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# Speculation grows that Amazon will face a rival bidder for Whole Foods

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Amazon.com's plan to buy Whole Foods Market Inc. sparked an avalanche of discussion about how the online retail giant could transform the U.S. grocery industry in the years ahead.

But Amazon's $13.7-billion deal might not be the last word on the merger itself.

Wall Street signaled Monday that it expects a rival offer for Whole Foods to surface, and many industry and merger experts agreed.

"Highly likely," said Lloyd Greif, whose investment firm Greif & Co. specializes in mergers and acquisitions. Amazon "didn't put this out of reach for everybody else" in terms of price, he said.

Amazon agreed to pay $42 for each Whole Foods share under their agreement announced Friday. But in trading Monday, Whole Foods closed at $43.22 a share, up 54 cents on the day, indicating that investors expect a higher offer to arrive.

Whole Foods Market Chief Executive John Mackey speaks in 2013. The deal Amazon struck to buy Whole Foods would keep Mackey in place, but that might not be the case if another buyer prevails. (Dustin Finkelstein / Getty Images for SXSW)

"We would not be surprised if there is a bidding war" for Whole Foods, the 465-store chain that focuses on natural and organic groceries, analyst Karen Short of Barclays Capital Inc. said in a note to clients Friday.

But Short and others noted that even if Whole Foods gets an alternative offer, the other suitor will be hard-pressed to win a bidding war against Amazon, whose deep pockets include having a total stock-market value of $475 billion. Amazon's stock closed Monday at $995.17 a share, up $7.46. "Very few entities could outbid" Amazon, Short said.

Nonetheless, she said "many will do anything to either make this acquisition more costly" for Amazon or to "prevent the asset from landing in [Amazon's] lap." That's because Amazon poses such a competitive threat, especially when it comes to putting downward pressure on prices and profit margins.

Short and others suggested other potential bidders include Kroger Co., the parent of the Ralphs and Food4Less supermarket chains; Albertsons, which also owns Vons and Pavilions; and retail giant Wal-Mart Stores Inc., among others.

Whole Foods, Kroger, Albertsons and Wal-Mart all declined to comment. Amazon did not respond to a request for comment.

Whole Foods also might draw a rival offer from one or more large private-equity firms because "there's a tidal wave of money that's sloshing around" in that industry, said Eric Schiffer, chief executive of the Patriarch Organization, a private-equity firm that isn't involved with Whole Foods.

Amazon's $42-a-share offer amounted to a 27% premium above where Whole Foods' stock had closed the prior day, at $33.06.

But Whole Foods has struggled in recent years, and the $33.06 price was about half where Whole Foods stock was trading at its peak in October 2013. One problem facing the chain: Conventional supermarkets are stocking more natural and organic products at lower prices than Whole Foods, draining away some of its customers.

Regardless, given the track record of how Amazon and its chief executive, Jeff Bezos, have transformed other retail industries, there's likely concern among grocery executives about Amazon's entry into the market. That might result in a rival offer for Whole Foods, analysts said.

"Any smart board recognizes it's probably smarter to try to pay more" for Whole Foods "to keep Bezos out of this game," Schiffer said. "He could make some shocking changes that could be deadly to some of these [existing] brands."

Rival supermarket chains also would see Whole Foods as a strategic play where they can expand their customer base while trimming duplicate distribution, purchasing and overhead costs, Short said, adding that the savings could total up to $600 million a year.

The Amazon deal was struck after the companies agreed that John Mackey would remain Whole Foods' chief executive. That might not be the case if Whole Foods was bought by another grocery chain.

Whole Foods' board, of course, has a fiduciary duty to its stockholders to consider any viable takeover offer.

As for Amazon's current offer, "give Jeff [Bezos] credit, he's getting a great deal here," Greif said.

Whole Foods is part of the "crème de la crème of the supermarket industry" and is a "hand-in-glove fit" with the educated, relatively affluent demographic of Amazon customers who pay $99 a year for the site's Prime membership that includes free shipping, video streaming and other services, Greif said.

"Ultimately there's nobody who can take it away if Jeff really wants it," Greif said, "and I think he really wants it."