's one of the premier names. We are excited about the people we've met in the due diligence process. We believe that they can add enormous strength to Office Depot. We believe they have some of the very best sales reps in all of the world. And they clearly have some customer relationships they've had for long, long periods of time, which we believe we can enhance.

We believe the combination of these two businesses will give our customers more value, more choices, more products, more services, over more countries, all serving from a single company in a very challenging and difficult economic environment. And this is but one of many steps we are taking to maintain our position as the world's largest seller of office products.

With that, now I'd like to turn the call over to the operator for any questions you might have. Thanks for your time this morning to listen to us. Thanks for your interest in Office Depot. And with that, we'll turn the call over to the operator.

QUESTIONS AND ANSWERS

Operator

Thank you. At this time we'll begin our question-and-answer session. If you have a question, simply press star, one on your telephone touchpad. If at any time you wish to withdraw your question, you may do so by pressing star, two. Again, that's star, one if you have a question.

Our first question is from Dan Binder with Buckingham Research Group.

Dan Binder - *Buckingham Research Group - Analyst*

Good morning. A question on your assumptions going forward with regards to the organic growth rate of this business. What should we be modeling for? And then it looks like it had about a 4.5 percent operating margin. What do you think the opportunities are in terms of getting that up over the next two or three years in terms of magnitude?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Dan, I think the opportunity to project that operating margin over the next couple of years is significant. I don't think that's necessarily true in 2003 as we acquire and begin to integrate. But clearly, if you look at the synergies that I've outlined, I think there are significant opportunities. We've proven around the world that we can operate businesses like this in certainly a six to seven percent operating margin range. And I would hope over time we can do that.

They have 32 Call Centers; they have 18 warehouses. I think that over time we can rationalize some of those. One of our findings in their warehouses is that where they — they have some very good warehouses, by the way. We think they lack some of the sophistication we have in our North American and European warehouses. What that means is, with some Cap ex we believe we can drive efficiency and productivity. We found some outstanding people and systems. We think we can leverage some of their systems across our existing business in Europe. That adds value.

I talked earlier about private label. They are really good at this. They have a very large percentage of their business in the private label called 'Nice Day'. I think that gives us leverage. That's a name we'll probably use worldwide. It has that kind of appeal. I think it has some purchasing synergy to it. All of that means is that I believe we can leverage up this operating margin.

We've not done a lot of modeling out of this, if you will, past two or three years. I mean, frankly, our focus now is to complete the transaction. We've got to get the European approval to do so. We'll begin the planning process in detail. I said earlier, we've had a year of this. We've already had a huge opportunity and time to plan the integration. What's most important now is that we integrate this.

But this is about growth. We think that we can accelerate the growth of both their business and our own. And so this is a story about how we grow this business, frankly, more than it is about how we saved money by acquiring it.

So, clearly, the margins can go up in this business. We have a proven history of doing it. So, I think there's opportunity and I think you'll see over time that again the opportunities we've outlined I believe are conservative and I believe that's the best way to approach synergies today given the environment we're in.

Dan Binder - *Buckingham Research Group - Analyst*

Do you think a mid-single-digit organic growth rate for modeling purposes seems reasonable at this point?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Yes, I think that mid to high single-digit is reasonable for the modeling for the combination of the two businesses.

Dan Binder - *Buckingham Research Group - Analyst*

OK. And then…

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

My hesitation is the current geopolitical environment and the impact that might have in the short term. But yes, I think it's reasonable that should model out in the single to high single-digit growth.

Dan Binder - *Buckingham Research Group - Analyst*

You mentioned that you had plans to integrate for some time, or have been able to lay out some plans for integration. Can you detail in terms of timing, costs, and what the most complicated part of the integration is?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

I won't detail as to the costs. I think once we've acquired the business and we've closed on it and we have to file the proper statements, whether we'll get much more clear and articulate about some costs. We've got some good ranges now, but they're merely ranges. While this has probably been one of the industry's worst [indiscernible], the fact is an awful lot of our people didn't know that we were looking at this. And so we've had some [indiscernible].

This has been truly this industry forever and that the highest risk is the integration of people and cultures, and then followed by systems. And those are highly related. And I think we know on day one some things on systems that we think we'll do them. And one of the things I'm enormously confident about is our ability to understand people and cultures. We're in three countries in Europe in the last four or five months. We've been identified as one of the very best employers to work for. I think that says a lot about our culture and we welcome Guilbert into the organization. And frankly, we're going to work hard to make sure the best of both organizations end up in the best position.

And that's a key part of our culture. But the risk is — the risk really is people and cultures. I don't think there's a lot of risk on the financial side. On the synergy side, the purchasing risk is probably negligible. It's not at zero. That's the one you get quicker and faster. I think that even Staples would say that that's come quicker than they thought in their European Staples. And frankly, we're a lot larger than they are.

Dan Binder - *Buckingham Research Group - Analyst*

And then on the timing, once you have possession of the company?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Pardon?

Dan Binder - *Buckingham Research Group - Analyst*

Just in terms of the timing of the total integration.

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Well, I think — we're going to take as long as two years. I mean, we're going to do part of this slowly. I mean, first of all, this is about growth. It's not about cutting their operations and cutting their people and closing their warehouses. Frankly, this is about how we accelerate growth around our organization. And we think there is some limited opportunity in terms of some of the consolidation of authority, but we don't see that a lot. I think the longest-term conversion has taken place. They have converted recently to SAP. We admire what they've done. It's basically a single system in eight countries. In nine countries [indiscernible] conversion to SAP and that was a significant conversion. But it's going to take a couple of years. We're not going to rush it though. And that's partly why I've got the synergy numbers conservative because I don't want to rush it. I want to — we'll do it to get value; we'll do it to make sense. I don't want to disrupt customers. I don't want to lose the loyalty of their people that have just become part of our company. And we'll go at it steadily but surely. And we've got some plans. So, I don't know how to answer you in any different way than that right now, Dan.

Dan Binder - *Buckingham Research Group - Analyst*

No, that's great, thanks. Best of luck.

Operator

Thank you. Our next question is from Matthew Fassler with Goldman Sachs.

Matthew Fassler - *Goldman Sachs - Analyst*

Thanks a lot and good morning. A couple of questions, if I may. First of all, Bruce, if you could just clarify the synergy levels that you laid out for purchasing, supply chain, and G&A, are those the levels that you would expect to achieve by 2004 or on a full run-rate basis for 2004, or are those longer synergies?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

I think that purchasing will come earlier we'd expect to achieve that level. For the period we own the business in 2003, although it takes a month or two to get those started up, so I think they'd come in 2004, but you're at the full run rate in 2004. I think some of the other ones, we achieved most of those as rates, if I use the word 'rate', in 2004, and then in the out years, 2005 and 2006, some of those decelerate.

I'll give you an example. One of the things that Guilbert does extremely well is they have a better way to deliver merchandise to their customers than we do. It's predominantly through an owned fleet of [indiscernible] and drivers. We use third-party carriers. That's going to take us a year-and-a-half, two years to integrate. You just don't put this kind of volume into their fleet. So that's — you know you get some of that in 2004, probably none of it in 2003, and you get more in 2005.

So I think frankly we'd get the ramp rate for the most part in 2004, with some continued improvement in the out years.

Matthew Fassler - *Goldman Sachs - Analyst*

OK. My second question, you had been investing in contract stationer startup operations in Europe. Can you refresh our memory on how much you had budgeted for that, you know, pre-acquisition for 2003, and whether your numbers take into account an unwinding of some of that bottoms-up investment in that business?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

I'm not going to ever refresh your memory because I didn't breakout 2003. But — I mean we basically said last year we incurred about $50 million of startup costs in Europe to run this contract business. Again, remember it's predominantly in the small to medium-size business segment, not the large. We've had our losses in 2003 directionally. It'll probably be a little less than that because we've had some of the bigger ramp-ups. This clearly will cause us not to have to invest at this same rate.

For example, in 2003 we had some plans to enter this large customer segment by hiring reps and managers and we'll not have to do that anymore. I would guess probably as early on, I think the Cap ex for this business — I think the total Cap ex for the two companies combined will be similar to the Cap ex we had for [indiscernible] alone. So I think we can rationalize the same there. So this will — I think this will cause some slowing down of our own investment in [indiscernible]. We did plan on entering Spain and Belgium and Portugal with a contract sales force in the out years. We won't have to do that. We're early in our entry into the Netherlands. This gives us a significant position. This has, if you will, savings to offer to the people by having to — by avoiding the startup costs, which were predominantly hiring costs. One of the early things we'll do is to try and harmonize our sales reps on the kind of accounts they call on, the territory of the accounts, the management of the compensation systems, the territories, Best Practices. So we'll focus on that, but this is about growing our business. We think when we're done, both companies can grow faster than they would have been able to grow alone.

Matthew Fassler - *Goldman Sachs - Analyst*

Thank you. And one final question. You obviously have both an abundance of capital, given your cash balance, and a lot of ways to use that capital. Can you discuss the return profile on the investment that you chose to make, I guess on ROI terms, and maybe compare it to some of the other things you might have thought about?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Well, I think the thing that all of you and a significant amount of our shareholders think about when it comes to usage of cash, I think that all boils down to should we buy back stock. And so I think that how does this compare to buying back stock, well, I mean, if you just did those things independently, you would probably argue that we could take the same amount of money and buy the same amount of stock back and it might be more accretive. This is accretive. It exceeds our cost of capital. It's cash-on-cash positive in the first year of the business. So we look at it as a way to say, "Look, I said all along that we would use our cash to build shareholder value and to grow our business." And we think it's a good use of cash.

We still generate, frankly, more cash than we use. It does not preclude us from considering stock buybacks in the future, which we will consider. We just happen to think it's a unique opportunity at the right time to buy a very premier company at what we see today as a "reasonable multiple" given the depth and the breadth of this company. And it's all about driving shareholder returns and this will increase shareholder return.

Matthew Fassler - *Goldman Sachs - Analyst*

Great! Thank you so much.

Operator

Thank you. Our next question is from Colin McGranahan with Sanford Bernstein.

Colin McGranahan - *Sanford Bernstein - Analyst*

Good morning Bruce and good morning Rolf, if you're on from over in Europe. A couple of questions to follow up here on a couple of other questions that have been asked. First, you're saying it is accretive in the first year. What are you currently using as your cost of capital for that calculation?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Somewhere between nine and 10, although our own hurdle rate is in the teens. But if you do — if you do an actual cost of the capital, nine, 9.5, 10 percent, pick a number on some assumptions you'd want to make about cost of capital, on an internal hurdle rate, we use European and this clears our hurdle rate.

Colin McGranahan - *Sanford Bernstein - Analyst*

I got you. Secondly, you said the Cap ex for the combined business you think will be similar. I think the last number you put out there was about $80 million in Cap ex for Europe in '03. Is that correct?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Yes, I think that's correct. As I said earlier, while their warehouses are highly productive and efficient and appear to have high quality, we think there's opportunity to put some capital back into those warehouses, particularly the larger ones. We don't know what that is yet. Again, this is not something in the process you can get really deep on. But we have a little bit more work there, but we think that early on, as I said, once we close on the transaction and we have a chance to do a more in-depth look, I think we'll get more clarity. But I think directionally $70–$80 million in Cap ex in Europe this year is still kind of what we expect.

Colin McGranahan - *Sanford Bernstein - Analyst*

Thanks. And then would you care to talk any more about how much the purchasing or supply chain synergies might be in dollar terms, or as a percentage of sales?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Well, I talked about those. I mean, I talked about purchasing is one-and-a-half to two percent of our costs.

Colin McGranahan - *Sanford Bernstein - Analyst*

Costs?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Yes, because that's how you've got to look at it, our cost of sales, not our costs. I said I think that's reasonable. I'll give you — on delivery we think that, just to give you a range, we can take four to six percent of our total delivery costs when you combine the two companies together. I think that's pretty reasonable. When you look at G&A costs, we're saying five to eight percent of our total G&A costs. That seems pretty reasonable. And so those percentages that I look at, not as a percentage of sales, but as a percentage of the costs of each of those. And I think that we've gone down, we've got a long list of items, if you will, that we need to confirm once we've owned the business, but we're confident that we can achieve at least the level of synergies that I've outlined. And it's that level of synergies that gives us five to 10 percent accretion in 2004. And so I think that's a fairly confident and conservative number as well.

Colin McGranahan - *Sanford Bernstein - Analyst*

One final question. Just in terms of leadership of the European business and the combined entity, have you figured out what's that going to be?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Absolutely! It falls under Rolf van Kaldekerken, who is on the call. He's been President of Europe for the last couple of years. I said in my summary this is a company in Europe that's got enormous depth and skills in our leadership. That's evident by our results. You don't get the kind of results we get internationally if you don't have a great leadership. Guilbert adds to it. So this reports —will take the head of Guilbert and have him immediately, once the transaction is closed, report directly to Rolf. We have a very skilled individual whose name is [Rob Vale]. Rob came to us a number of years ago from [indiscernible] where he's had enormous experience in integrating the [indiscernible] acquisition. He clearly knows how to compete against [indiscernible]. He's been the one that has predominantly led our startup for our contract businesses. All of us that know Rob think very, very highly of him. This is a man that's seen in Europe that's long in depth. I can't explain it any other way than that. And we'll compliment that with some very good leadership here in North America.

But this will be run from Europe by Europeans who understand language and cultures and frankly, when a customer buys from us or from Guilbert, they're buying from a local company. They're buying from a French company or a German company or a Belgium company. They're not buying from an American company, even though American owned. That's been the strength of our leadership in Europe, understanding cultures, understanding languages.

Colin McGranahan - *Sanford Bernstein - Analyst*

That's good. Best of luck!

Operator

Thank you. Our next question is from Danielle Fox with J.P. Morgan.

Michael Keara - *J.P. Morgan - Analyst*

Hi, I'm Michael Keara sitting in for Danielle Fox today. You guys, I might be mistaken, but I don't think there is — I don't think you guys gave guidance for '04 and you're talking about five to 10 percent accretive in 2004. So I guess I'm trying to look at what EPS number that we're trying to get to there.

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

We would say that's over consensus — consensus 2003 earnings.

Michael Keara - *J.P. Morgan - Analyst*

I beg your pardon!

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Over consensus 2003 earnings.

Michael Keara - *J.P. Morgan - Analyst*

What is consensus 2003 earnings?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

I don't know. You can go — it's consensus earnings for 2003.

Michael Keara - *J.P. Morgan - Analyst*

So, I'm just adding five percent to the consensus…

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

Five to 10 percent over consensus 2003 earnings.

Michael Keara - *J.P. Morgan - Analyst*

OK, alright. I guess — what else did I have here? You talked about some of the synergies and maybe it's a little bit early, but do you anticipate any charges in connection with the integration process going forward?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

The synergy numbers I've given you are net of the integration costs. They'll fall into two categories. Some of those costs we'll be able to capitalize. Some of those costs we'll have to take directly to the bottom line. This is an area we need a lot more work and specificity on because again, in the due diligence process you get some idea of this, but you don't get deep enough to know specifically what your costs are. The numbers I've spoken to you do all have in them our own estimates to date of integration costs, which predominantly take place in 2003 and 2004. Some linger into 2005, but the predominant of them are in 2003 and 2004.

One of the large costs we have in 2004. We just don't know exactly what it is in size and how much is capitalized and how much is expense is we have to convert their UK organization to the latest version of SAP. That is not a small conversion. That's got both hardware costs, software costs, and integration costs with it. We know we have to do it; we know that PPR or Guilbert had planned to do it. We know what they thought that cost would be. We need to verify those and understand if we've got a different way to look at it. So once we know that, we can then articulate both to ourselves and you what those might be. But the synergy I've talked about are net of the costs that we think we'll have to absorb and take to our bottom line as a result of accounting principles.

Michael Keara - *J.P. Morgan - Analyst*

OK.

Operator

Thank you. Our next question is from Mike Baker with Deutsche Banc.

Mike Baker - *Deutsche Banc - Analyst*

Hi, thanks. Most of the smart people in front of me asked my questions, but I will ask two more here. One, in terms of the organic growth rate, mid to high single digits, is that an acceleration from what the business had done in the past year or two? Can you tell us how the business has grown in the past year or two?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

It is not an acceleration from Office Depot's organic growth rate. It is an acceleration of Guilbert's growth rate. Guilbert 2003 over 2002 was flattish, up a little bit. Frankly, we believe that Guilbert in 2002 ran the business for profitability and was still in the process of absorbing their investments in the conversion to SAP. So we think that 2002 was a year in which Guilbert focused on bottom line, a mindset of bottom line, improving profitability, coming off a major SAP conversion. We believe there's enormous opportunities to put back into the Guilbert organization the mindset of growth. And so it's a slower growth rate than the organic one at Office Depot; it's an accelerated growth rate from what Guilbert has had the last year.

Mike Baker - *Deutsche Banc - Analyst*

OK. And so, I guess, reading from that, is that acceleration to let's say mid to high single digits growth going forward, is that part of the accretion that you've talked about? Is that assumed in that five to 10 percent accretion?

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

No, it's not. Let me put it this way. If you look at 2004 and look at consensus earnings, we're thinking this acquisition, along with those growth rates, will add to earnings five to 10 percent, so in that regard, the answer is 'yes'.

Mike Baker - *Deutsche Banc - Analyst*

OK.

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

But I've said all along, I believe these synergies are achievable. I believe in most cases they are in fact worst-case scenario.

Mike Baker - *Deutsche Banc - Analyst*

And then, finally, on that five to 10 percent accretion, I'm a little confused, is that on the '03 consensus number, which is $1.06, or the '04 consensus number, which is $1.17? I would have thought it was on that $1.17 consensus number.

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

I'm talking about 2004 earnings off of 2003 consensus number. We'll grow 2004 five to 10 percent over 2003.

Mike Baker - *Deutsche Banc - Analyst*

OK. Got you. Thanks.

Operator

Thank you. At this time I'd like to turn the call back over to Mr. Nelson.

Bruce Nelson - *Office Depot, Inc. - Chairman and CEO*

OK. Thanks very much for your time and for your questions. I close by saying that this acquisition is enormously strategic and comes to a company that knows how to do business outside the United States. We have the organization to do it; we have the leadership to do it; we have the skills and experience to do it. And it gives us, frankly, a position in Europe that will be difficult for others to achieve and follow, not impossible, but difficult.

How does it count? It counts for customers; it counts for suppliers. It compliments our business model in Europe. It's about how we grow this company faster and return shareholder value more quickly. We've tried, and I've tried specifically in my almost three-year tenure as CEO, to build a base of business on a solid foundation, and show our balance sheet of solid financial reporting, communications for our shareholders and stockholders and our employees who you can trust and have confidence in. And I'm enormously confident about our ability to absorb this and make it an integral important valuable part of Office Depot.

I couldn't be more proud to have Guilbert as part of this company. There just are few companies with the name they have in Europe and with the strategic position they give us. We have the balance sheet to do it. There are always risks to integration. To say there aren't any would just not be so. We certainly are in an uncertain economic time caused by geopolitical events. I don't pretend to be an economist. I don't know what impact the war is going to have on the economy. Frankly, I don't know next day, let alone next month. I just know when we look at this in the long term, we'll look back and say this was enormously strategic. They did it well. It did what we said all along about growing our business. It does not take away from our North American retail.

We'll talk next week about our first-quarter performance. More importantly, I will give you specific insight into some things I said we were going to do, that I said I would tell you when we're done and I'll give you some of that next week on the retail call. But this is a company that is not losing sight here in North America. We intend to grow our business as well.

Thanks for your confidence; thanks for the time you've taken to listen to our call. I wish you all well. Certainly, in a broader aspect, I wish you peace on earth. God bless all of you. Thanks very much.

Operator

Thank you all for participating on today's teleconference and have a good day.