



Will Tough Restrictions Hinder Loblaw's Success?

Description

Since the first announcement that **Loblaw** ([TSX: L](#)) would be purchasing **Shoppers Drug Mart** (TSX: SC) for \$12.4 billion, investors have been waiting for the Federal Competition Bureau to approve the deal. The FCB has given the green light for the merger, but has attached a couple of restrictions to ensure continued competitiveness in the market.

Relief to suppliers

The first stipulation imposed by the FCB has to do with how Loblaw can deal with current suppliers of Shoppers, and how it can leverage its new market share to set prices. These “behavioural restrictions,” which will be in effect for the next five years, are intended to prevent Loblaw from pushing up wholesale prices for its competitors.

Another restriction comes in the form of Loblaw being prohibited from “signing agreements that use sales volume at Shoppers as extra weight for its existing profit margin agreements.”

A major factor in the FCB imposing these new forms of restriction may stem from how Sobeys, a division of **Empire Company Limited** ([TSX:EMP.A](#)) has been [battling its suppliers](#) since the acquisition of Safeway.

The sell off

The other key piece of the FCB decision comes in the form of disinvestment, Loblaw has been ordered to sell off 14 Shoppers locations and four Loblaw stores. This is similar to the FCB ordering Sobeys to disinvest 23 locations as a condition of approving its Safeway merger. The majority of the locations ordered to be disinvested are located in smaller mostly rural communities spread over nine provinces.

Foolish bottom line

Now that the FCB has given its approval, Loblaw expects the deal to be completed by March 28, 2014. This news pushed Shoppers stock to a 52-week high of \$61.88, and Loblaw saw a modest bump and

closed up 1.7% at \$47.01. Once completed Loblaw is predicting that it will be able to generate about \$300 million in annual savings by 2017, and expects to achieve this without any store closures.

This merger places Loblaw in an interesting place in the market, first off it has acquired a massive foothold in the pharmacy and wellness sector. Also it has gained a substantial footprint in rural and suburban Canada, a place where it would not be cost-effective to build and operate a Superstore.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)
2. TSX:L (Loblaw Companies Limited)

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