

STAPLES®



**Office
DEPOT®**

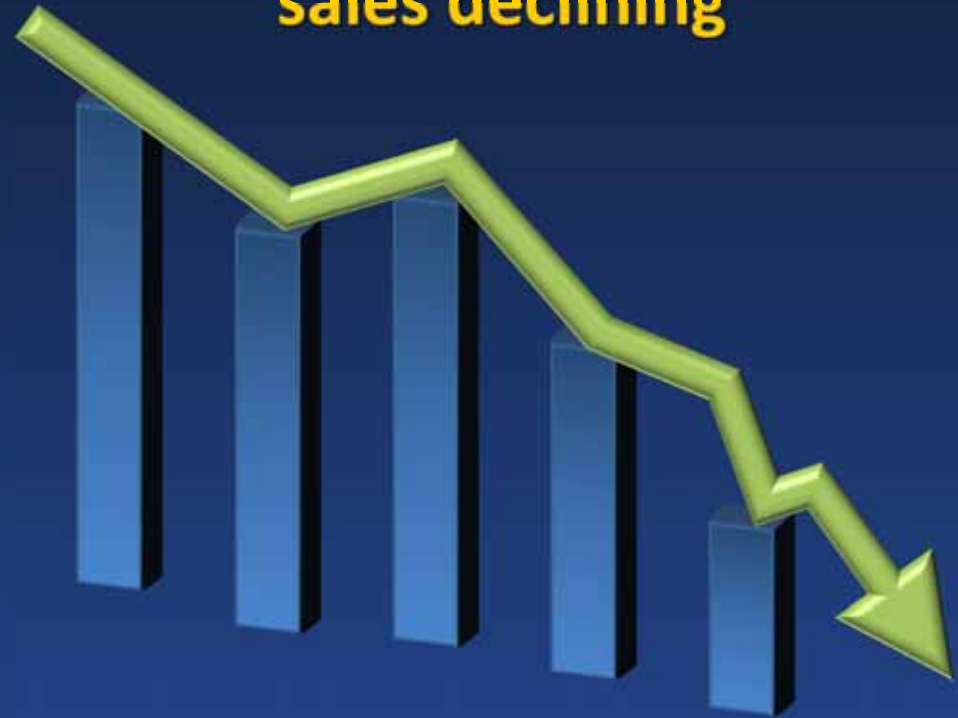
Staples and Office Depot: Born in the 1980s And Struggling to Compete in the Digital Age



Traditional Office Supplies: Disappearing Market



**Traditional office supply
sales declining**



**Staples and Office Depot
share value declining**

Decline in Demand and Increased Competition Forcing Staples and Office Depot to Close Retail Stores

TAG TELSEY ADVISORY GROUP

June 25, 2015

Retail: ... Secondly, the explosive growth of online commerce has resulted in substantial loss of in-store sales to Amazon, which sells goods at lower prices.

amazon.com[®]

Investment Risks

- **Competition.** Competition from internet retailers and mass merchants remains a significant channel threat, especially as more consumers shop online from retailers like Amazon.com.

American Store Base by the End of 2016. Further Consolidation Now Likely. As a part of cost cutting measures that were announced in 2014, ODP and SPLS have collectively announced that they will close a total of at least 625 stores through 2016

All Customers Will Benefit From Merger



TAG® TELSEY
ADVISORY
GROUP

COMPANY UPDATE
STAPLES, INC.
JUNE 25, 2015

Subsequent to a merger of Staples and Office Depot, we expect the surviving company to continue to lose sales through store closures and market share shifts, with the real benefit of the merger being a streamlined cost structure, which should over time result in more competitive pricing and savings to consumers.

FTC Customer Market: Most Powerful Companies on Earth

ExxonMobil
\$337 billion

Chevron
\$160 billion

J.P.Morgan
\$207 billion

Bank of America
\$127 billion

Walmart
\$212 billion

HALLIBURTON
\$30 billion

DU PONT
\$55 billion

DOW
\$56 billion

Pfizer \$186 billion

Goldman Sachs
\$64 billion

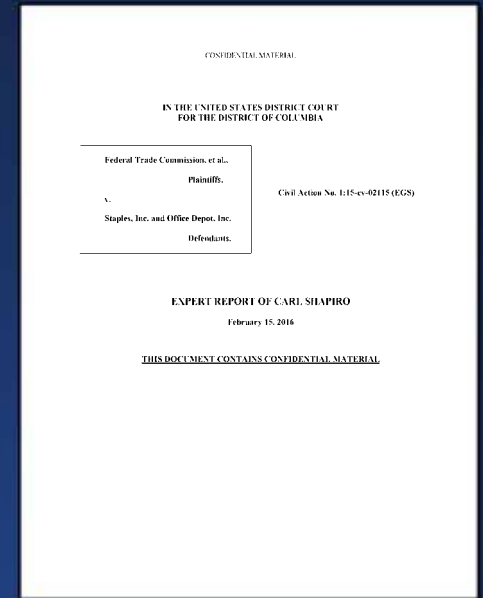
comcast
\$146 billion

Megacompanies Pay Almost 50% Less Than Retail Customers



“[I]n-store prices are 46% higher than the contract prices paid by Staples’ large customers.”

– FTC’s Expert Dr. Carl Shapiro



Megacompanies Use Many Tools to Secure Lowest Prices

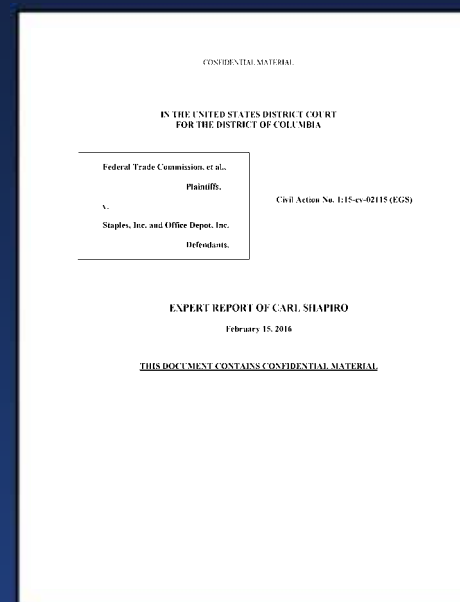
- Request-for-proposal process
- Use of procurement consultants
- Reverse auctions
- Purchase or threaten to purchase some products direct from manufactures
- Demand price adjustments during life of contracts
- Buy products off-contract
- Cross-category retaliation
- Comparison with online pricing
- Most-favored-nation clauses



FTC Concedes That Megacompanies Will Continue to Pay Substantially Less Post-Merger

“[L]arge customers typically pay less than smaller business customers or retail customers for their consumable office supplies, and this will remain the case even if Staples significantly raises the price to large customers (but not smaller customers or retail customers) following the merger.”

– FTC’s Expert Dr. Carl Shapiro



Overwhelming Majority of Fortune 100 Companies Not Opposed to Merger

Only 6 of Fortune 100 companies expressed concern

Bank of America 

BEST BUY

Walgreens

Pfizer

20th
CENTURY
FOX
HOME ENTERTAINMENT


VALERO

Business Customers Overwhelmingly Not Opposed to Merger

- 19 of 400,000 (0.005%) business customers Expressed Concern
- 1085 – Less than 2% of FTC customer market

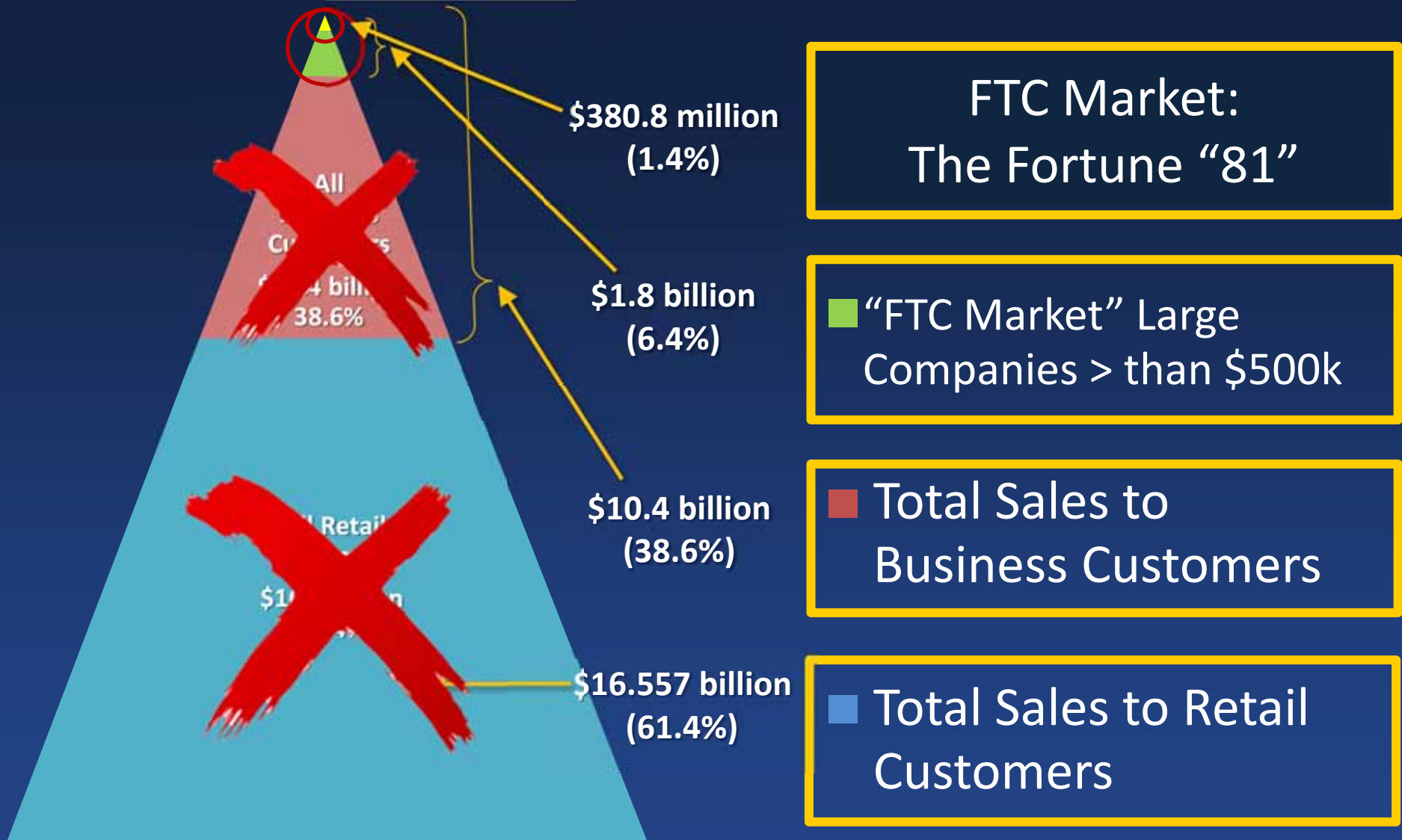
On Tue, Sep 22, 2015 at 4:49 PM, Ara Arslanian <aarslanian@corporateunited.com> wrote:

If this gets blocked they should make a statue in front of CU offices for me. My testimony was a work of art (mixed with BS).

Achieve More.

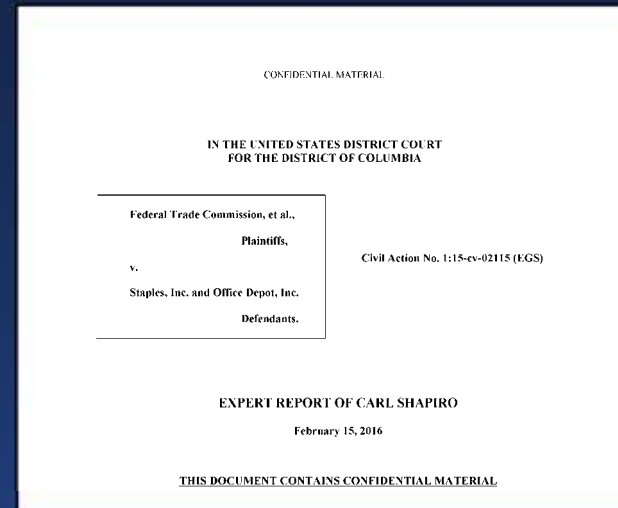


FTC's Gerrymandered Customer Market



The Business Contract Market Is Much Broader Than the Fortune 100

FTC concedes its customer market is only .3% of business customers (1,085 out of 400,000 B2B customers)



FTC cleaves out almost 399,999 business customers.

99%

FTC Also Cleaves Out All Government Customers

Government customers' needs are similar to other large business customers:

- customized catalogs
- often nationwide distribution
- next-day or same day delivery
- order tracking and information requirements
- IT support



Customers Opposed to Merger Admitted They Have Not Investigated Alternative Suppliers



Large Business Customer Contracts Not Binding on Customer

Section 14.11 Other Suppliers; Commitment.

This is not an exclusive agreement. Supplier acknowledges that [redacted] uses (and reserves the right to continue to use) other suppliers to provide goods and services that are similar or related to the Deliverables. Supplier shall provide goods and services to [redacted] in a timely manner with [redacted] and its customers.

requirements

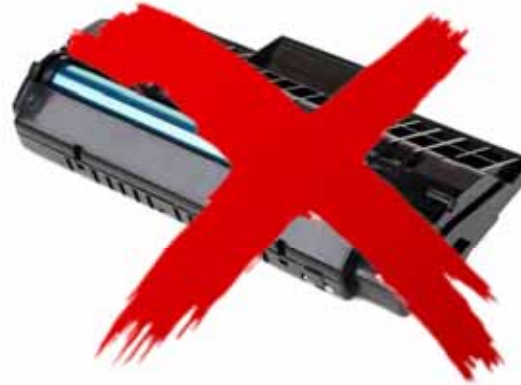


Contracts ≠ Market Share

other entities or individuals.

of any particular percentage of its requirements for items such as the Products, and that Customer and/or the Customer Locations may purchase other products from other vendors and suppliers performing some or all of the same functions as the Products."

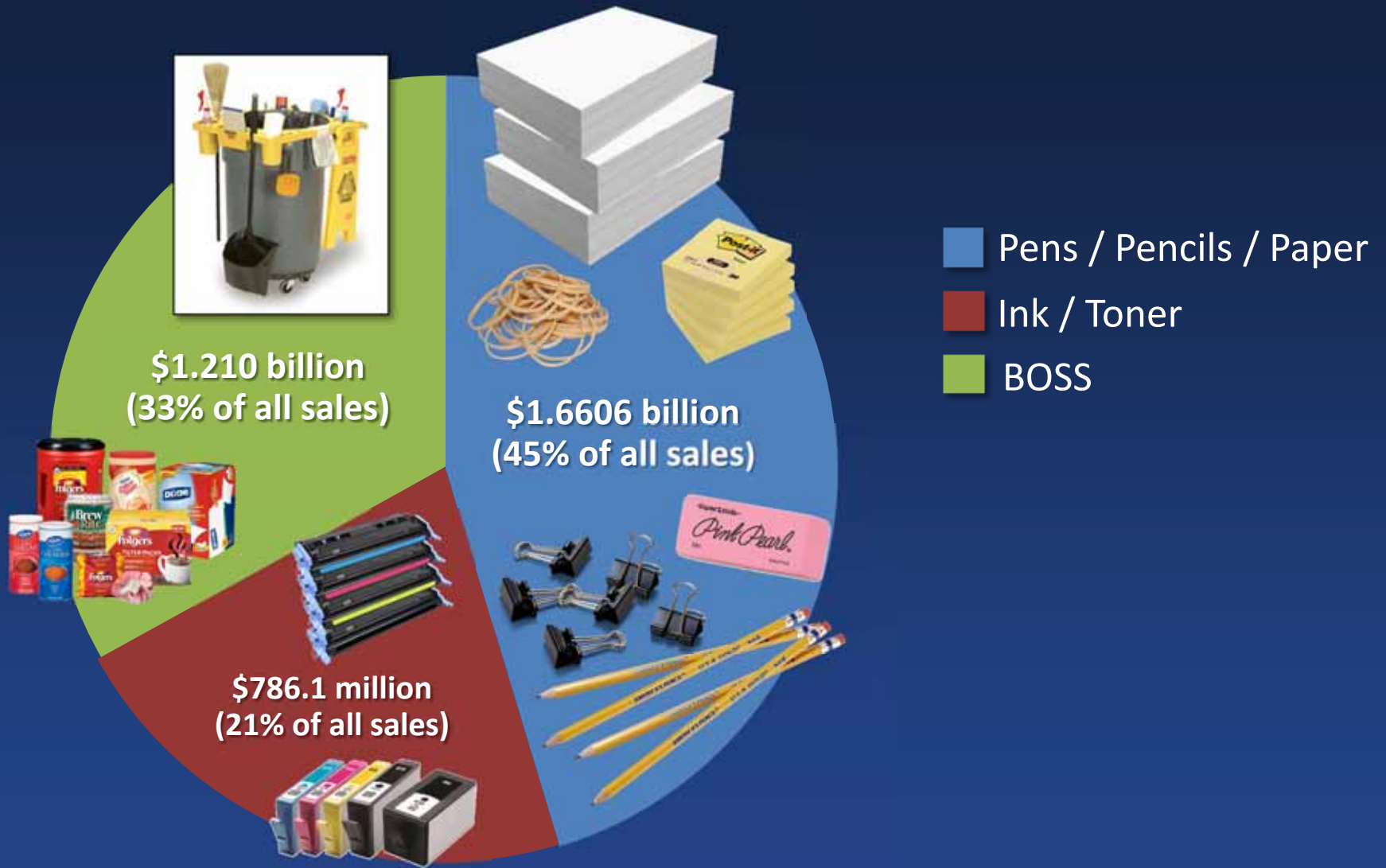
FTC's Gerrymandered Product Market



Definition of
"Consumable Office Supplies"
"Office supplies that customers
use up, discard, and repurchase
on a recurrent basis."

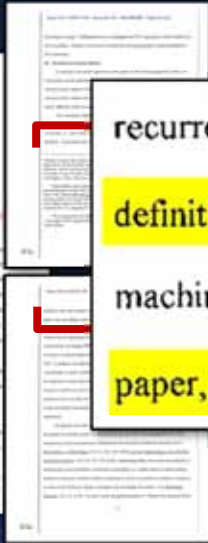


FTC's Gerrymandered Product Market: Eliminates 1/3 of Traditional Office Supplies and More Than Half of Relevant Product Market



FTC Agreed Twice Before That Office Supply Market Includes Ink and Toner

1997



recurrently, i.e., items which “get used up” or discarded. For example, under the Commission’s definition, “consumable office supplies” would not include capital goods such as computers, fax machines, and other business machines, or office furniture, but does include such products as paper, pens, file folders, post-it notes, computer disks, and toner cartridges. The defendants

2013

Statement of the Federal Trade Commission
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FTC File No. 131-0104
November 1, 2013



³ “Consumable office supplies” refers to non-durable products that consumers use up, discard, and purchase on a recurrent basis. Examples included pens, paper, file folders, Post-it notes, and ink and toner cartridges. *Id.* at 1080.



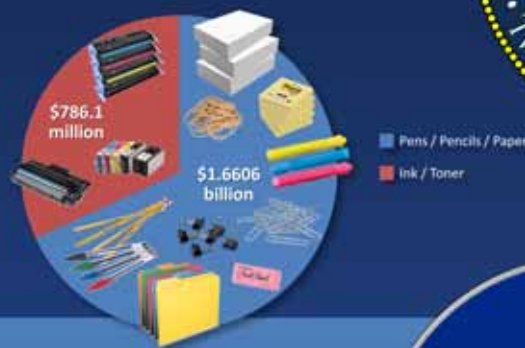
2016 FTC in Real Life: Consumable Office Supplies Include Ink and Toner

Q. And just to be clear, what are you including in the definition of consumable office supplies? . . .

A. Pens, paper, pencils, binders, Post-Its, general office supplies.

Q. Does that include toner?

A. Yes.



Commonwealth of Pennsylvania:
Office supplies includes ink and toner.

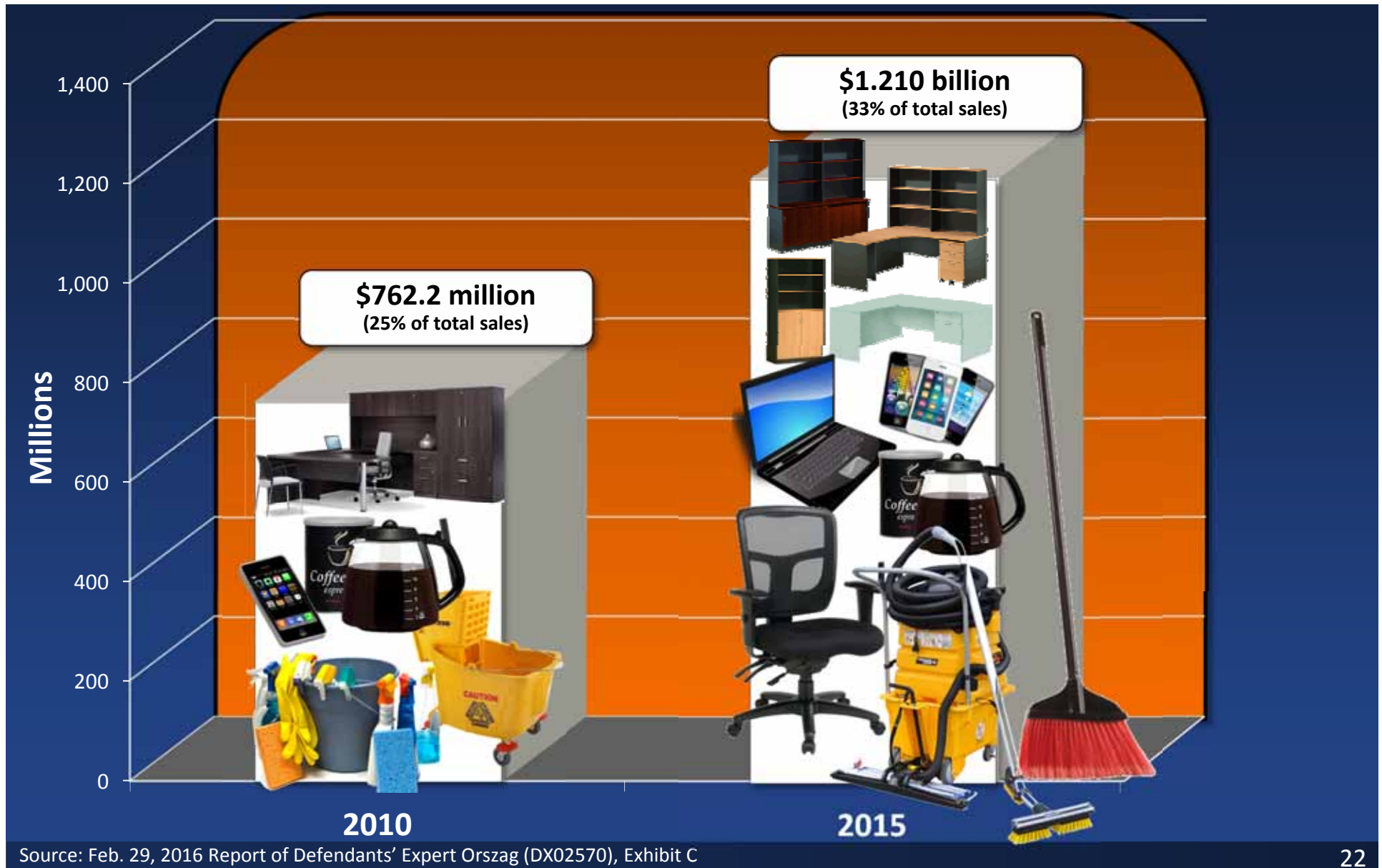


The Office Products Market Has Been Redefined

Office supply companies' response to a disappearing market: obtain greater share of customer wallet with Beyond Office Supply Solutions ("BOSS") sales.



“BOSS” Accounts for Increasing Revenue and Profit



Source: Feb. 29, 2016 Report of Defendants' Expert Orszag (DX02570), Exhibit C

Customers Define the Market: Contracts Encompass BOSS Products



- Pens / Pencils / Paper
- Ink / Toner
- BOSS



Large Business Customers Do Not Agree with FTC Definition of Product Market

- 98.8% of business customer requests for proposal are broader than the FTC's product market



Percent of Customer RFPs That Match FTC Product Market:
1.2%

Percent of Customer RFPs That Are Broader than FTC Product Market:
98.8%

Business Customers – FTC Witnesses – Reject FTC’s Market Definition



Competitors Reject FTC Definition of Product Market

WHO BUT
W.B.MASON

ESSENDANTTM
BEYOND ESSENTIAL

 **TRIMEGA**

Office Products Are Low-Impact Commodity Products



It doesn't matter where the pen comes from, just that Best Buy has pens.



Fifth Third considers office supplies to be commodities



Fox's contract with Staples is "nonstrategic" meaning it is "not relevant to [Fox's] core business"



Office supplies is a commodity category

No Significant Barriers to Entry into Office Supply Market

- Staples and Office Depot are intermediaries – *not* manufacturers
- No R&D, intellectual property, and no manufacturing facilities
- Office supplies are commodity products (widely available with no special storage or distribution requirements)
- Staples and Office Depot increasingly use third party carriers for delivery (U.S. Postal Service, UPS, and FedEx)
- National wholesalers provide nationwide distribution, product variety, warehousing and IT support



Market Analysts Agree Low Barriers to Entry

Staples, Inc.

Upside to potential synergies; Reiterate Buy and \$21 PO

Raising our synergy range and reiterate Buy and \$21 PO
 We reiterate our Buy rating on SPLS based on our belief that longer-term synergies could now be as much as \$2.5bn (see pgs 2-3). Our PO represents 9.5x 2016 EV/EBITDA of the stand-alone company and implies 5.9x 2016 EV/EBITDA for the combined entity assuming \$2bn in synergies. Consideration of the regulatory risks and parallels with the ODP-OMX transaction suggest to us that the transaction will likely succeed and create significant value for shareholders over time.

Regulatory concerns manageable
 Aside from the roughly 8-9 months left for the transaction to be concluded, we think the main reason the market is skeptical is what we view as overblown regulatory concerns. The FTC's broad definition of the office supply market to include online

Company Update BUY
 Equity | United States | Retailing-Hardlines
 17 March 2015

Bank of America Merrill Lynch

Denise Choi, CFA
 Research Analyst
 M.P.F.S.S.
 denise.choi@bamf.com

Curtis Nagle, CFA
 Research Analyst
 M.P.F.S.S.
 c.nagle@bamf.com

Katherine Lin
 Research Analyst
 M.P.F.S.S.
 katherine.lin@bamf.com

Stock Data
 Price
 Price Objective

Bank of America Merrill Lynch



Company Update
 17 March 2015

Staples, Inc.

We reiterate our Buy rating on SPLS based on our belief that longer-term synergies could now be as much as \$2.5bn (see pgs 2-3).

We think the market is under-estimating how fragmented the commercial office supply market is across wholesalers, manufacturers, regional players and national players like SPLS and ODP due to low barriers to entry.

	12.3x	16.7x	17.2x	17.4x	17.2x
GRAP P/E	13.8x	16.7x	17.2x	17.4x	17.2x
Dividend Yield	3.0%	3.5%	3.7%	3.7%	3%
EV / EBITDA*	6.4x	7.6x	7.8x	7.9x	7.8x
Free Cash Flow Yield*	7.3%	6.7%	6.5%	7.4%	7.0%

* For 12 months of quarterly measures, see page 5

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Refer to important disclosures on page 7 to 10. Analyst Certification on Page 5. Price Objective Basis/Risk on page 5.

kevin.barry@staples.com Kevin Barry 03/17/15 12:58:00 PM Staples, Inc.

Robust Competition in Business Customer Space



September 02, 2014

SPLS and ODP are not the price setters in their industry anymore, so combining will have an immaterial impact on pricing and convenience, and hence, it is not anticompetitive.



UBS

23 March 2015

with its consumer base. In addition, there are several players in the industrial space that can provide distribution of office supplies. The competitive landscape has indeed intensified in recent years, and the industry may be ripe for consolidation.

Office Depot. These constituents have pointed out that there are a bunch of potential providers for these services and not just the usual players such as WB Mason, Amazon, or Grainger, but also AWI, Uline, Veritiv and others.

Companies Disaggregate Spend for Numbers of Products

Companies often purchase paper supplies, sharpies, etc., directly from manufacturers to get lower prices

Humana.

TARGET

ADP



Bank of America.



Foot Locker

Companies often purchase BOSS from multiple suppliers to get lower prices

Walgreens

LENNAR

REALOGY

Companies often purchase ink, paper, and toner through MPS vendors to get lower prices

BEST BUY

Humana.

TARGET

The WALT DISNEY Company

Large Business Customers Have Many Competitive Alternatives to Staples and Office Depot

- W.B. Mason: rapidly expanding through organic growth and acquisitions
- Amazon Business and Grainger: world-class national logistics operations, aggressively moving to become market leaders
- Wholesalers, like Essendant and S.P. Richards: enabling local and regional suppliers to compete nationally
- Consortia of independent dealers: actively competing for large business customers
- Manufacturers: increasingly selling directly to customers



FTC 2013: Staples Has Numerous Rivals for National Business Customers

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FTC File No. 131-0104
November 1, 2013**

The Commission has unanimously decided to close its seven-month investigation of Office Depot, Inc.'s proposed merger with OfficeMax, Inc., a transaction that aims to combine the country's second and third largest chains of office supply superstores (OSS).¹ Although sixteen years ago the Commission blocked a proposed merger between Staples, Inc. and Office Depot, the nation's two largest OSS, our current investigation has shown that the market for the sale of consumable office supplies has changed significantly in the intervening years. For the

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take business from the parties in a substantial number of contracting opportunities. Third, the parties will continue to face strong competition for such customers from Staples and a host of non-OSS competitors, such as W.B. Mason Co., Inc. Non-OSS competitors are growing in number and strength and have demonstrated the ability to win large multi-regional and national customer contracts.

WB Mason Continues Its Rapid Expansion and Revenue Growth

Serves national customers through own infrastructure and its partnership with Essendant

“W.B. Mason has a work force of over 2,300 people, spread over 40 locations throughout the nation. We also have warehouses across the United States which allow us to serve customers in all 50 States.”

2015 Review: “500 new trucks, new warehouses . . . [a]dding new locations, product experts, and 245 new sales people!”



“W.B. Mason is a national provider of office supplies.”



Revenue grew **76%** from 2010-2014; ALL business to business sales

“W.B. Mason has a strategic partnership with United Stationers that allows us to ship over 30,000 items next day for national accounts.”

WB Mason's National Footprint



WB Mason Is Confident in Its Ability to Compete with Staples



Q. Is there anything that W.B. Mason does better than Staples?

A. **Everything.**

Feb. 19, 2016 Dep. of Leo Meehan, CEO of W. B. Mason

FTC 2013: Business Customers Buy Direct From Manufacturers

- Products offered by manufacturers are direct substitutes for Staples and Office Depot's products
- This competition directly impacts Staples' and Office Depot's prices



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competition or harm large contract customers. First, large customers use a variety of tools to ensure that they receive competitive pricing such as ordering certain products (like ink and toner) directly from manufacturers and sourcing (or threatening to source) certain categories of office supply products from multiple firms. Second, the merging parties' documents show that they are

National Wholesalers Enable Nationwide Competition

National Wholesalers offer:

- A wide assortment of products – more than Staples or Office Depot
- Next-day delivery
- Operating and IT platforms
- Promotional materials and marketing services
- Data analytics programs



Essendant has 77 distribution centers nationwide.



SP Richards has 40 distribution centers nationwide



Independent Distributors and Buying Groups Compete to Serve National Customers

Buying Groups Offer:

- Customizable catalog
- Customized billing and financial reporting
- Guaranteed pricing



The newly created alliance between TriMega and Independent Stationers leverages \$2 billion in purchasing power to offer their customers competitive prices

FTC 2013: Cooperatives of Independent Office Supply Dealers Compete for Large Business Customers

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Statement of the Federal Trade Commission Concerning the Proposed Merger of Office Depot, Inc. and OfficeMax, Inc. FTC File No. 131-0104 November 1, 2013

customer contracts. In particular, regional office supply competitors have developed and utilized various strategies to compete successfully for large national accounts, including working with office supply wholesalers and joining cooperatives of independent office supply dealers to create a distribution network capable of meeting the needs of large multi-regional and national customers.

Local and Regional Vendors Compete to Serve National Customers

- Encourage large customers to “carve out” certain region or regions from a national contract
- Contract with wholesalers and cooperatives to fulfill national contracts



Office Depot is also pursuing the Denver HQ business, lowering pricing to battle competition from a local supplier (Rocky Mountain Business Supplier).¹⁰



September 3, 2015

Given the geographic footprint of Phillips 66, the Company has in excess of 100 locations throughout the United States that may utilize local suppliers for office-related products and services.



“More and more we look to do and drive business towards diverse suppliers to support the communities where we are located in and sell to. So the regional suppliers are becoming more and more important to us.”

- Vito Giuliani, ADP (Jan. 28, 2016 Dep.)

FTC 2013: Competitors in Adjacent Categories Compete for Large Business Customers

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Two significant developments. One is that customers now look beyond OSS for office supply products and also source supplies on non-OSS brands and assortments. These developments have

customers. Finally, potential competitors in adjacent product categories, such as janitorial and industrial products, have existing contractual relationships with large office supply customers and can leverage those relationships to enter the office supply distribution market.

Grainger Is Growing as a Competitor



- \$10 billion in sales in 2014
- 75% of sales are to large business customers including Staples and Office Depot customers
- Serves all 50 states with national distribution network
- IT system interfaces directly with customers' purchasing platforms
- Offers custom catalogs, usage reporting, and inventory-management tools
- Added hundreds of sales representatives

Office Supplies

make Grainger part of your ordering process whenever you're low on office supplies.

Grainger Is Growing as a Competitor

2014 Summer Strategy Session I

June 10, 2014

Customer

- Significant overlap with Staples with over 2M business customers

- Staples should closely monitor Grainger's assortment expansion strategy
- Potential direct threat as they expand into core office supplies

3. **Amazon and other:** New players are much more formidable threats to us. Amazon plays by different rules and it is setting customer expectations and pricing levels based on their negligible profitability model. We are competing more and more with Grainger—a formidable company who is ahead of us in reinvention and does not have the pressure of secular decline.

From: Starr, Andrew
Sent: Monday, December 08, 2014 3:26 PM
To: Wayne, Matthew

The long and the short of it here is that as we execute a vertical strategy and Grainger expands its product selection (with office products and office furniture), we will increasingly bump up against this player, one enabled by a robust e-commerce business (33% of total revenue from e-commerce) and over 700 retail locations.

From: Goodman, Shira
Sent: Sunday, December 07, 2014 5:39 PM
To: Khan, Jamil; Wayne, Matthew; Ringel, Neil
Subject: FW: Competitor Summary

I have a favor to ask. Can you do guys do a quick update on grainger. They are emerging as a major competitor for sa and I don't feel like we follow them closely enuf.

Diversity Suppliers Partner with Wholesalers to Compete for Large Business Customers

- A number of diversity suppliers serve large business customers relying on Essendant or S.P. Richards for wholesale support



- **APD**

- Serves Walmart, a Fortune 100 retailer known globally as one of the most cost competitive and “lean” organizations. Walmart has over 4,000 stores and 1 million employees in the US
- Serves Northrop Grumman, one of the nation’s leading aerospace and defense companies with US locations from coast to coast



- **Gonzalez Office Products**

- Serves Education Corp. of America which owns and operates private accredited colleges in dozens of locations across the US



Staples Divestiture of Assets Will Increase Competition for Large Business Customers

- Staples and Office Depot are selling more than \$550 million in customer contracts to a major national wholesaler, Essendant.
- More than 25% of the \$550 million revenue comes from Fortune 100 companies, and approximately half comes from Fortune 500 companies.
- Strengthens national wholesaler to support other independent vendors
- Essendant will enable diversity or “Tier One” suppliers to further compete with Staples and Office Depot
- Essendant’s capabilities include:
 - Sourcing tens of thousands of different types of office products
 - Nationwide delivery platform
 - Next-day order fulfillment
 - Digital and marketing support

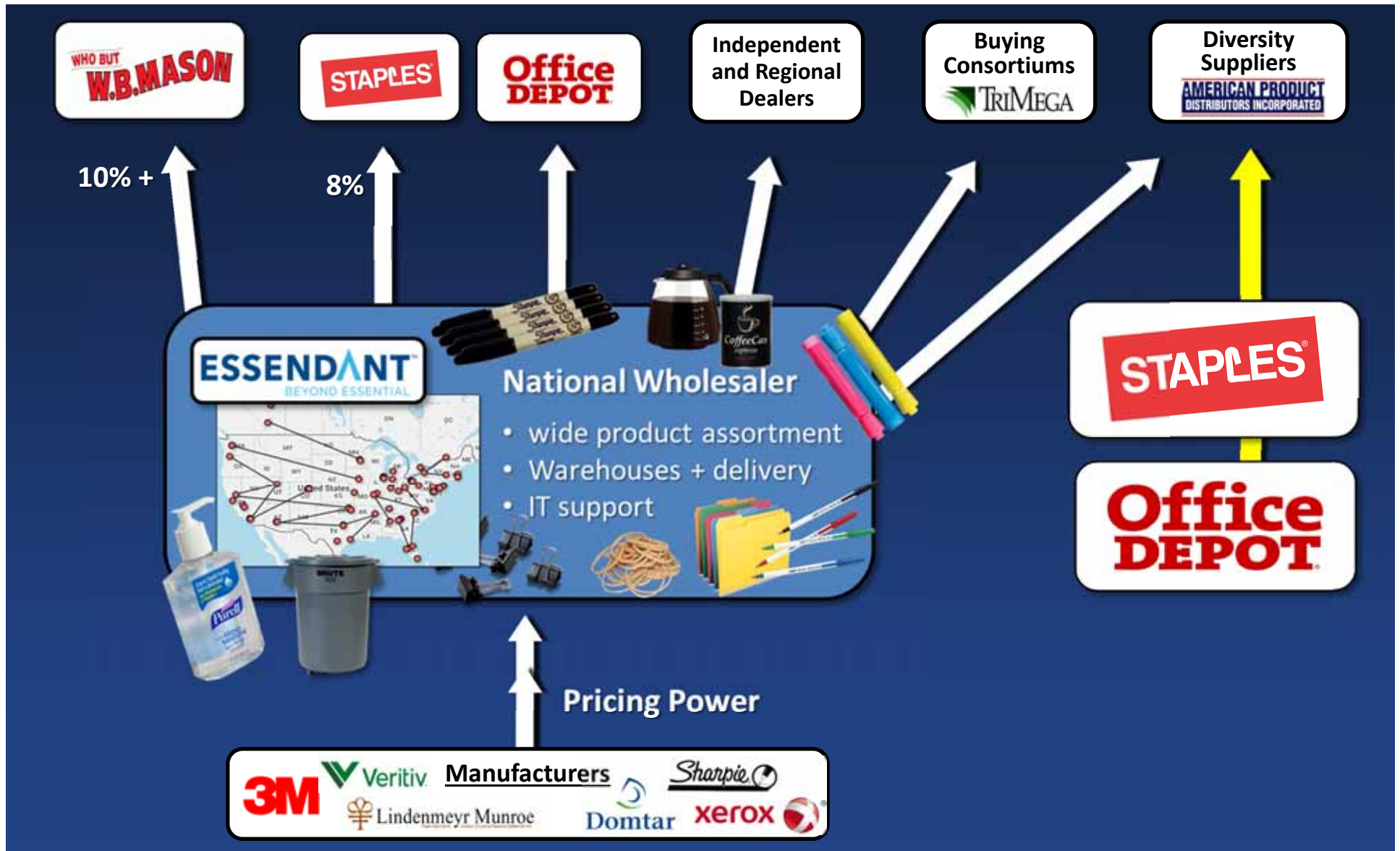


1 Exxon Mobil Corporation	26 Wells Fargo & Company	51 Intel Corp.	76 United Continental Holdings
2 Wal-Mart	27 Procter & Gamble Company	52 United Parcels Service, Inc.	77 Honeywell International Inc.
3 Chevron Corporation	28 Archer-Daniels-Midland Co.	53 Best Buy Co., Inc.	78 CHS Inc.
4 ConocoPhillips	29 AmerisourceBergen Corp.	54 Lowe's Companies, Inc.	79 Humana Inc.
5 General Motors Company	30 INTL FCStone Inc.	55 Prudential Financial, Inc.	80 Goldman Sachs Group, Inc.
6 General Electric Company	31 Marathon Petroleum	56 Amazon.com, Inc.	81 Ingram Micro Inc.
7 Berkshire Hathaway Inc.	32 Walgreen Co.	57 Merck & Co., Inc.	82 Oracle Corporation
8 Federal National Mortgage	33 AIG, Inc.	58 Lockheed Martin Corp.	83 Delta Air Lines, Inc.
9 Ford Motor Company	34 MetLife, Inc.	59 The Coca-Cola Company	84 Liberty Mutual Holding Co.
10 Hewlett-Packard Company	35 The Home Depot, Inc.	60 Express Scripts, Inc.	85 World Fuel Services Corp.
11 AT&T Inc.	36 Medco Health Solutions, Inc.	61 Sunoco, Inc.	86 New York Life Ins. Company
12 Valero Energy Corp.	37 Microsoft Corp.	62 Enterprise Products Partners	87 Plains All American Pipeline
13 Bank Of America Corp.	38 Target Corp.	63 Safeway Inc.	88 Teachers Ins. & Annuity
14 McKesson Corp.	39 The Boeing Company	64 Cisco Systems, Inc.	89 Aetna Inc.
15 Verizon Comm., Inc.	40 Pfizer Inc.	65 Sears Holdings Corp.	90 Sprint Nextel Corporation
16 J.P. Morgan Chase & Co.	41 PepsiCo, Inc.	66 The Walt Disney Company	91 News Corporation
17 Apple Inc.	42 Johnson & Johnson	67 Johnson Controls, Inc.	92 General Dynamics Corp.
18 CVS Caremark Corp.	43 State Farm Mutual Auto Ins.	68 Morgan Stanley	93 The Allstate Corporation
19 IBM Corp.	44 Dell Inc.	69 Sysco Corp.	94 HCA Holding, Inc.
20 Citigroup Inc.	45 WellPoint, Inc.	70 FedEx Corp.	95 American Express Company
21 Cardinal Health, Inc.	46 Caterpillar Inc.	71 Abbott Laboratories	96 Tyson Foods, Inc.
22 UnitedHealth Group Inc.	47 Dow Chemical Company	72 E.I. du Pont de Nemours & Co.	97 Deere & Company
23 The Kroger Co.	48 United Technologies Corp.	73 Google Inc.	98 Murphy Oil Corporation
24 Costco Wholesale Corp.	49 Comcast Corp.	74 Hess Corporation	99 Philip Morris Int. Inc.
25 Federal Home Loan Mortgage	50 Kraft Foods Inc.	75 SUPERVALU Inc.	100 Nationwide Mutual Inc. Co.

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7 Berkshire Hathaway Inc.	32 Walgreen Co.	57 Merck & Co., Inc.	82 Oracle Corporation
8 Federal National Mortgage	33 AIG, Inc.	58 Lockheed Martin Corp.	83 Delta Air Lines, Inc.
9 Ford Motor Company	34 MetLife, Inc.	59 The Coca-Cola Company	84 Liberty Mutual Holding Co.
10 Hewlett-Packard Company	35 The Home Depot, Inc.	60 Express Scripts, Inc.	85 World Fuel Services Corp.
11 AT&T Inc.	36 Medco Health Solutions, Inc.	61 Sunoco, Inc.	86 New York Life Ins. Company
12 Valero Energy Corp.	37 Microsoft Corp.	62 Enterprise Products Partners	87 Plains All American Pipeline
13 Bank Of America Corp.	38 Target Corp.	63 Safeway Inc.	88 Teachers Ins. & Annuity
14 McKesson Corp.	39 The Boeing Company	64 Cisco Systems, Inc.	89 Aetna Inc.
15 Verizon Comm., Inc.	40 Pfizer Inc.	65 Sears Holdings Corp.	90 Sprint Nextel Corporation
16 J.P. Morgan Chase & Co.	41 PepsiCo, Inc.	66 The Walt Disney Company	91 News Corporation
17 Apple Inc.	42 Johnson & Johnson	67 Johnson Controls, Inc.	92 General Dynamics Corp.
18 CVS Caremark Corp.	43 State Farm Mutual Auto Ins.	68 Morgan Stanley	93 The Allstate Corporation
19 IBM Corp.	44 Dell Inc.	69 Sysco Corp.	94 HCA Holding, Inc.
20 Citigroup Inc.	45 WellPoint, Inc.	70 FedEx Corp.	95 American Express Company
21 Cardinal Health, Inc.	46 Caterpillar Inc.	71 Abbott Laboratories	96 Tyson Foods, Inc.
22 UnitedHealth Group Inc.	47 Dow Chemical Company	72 E.I. du Pont de Nemours & Co.	97 Deere & Company
23 The Kroger Co.	48 United Technologies Corp.	73 Google Inc.	98 Murphy Oil Corporation
24 Costco Wholesale Corp.	49 Comcast Corp.	74 Hess Corporation	99 Philip Morris Int. Inc.
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6 General Electric Company	31 Marathon Petroleum	56 Amazon.com, Inc.	81 Ingram Micro Inc.
7 Berkshire Hathaway Inc.	32 Walgreen Co.		82 Oracle Corporation
8 Federal National Mortgage	33 AIG, Inc.		83 Delta Air Lines, Inc.
	34 MetLife, Inc.		84 Liberty Mutual Holding Co.
10 Hewlett-Packard Company	35 The Home Depot. Inc.		85 World Fuel Services Corp.
	36 Medco Health Solutions, Inc.	61 Sunoco, Inc.	86 New York Life Ins. Company
12 Valero Energy Corp.	37 Microsoft Corp.	62 Enterprise Products Partners	87 Plains All American Pipeline
13 Bank Of America Corp.	38 Target Corp.	63 Safeway Inc.	88 Teachers Ins. & Annuity
14 McKesson Corp.		64 Cisco Systems, Inc.	
		65 Sears Holdings Corp.	90 Sprint Nextel Corporation
16 J.P. Morgan Chase & Co.		66 The Walt Disney Company	91 News Corporation
17 Apple Inc.		67 Johnson Controls, Inc.	92 General Dynamics Corp.
18 CVS Caremark Corp.	43 State Farm Mutual Auto Ins.	68 Morgan Stanley	93 The Allstate Corporation
19 IBM Corp.	44 Dell Inc.	69 Sysco Corp.	94 HCA Holding, Inc.
	45 WellPoint, Inc.		95 American Express Company
	46 Caterpillar Inc.	71 Abbott Laboratories	96 Tyson Foods, Inc.
22 UnitedHealth Group Inc.	47 Dow Chemical Company	72 E.I. du Pont de Nemours & Co.	
		73 Google Inc.	98 Murphy Oil Corporation
		74 Hess Corporation	99 Philip Morris Int. Inc.
25 Federal Home Loan Mortgage	50 Kraft Foods Inc.	75 SUPERVALU Inc.	100 Nationwide Mutual Inc. Co.

The Divestiture Remedy



This Is Not FTC v. Sysco



Food is critical to business of restaurants and food distributors

Office products are not mission-critical to customers' business

Product is perishable and requires storage and distribution in refrigerated trucks

Product has no shelf-life and does not need refrigeration – much easier to store and distribute

Food generally purchased from a primary supplier

Office supply purchasing often split between multiple vendors

Food service only had two national distributors

Office suppliers compete with national and regional players, 3rd party wholesalers, diversity suppliers, manufacturers and online competitors

Amazon is not in the food-distribution business/no internet competition

Amazon Business competes for national customers

Divested customers could re-sign with merged entity

Divested contracts here will “stick” – commitments to diversity suppliers

Looking Forward Not Backward: Prices Are Frozen for Years By Many Contracts



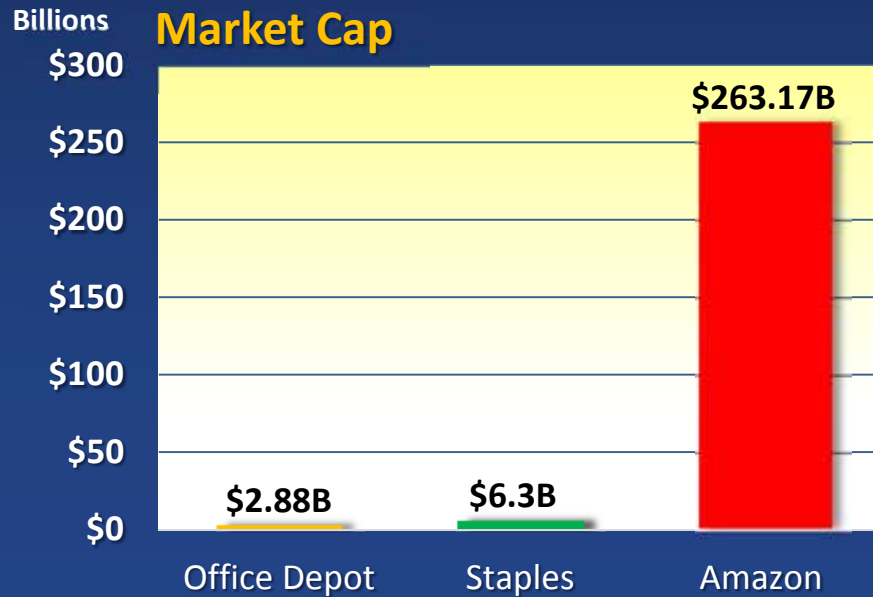
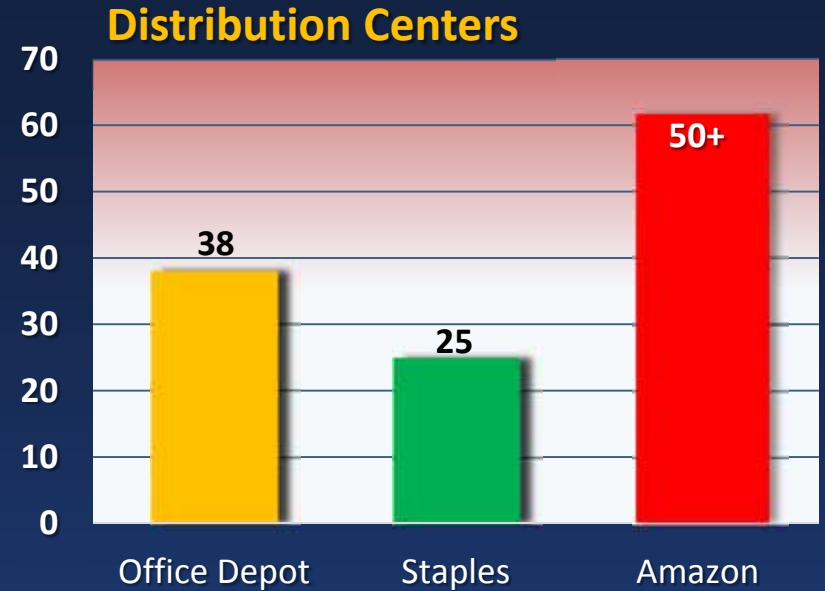
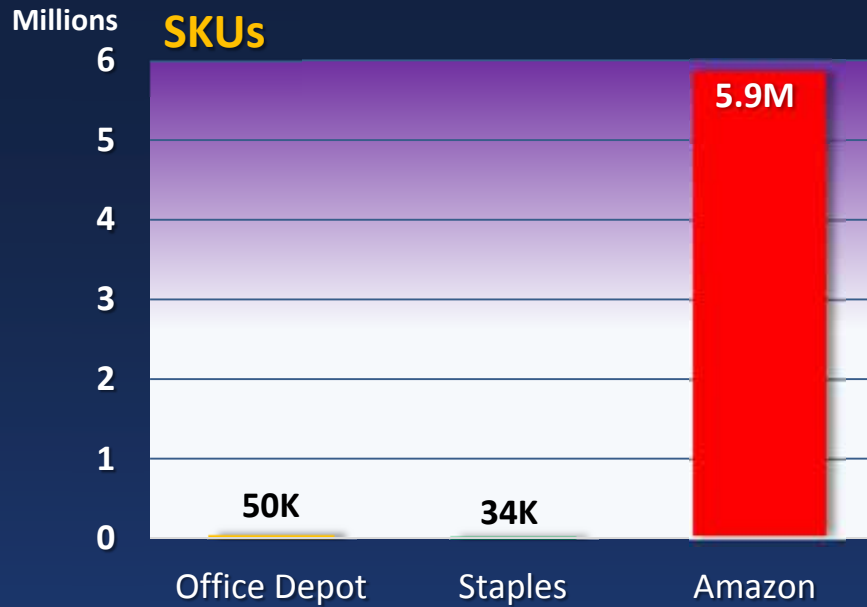
Amazon Launched “Amazon Business” on April 28, 2015



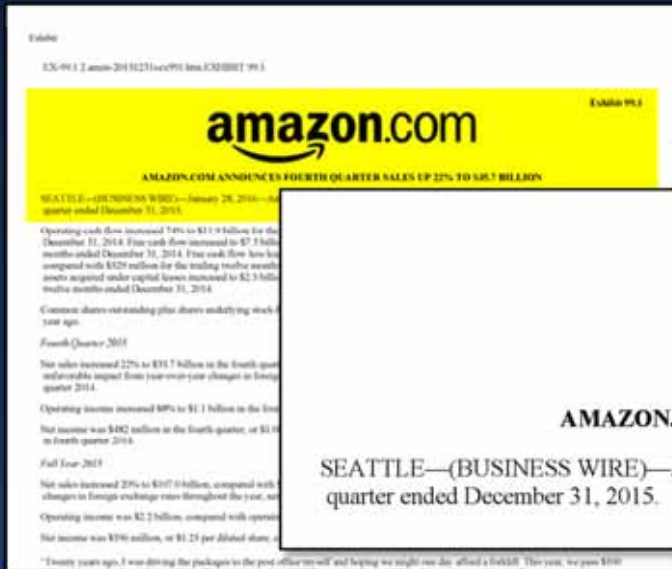
amazonbusiness

Video

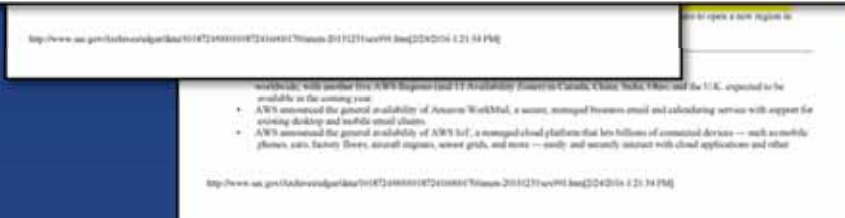
Amazon: Too Big To Fail



Amazon Business Successfully Competes for National Accounts



Only eight months after launch, Amazon Business, a marketplace with features and benefits tailored to businesses, serves more than 200,000 businesses ranging from small businesses to Fortune 500 companies.



Amazon Business Geared Up for a “Land Grab”

2015 Consumer STeam OP1 Review: Business to Business (B2B)

October 20th, 2014

Amazon.com Confidential

We consider the next 3 to 4 years being a “land grab” where we have a limited window to capitalize on our Amazon brand and existing capabilities to succeed in this market segment.

Amazon Business Offsite – May 4th 2015
Strategy Session

█████ proclaimed at the Mar 4th 2015 VPD session that **Amazon Business is a “must win” initiative.**

Our vision is to be the preferred marketplace for all professional, business, and international customers worldwide

Amazon leadership has clearly told us that **Amazon Business is a top priority**

Since Its Inception, Amazon Business Has Offered Office Supplies to Corporate Customers

INTRODUCING
amazonbusiness

BUSINESSES BUY ON AMAZON

MILLIONS OF BUSINESS CUSTOMERS
PURCHASED BILLIONS WORTH OF PRODUCTS
ON AMAZON IN THE PAST 12 MONTHS

TOP 5 BUSINESS CUSTOMER TYPES



Industrial
Manufacturing



Technology



Education



Business
Services



Healthcare
Services

MILLIONS OF BUSINESS
PRODUCTS ELIGIBLE FOR
NEXT-DAY SHIPPING



BUSINESSES HAVE ACCESS TO
OVER 250 MILLION
PRODUCTS ON AMAZON BUSINESS
with millions already searchable by
Manufacturer Part Number, UNSPSC,
or National Stock Number.

BROAD BUSINESS SELECTION
from a \$1.99 box of paper clips to a
\$60,000 CNC hydraulic press brake.

65 Thousand

ROLLERBALL PENS

Amazon Tracks Staples as a Key Competitor



amazonbusiness

STAPLES

Amazon Business Monthly Business Review – Oct 2015

We are finalizing the 2016 selection goals and plan which will include item-level parity vs. [redacted] and Staples), and an ASIN growth target against 200 competitors.

Amazon Business Monthly Business Review – Jan 2016

We are currently working on increasing mapping coverage (300K overlap with [redacted] and Staples by end of March, [redacted] in April) and building a scalable solution with SCOT team that will enable FT end state

Amazon Business Is Focused on Competing with the Combined Staples-Office Depot

On Feb 17, 2015, at 6:14 PM, Ayers, Eric <ericay@amazon.com> wrote:

I had a call today with [REDACTED] who leads [REDACTED] internal sourcing program. [REDACTED] is looking to supplement or replace Staples (and / or Office Max) as the primary supplier of office supplies to [REDACTED] employees. Feels like this is a good B2B opportunity.

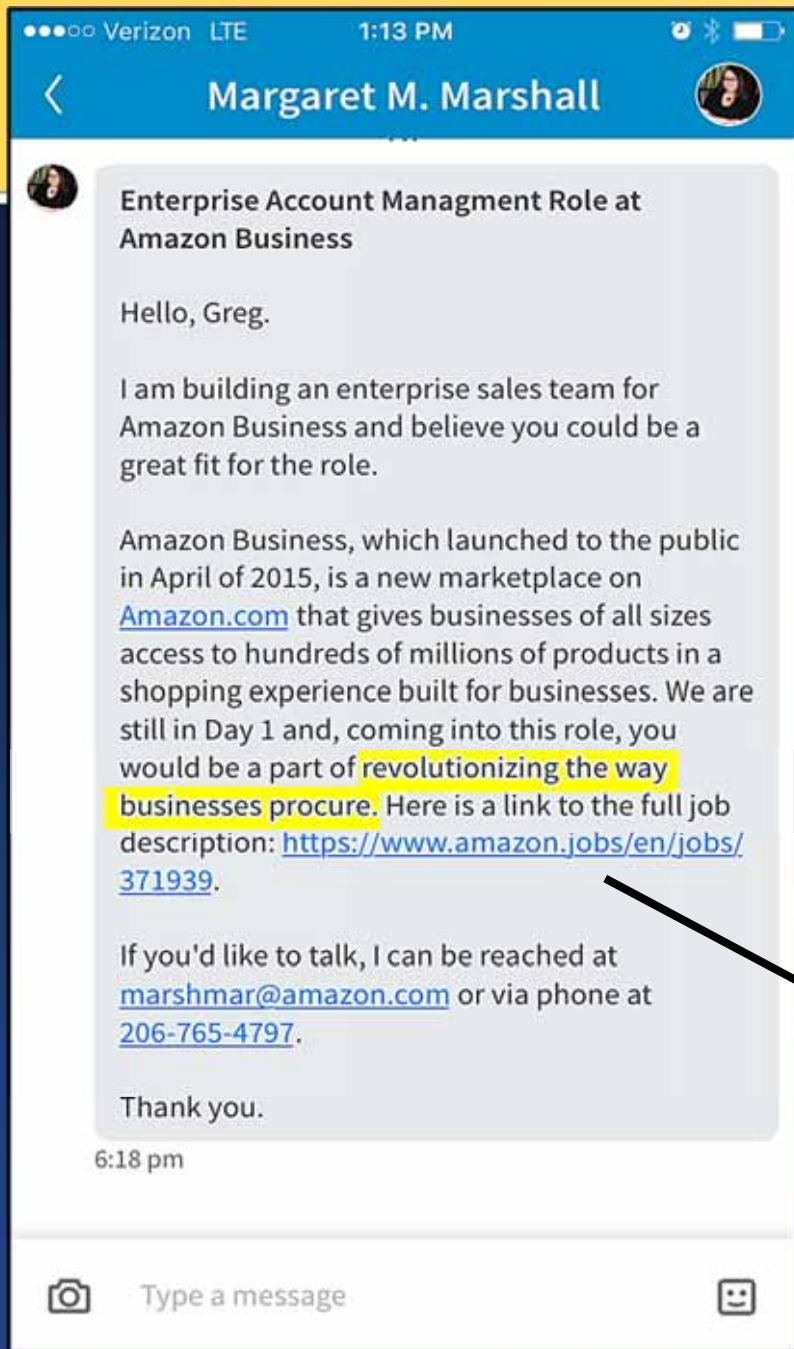
On Feb 17, 2015, at 7:29 PM, Stanick, Ken <stanickk@amazon.com> wrote:

Yes, definitely. Adding Jennifer Maul who runs enterprise sales as she can help engage with [REDACTED]. I suspect we'll get many of these inquiries with the pending merger and the awareness we'll start driving.

From: Wilson, Prentis
Sent: Wednesday, February 18, 2015 12:22 PM

FYI – we have been getting more and more interest in Amazon as a replacement for Staples / Office Max given the merger. We anticipate getting more of these as the acquisition / Merger talks progress.

Amazon Poaching B2B Staples Sales Force



Amazon Business, which launched to the public in April of 2015, is a new marketplace on [Amazon.com](https://www.amazon.com) that gives businesses of all sizes access to hundreds of millions of products in a shopping experience built for businesses. We are still in Day 1 and, coming into this role, you would be a part of revolutionizing the way businesses procure. Here is a link to the full job description: <https://www.amazon.jobs/en/jobs/371939>.

Companies Already Recognize Amazon Business as a Potential Alternative to Staples



PEPSICO



The
WALT DISNEY
Company

RICOH

imagine. change.



Dartmouth
College

The FTC's Case Looks Backward Not Forward



FTC Opposed Hollywood Video and Blockbuster Merger



FTC Got It Wrong: History Repeating ...

“One matter that comes to mind is **the Blockbuster/Hollywood Video merger, which was ultimately abandoned in the face of FTC opposition.** One of the questions there was the expected effect of a transaction that would have resulted in a firm with significantly more brick-and-mortar video stores. **But, even then (in 2005), the industry was moving toward streaming, and I don’t know if we as an agency really understood the magnitude of that change in video distribution during the investigation. These are the kinds of things that we need do to in evaluating fast-changing industries—really understand what’s happening in terms of changing business models and consumer preferences.”**



- FTC Commissioner Maureen Ohlhausen



2013 FTC Statement

Statement of the Federal Trade Commission
Concerning the Proposed Merger of Office Depot, Inc. and OfficeMax, Inc.
FTC File No. 131-0104
November 1, 2013

The Commission has unanimously decided to close its seven-month investigation of Office Depot, Inc.'s proposed merger with OfficeMax, Inc., a transaction that aims to combine the country's second and third largest chains of office supply superstores (OSS).¹ Although sixteen years ago the Commission blocked a proposed merger between Staples, Inc. and Office Depot, the nation's two largest OSS, our current investigation has shown that the market for the sale of consumable office supplies has changed significantly in the intervening years. For the reasons discussed below, we conclude that Office Depot and OfficeMax should be permitted to move forward with their proposed transaction. In reaching this conclusion, we assessed the proposed merger's competitive effects in two distinct lines of commerce: the sale of office supplies to retail and contract customers. We discuss each in turn.

I. Retail Channel

In the 1997 *Staples* case,² the Commission successfully argued that the relevant product market was the sale of consumable office supplies through OSS and that the proposed merger of two of the three OSS would lead to competitive harm.³ In finding an OSS-only market, the *Staples* court relied principally on qualitative and empirical evidence that OSS prices were set according to the number of competing OSS in a local area. Company documents revealed the merging parties' intense competitive focus on other OSS and general lack of concern with non-OSS rivals. The evidence also showed that the defendants grouped their stores into price zones specifically based on the number of nearby OSS, resulting in higher prices in local markets with fewer OSS, even if non-OSS competitors were present.

The current competitive dynamics are very different. The Commission's investigation shows that today's market for the sale of consumable office supplies is broader, due mainly to

A "host of non-OSS competitors" that "are growing in number and strength"

parties will continue to face strong competition for such customers from Staples and a host of non-OSS competitors, such as W.B. Mason Co., Inc. Non-OSS competitors are growing in number and strength and have demonstrated the ability to win large multi-regional and national customer contracts. In particular, regional office supply competitors have developed and utilized

¹ The Attorneys General of several states joined in the Commission's investigation.

² *FTC v. Staples, Inc.*, 970 F. Supp. 1066 (D.D.C. 1997).

³ "Consumable office supplies" refers to non-durable products that consumers use up, discard, and purchase on a recurrent basis. Examples included pens, paper, file folders, Post-it notes, and ink and toner cartridges. *Id.* at 1080.

Efficiencies

Incredible Efficiencies and Repeatable Results

- First year synergies of **\$284 million**, exceeding initial expectations of \$260 million
- Office Depot expects total run rate synergies of more than **\$750 million**, far exceeding initial expectations of \$400 - \$600 million
- This is an **unprecedented** circumstance where two mergers so similar happen in such close succession
- This gives Staples and Office Depot the ability to accurately and confidently project the massive synergies for the merger

The FTC's Product Market Doesn't Exist

- The FTC has fabricated a product market that does not reflect business realities
 - **1.2% of bids** support the FTC's product market
 - **0% of large customers' purchases** support the FTC's product market

FTC's Market Doesn't Reflect Business Realities

“Large” customers testified that they leveraged other product categories—such as Jan/San, Toner and others—to get lower prices from Staples and Office Depot in consumable office supplies

A “Contract” Does Not Guarantee Customer Spend



Competitive Effects / Amazon

- “Swimming with Piranha”—a 2014 independent survey of 400 businesses cited by the FTC’s expert—showed that:
 - **60% of responding companies buy office supplies from Amazon**
 - **For the customers that buy from Amazon, they purchase on average 45% of their office supplies from Amazon**
 - Use of Amazon **increases** with the size of the customer