

MERGER ANTITRUST LAW

LAWJ/G-1469-05
Georgetown University Law Center
Fall 2024

Tuesdays and Thursdays, 3:30 pm – 5:30 pm
Dale Collins

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CLASS 6 ASSIGNMENT

Instructions

Submit by email before class on Thursday, September 12

Send to wdc30@georgetown.edu

Subject line: Merger Antitrust Law: Assignment for Class 6

Assignment

Time: September 2023

Calls for an outline to answer two questions. Spend as long as you like on the assignment, but after you read the background and assignment, feel free to stop after 20 minutes of working on the problem.

Kroger/Albertsons: Divestiture Sale to C&S

*Background.*¹ As discussed in Class 5, Kroger and Albertsons have entered into a definitive merger agreement pursuant to which Kroger will acquire all outstanding shares of Albertsons for \$24.6 billion. Kroger operates 2700+ stores under 28 banners, including Kroger, Ralphs, Harris Teeter, and Pay Less. Albertsons operates 2273 stores under 24 banners, including Albertsons, Vons, Acme, Pavilions, and Star Market.

The FTC reviews supermarket mergers. The competitive effects of supermarket mergers are analyzed using relevant local supermarket markets. In announcing the merger, Kroger said it expected to divest between 100 to 375 stores to alleviate any FTC Section 7 concerns. I suspect that Kroger was signaling to the FTC that Kroger believed that the divestiture of 100 stores was necessary to fix indefensible local markets and that an additional 275 stores were necessary to fix local markets that the FTC was likely to find seriously problematic. Kroger was also signaling the FTC that it was willing to give up to 375 stores without a fight. Kroger probably gave the FTC staff in the initial investigation—perhaps in the first meeting with the investigating staff—a white paper providing an analysis that the divestiture of these stores would fix all of the implicated local markets.

On September 8, Kroger, Albertsons, and C&S Wholesale Grocers, LLC announced that the merging companies agreed to sell C&S 413 stores, eight distribution centers, and two regional offices for \$1.9 billion contingent on the closing of the Kroger-Albertsons deal.² C&S is the

¹ You might also want to briefly review the [class slides](#) on the Kroger/Albertsons deal.

² Unfortunately, the divestiture agreement has not been publicly released. The companies, however, reported that the divestiture agreement contains a “put” option that allows Kroger to require C&S to purchase up to an additional 237 stores for a formula-based purchase price if the FTC finds additional problematic markets and requires further divestitures to avoid a litigation on the merits. This brings the total number of stores that might be divested to 650, which is the number set in the qualified hell-of-high-water (HOHW) provision in the Kroger/Albertsons merger agreement. In this assignment, however, we are going to focus on the sale of the 413 stores to C&S.

eighth largest privately held company in the United States. In 2022, it had revenues of \$33 billion and employed over 14,000 workers.³ C&S is the largest wholesale grocery supply company in the U.S., serving over 7,500 independent supermarkets, chain stores, and military bases. C&S also operates 11 Grand Union grocery stores in two states and 12 grocery stores it acquired from Price Chopper/Tops as the result of an FTC-required divestiture (to be rebranded as Grand Union stores. It also franchises and supplies 504 Piggly Wiggly grocery stores in 18 states.

C&S will finance the transaction with \$1.1 billion from a newly committed \$2.25 billion asset-based line of credit (ABL) from Softbank Group Corp. secured by the divestiture assets and \$800 million of new equity.

The companies structured the C&S divestiture deal in an effort to avoid the problems that arose in the divestiture of 146 stores to Hagggen Holdings LLC in the 2015 Albertsons/Safeway deal.⁴ In particular, C&S was a previously FTC-approved divestiture buyer of grocery stores in the Price Chopper/Tops Markets deal.⁵ Moreover, the current divestiture includes not only stores but also distribution centers and regional offices and provides for expert district, division, and functional personnel to transfer to C&S.

At first glance, the C&S divestiture arrangement looks well-designed to put pressure on the FTC to accept a consent decree at the end of the investigation rather than to litigate the fix against the merging parties. However, shortly after the announcement of the C&S divestiture agreement, a group of United Food & Commercial Workers local unions in fourteen states issued a press release raising alarms about the C&S divestiture.⁶ A week later, an article in Supermarket News elaborated on these concerns.⁷ The concerns raised by UFCW could give the FTC pause about the adequacy of the divestiture.

Assignment: You are outside antitrust counsel to Kroger. You have read the UFCW press release and the Supermarket News article and are preparing to speak with the Kroger GC about them. You expect the conversation to center on two questions:

1. In what way, if anything, could/should the UFCW's concerns cause the FTC pause about the adequacy of the C&S divestiture to maintain the premerger level of competition in the implicated markets?
2. In light of the FTC's general reluctance to accept consent settlements and in light of the concerns expressed by the UFCW, what challenges do you anticipate the FTC will make against the adequacy of the divestiture to C&S and what steps should Kroger take to shore up the defense of the C&S divestiture?

Prepare an outline to answer these two questions.

³ [Profile: C&S Whole Grocers](#), Forbes.com (undated).

⁴ See [Unit 5: Merger Antitrust Settlements—Kroger/Albertsons](#) 16-18 (class slides).

⁵ See [Decision ¶ II\(A\), Golub Corp.](#), No. C-4753 (F.T.C. Jan. 20, 2022) (Price Chopper/Tops Markets).

⁶ Press Release, [Coalition of UFCW Local Unions Raise Concern and Caution About Kroger/Albertsons Divestiture Deal with C&S Wholesale Grocers](#) (Sept. 11, 2023) (attached).

⁷ Mark Hamstra, [UFCW Cites 'Echoes of Hagggen' in Proposed C&S Deal](#), Supermarket News.com (Sept. 20, 2023) (attached).

UFCW 3000

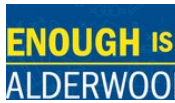
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Coalition of UFCW Local Unions Raise Concern and Caution About Kroger/Albertsons Divestiture Deal with C&S Wholesale Grocers

Upcoming events

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SU	MO	TU	WE	TH	FR	SA
					1	2
3	4	5	6	7	8	9
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UFCW LOCALS 5, 7, 324, 400, 770, 1564, 3000 COALITION OF UFCW LOCAL UNIONS RAISE CONCERN AND CAUTION ABOUT KROGER/ALBERTSONS DIVESTITURE DEAL WITH C&S WHOLESALE GROCERS

UFCW Locals 5, 7, 324, 400, 770, 1564, 3000

Des Moines, WA – Today, a coalition of United Food & Commercial Workers local unions in fourteen states and the District of Columbia representing more than 100,000 Kroger and Albertsons workers released the following statement regarding the [announcement](#) of a divestiture deal to sell hundreds of Kroger and Albertsons stores to C&S Wholesale Grocers:

“We have raised alarms about the proposed Kroger/Albertsons merger from the very beginning— from threats of store closures, higher prices and reduced competition, the harm to unionized workers’ ability to negotiate strong contracts, as well as the negative ripple effects lower union density would have on workers throughout the grocery industry. News of a possible deal with C&S to buy hundreds of stores as part of the proposed merger in no way reduces those alarms. Indeed, in many respects this announcement raises the level of concern for our members.

“Workers and shoppers have been seriously harmed by large-scale sell-offs in the past, orchestrated as part of a potential merger. It was only in 2015 that private equity-owned Haggen acquired a large number of stores as part of a divestiture scheme to appease antitrust regulators in the Albertsons/Safeway merger. It took less than a year for that company to go bankrupt and for Albertsons to pick up the very same stores it had divested for a fraction of what Haggen paid less than a year before, thus undoing the remedy to

[See all events>](#)



UFCW 3000

Another day of grocery workers educating their customers about what the consequences are for their families if the...
<https://t.co/Sbk9Wv7kjj>
Apr 5, 2023, 3:09 PM



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RT @RWDSU: This [#Barbie](#) is leading a march on the boss. Who's with her?
<https://t.co/Z5c7Nnfe81>
Apr 5, 2023, 11:53 AM




UFCW 3000

Can confirm! Hey [@kroger](#) and [@Albertsons](#) we'll be here all week!
<https://t.co/V4HxlgYlak>
Apr 5, 2023, 11:50 AM




UFCW 3000

RT [@stop_merger](#): Shout out to Safeway workers in DC for getting the word out! [#StopTheMerger](#) 
<https://t.co/Ua8ec9XmNS>
Apr 5, 2023, 11:49 AM



UFCW 3000

Workers and Customers agree - a merger will hurt our communities!
[#StopTheMerger](#) 

resolve antitrust concerns. Moreover, thousands of workers lost their jobs and were forced to start over. Today's announcement of a nearly identical divestiture scheme is a troubling sign that history could repeat itself."

#unionstrong

[https://t.co](https://t.co/CmYYzNhCvB)

[/CmYYzNhCvB](https://t.co/CmYYzNhCvB)

Apr 4, 2023, 2:24 PM

The above statement can be attributed to the following UFCW local presidents:

- John Nunes, UFCW Local 5 President
- Kim Cordova, UFCW Local 7 President
- Andrea Zinder, UFCW Local 324 President
- Mark Federici, UFCW Local 400 President
- Kathy Finn, UFCW Local 770 President
- Greg Frazier, UFCW Local 1564 President
- Faye Guenther, UFCW Local 3000 President

Contact: Tom Geiger, UFCW 3000, 206-604-3421

📅 September 11, 2023 👤 UFCW 3000

0 Likes

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🏪 Grocery Store

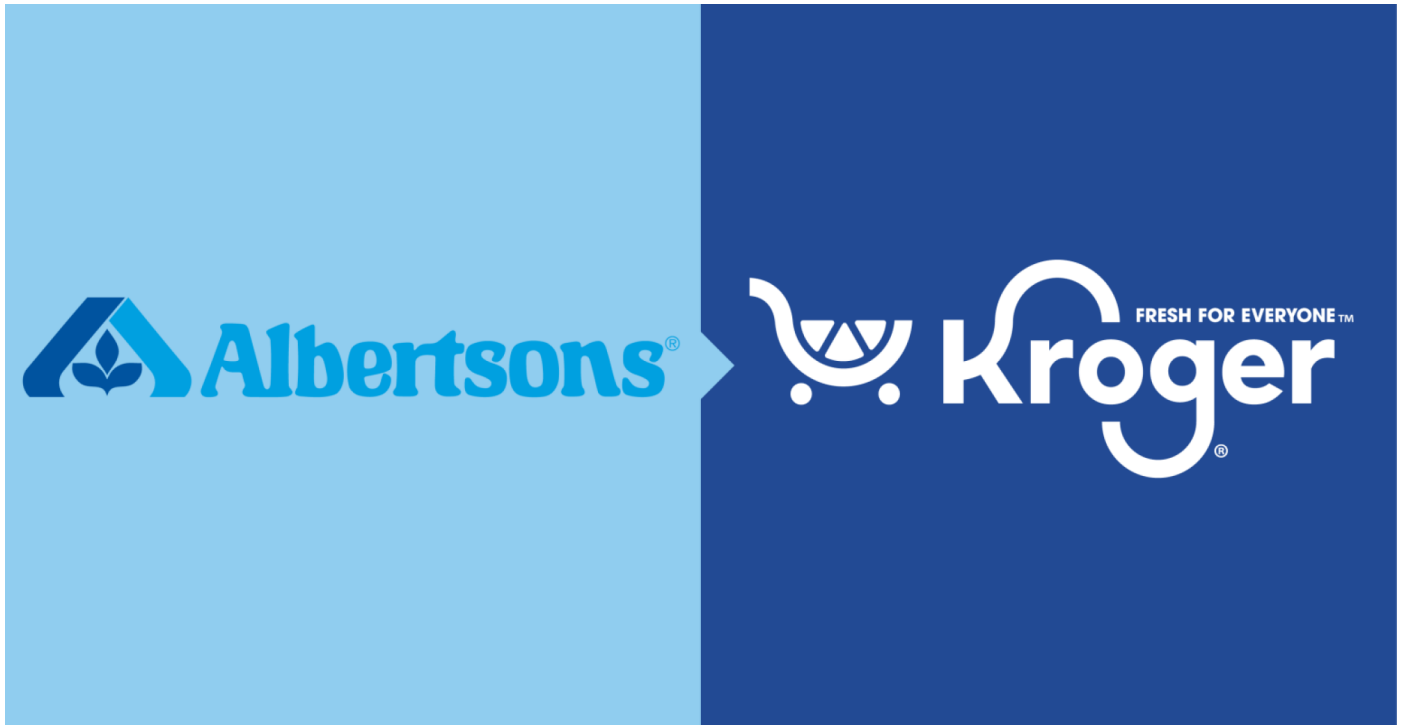
👇 Grocery Store, Stop The Merger, No Grocery Merger, Albertsons, Kroger

◀ TOWN HALL CALL MONDAY: IM PLANNED PARENTHOOD WE'RE IN



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"It looks like Haggren 2.0," said Kim Cordova, president of UFCW Local 7 in Colorado and Wyoming, referring to Haggren's 2015 implosion after acquiring 146 Safeway and Albertsons stores to satisfy antitrust concerns as part of the Safeway-Albertsons merger.

NEWS > RETAIL & FINANCIAL

UFCW cites 'echoes of Haggren' in proposed C&S deal

Proposed purchase of 413 Kroger, Albertsons stores could result in store sales, closures, union says

Mark Hamstra | Sep 20, 2023

The United Food and Commercial Workers union on Wednesday expressed deep concerns about the proposed acquisition of 413 Kroger- and Albertsons-owned stores by C&S Wholesale Grocers.

"It looks like Haggren 2.0," said Kim Cordova, president of UFCW Local 7 in Colorado and Wyoming, referring to Haggren's 2015 implosion after acquiring 146 Safeway and Albertsons stores to satisfy antitrust concerns as part of the Safeway-Albertsons merger.

Related: Kroger CEO: Merger is not an 'arm wrestle' with rest of the industry

She said she is doubtful that C&S will be able to compete effectively against a much stronger Kroger in her area, which could lead to the stores eventually being closed. She noted, however, that details about C&S's proposal, such as which specific stores and warehouses it will acquire, have not yet been disclosed.

As previously reported, C&S has agreed to acquire 413 stores, eight warehouses, and two offices from Kroger as part of that company's planned \$24.6 billion merger with Albertsons. The sale is designed to help satisfy potential antitrust concerns. Both deals are scheduled to be completed in 2024, pending regulatory approval.

John Marshall, a financial analyst working with the UFCW to oppose the proposed merger of Kroger and Albertsons, said the C&S agreement includes several similarities to the Haggen transaction. In particular, he said, the real estate value of the acquisition appears likely to exceed the purchase price, which would disincentivize C&S from continuing to operate the stores.

"The low sales price raises questions about the quality of the divested stores and about the incentives that C&S will have to operate the stores, or potentially monetize them at some time down the road," he said.

Marshall estimated that the assets C&S has proposed to acquire could be worth nearly double the proposed purchase price of \$1.9 billion. The eight warehouses could fetch at least \$400 million, and possibly upwards of \$800 million, he said, and the store assets themselves could be worth \$2 billion to \$3 billion.

Customer data seen as key

Marshall also raised concerns that the acquisition announcement made no mention of C&S buying the customer data from the stores it was buying.

"This is a critical missing piece that you would need to successfully operate these stores," he said, noting that after the Haggen acquisition, customers' loyalty cards no longer worked at the acquired stores.

Other concerns Marshall had included C&S's long history of eliminating union jobs, citing several union warehouse closings over the years that have eliminated thousands of Teamsters jobs.

He also said C&S's lack of retail operational experience — he estimated that the company currently owns and operates only 55 stores, with the remainder of the 160 stores the company cited in its acquisition announcement being franchised.

“The challenge of wholesalers trying to operate retail stores is very well understood in this industry,” Marshall said. “Lots of other wholesalers have tried it, and failed, and we are very concerned about C&S’s capacity to operate a significant chain of retail stores.”

He noted that C&S has a history of acquiring stores and then selling them off after establishing long-term supply agreements with the new owners.

In a statement, C&S told *Supermarket News* that it has “more than 104 years of food industry experience and a track record as a successful grocery retailer.”

“C&S has committed to honoring all collective bargaining agreements including industry-leading benefits and retaining frontline associates, and we are confident the associates joining the C&S family will have an amazing opportunity to continue building a thriving career,” the company said.

Members cite worries from past experience

UFCW members on the call described their concerns about C&S’s proposed acquisition, citing their experience in the Safeway-Albertsons merger.

Monique Hightower, a deli worker at Albertsons in Los Angeles and member leader at UFCW Local 770, said she was laid off from Haggen for almost a year after Haggen acquired her store location, and she still struggles to pay her bills.

“Now I am really worried about this merger,” she said.

Phillip Contee, a 40-year veteran at Safeway in Oxon Hill, Md., and member leader at UFCW Local 400, said he was concerned about ongoing cost-cutting reductions in service at acquired locations.

“After all the stress, fear, and anxiety of working through a global pandemic, now just as it was appearing things were returning to normal, we have yet another reason to worry about our future,” he said.

Marshall said he believes the Federal Trade Commission will be highly conscious of the Safeway-Albertsons merger and the failed Haggen acquisition as it considers the proposed sale of stores to C&S. He said that when Haggen filed for bankruptcy just months after its acquisition, the company cited the FTC’s approval in its own defense.

“I would expect they understand very well that they were used as an alibi for a transaction that hurt communities, hurt consumers and hurt workers, and I sincerely hope and expect that they won’t let that happen again,” Marshall said.

Meanwhile Andrea Zinder, president of UFCW Local 324 in California, said three bills seeking to guarantee severance pay for workers and provide other protections in the event of grocery industry mergers have passed both state houses, and are awaiting the signature of Gov. Gavin Newsom by Oct. 14.

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The United Food and Commercial Workers union on Wednesday expressed deep concerns about the proposed acquisition of 413 Kroger- and Albertsons-owned stores by C&S Wholesale Grocers. What do you think? Do you have concerns about the acquisition?

Let us know in the comments below, or email your thoughts to the SN staff at contactus@supermarketnews.com. Be sure to include your full name and work title.

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