

Staples (SPLS)

VALUEx Vail 2012

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Office Supply Industry

- Paper/Writing Instruments, Ink/Toner, Office Machines (Copiers/Printers)
 - Technology, Services, Furniture
- US Market Size: \$309B (2009)
- Growth Linked to Changes in White Collar Employment
 - Recent Job Growth in Manufacturing, Tourism, Transportation Rather Than Finance/Large Companies

Office Supply Industry

- Superstores: SPLS, OMX, ODP
- Regional Contract
- Grocery, Drugstore, Discount (WMT, TGT), Club (COST)
- Consumer Electronics (BBY, DELL)
- Print/Copy Services (FedEx Office)
- Online Retail

Business Overview

- Leading Office Supplies Retailer in North America: \$25B revenue
 - Larger than ODP (\$11.5B) and OMX (\$7.1B) combined
- 2nd Largest Online Retailer
 - ~\$10B in Online Sales
- 3 Segments
 - North America Retail
 - North America Delivery
 - International

Business Overview

- 27% Private Label Products (Goal: 30%)
- Scale Efficiencies in Purchasing
- 80% Business Customers, 20% Consumers
- 60% Delivery, 40% Retail

Business Overview

- SPLS has consistently outperformed competitors on important metrics (sales growth, margins, return on capital)
- Experienced Management Team with Continuity
 - CEO: 14 years
 - CFO: 15 years
 - COO: 9 years

North America Retail

- Consumer, Home Office, Small Business
- Typical Store is 15K Square Feet (Reduced from 24K)
- 1914 Stores
- Flat Store Count in 2012 (2011: +17, 2010: +29)
- Management Discipline to Shrink Store Sizes and Hold Store Count Flat
- Superior Locations to ODP/OMX

North America Retail

- \$9.6B Business with 8% EBIT Margins

	2011	2010	2009
Sales	\$9.6B	\$9.5B	\$9.3B
Growth	1.4%	1.8%	-1.3%
EBIT	804M	770M	774M
% of Sales	8.3%	8.1%	8.3%

North America Retail

- ODP/OMX closing 20-30 Stores Per Year
- Flat to 1% Comps vs. Low Single Digit Negative Comps for ODP/OMX
- 8% Segment Operating Income vs. 1-3% for ODP/OMX

North America Retail

- Cost Control and Store Productivity
- Opportunities
 - Print and Copy Services
 - Technology & Mobile
 - Facilities & Breakroom

North America Delivery

- 2008 Acquired Corporate Express
Creating Delivery Business With Scale
- Most Orders Placed Online
- 66 Fulfillment Centers, 1500+ Trucks
- Serves 95% of US Population With Next-Day Delivery

North America Delivery

- Contract Sales
 - Medium and Large (Fortune 1000) Businesses
 - Negotiated Pricing
- Staples.com, Quill.com

North America Delivery

- Recurring Revenue
- Lower Capital Requirements and Higher Returns on Capital than Retail Business
- Gaining Share
- Opportunities for Adjacent Categories
 - Facilities & Breakroom Supplies
 - \$800M Business Growing at 20% in Q1

North America Delivery

- \$10B Business with Growing Margins

	2011	2010	2009
Sales	\$10B	\$9.85B	\$9.64B
Growth	2.1%	2.2%	8.0%
EBIT	877M	841M	786M
% of Sales	8.7%	8.5%	8.2%

International

- 24 Countries: Europe, Australia, South America, Asia
- 331 European Stores: UK, Germany, Netherlands, Portugal
- Internet/Catalog: France, Italy, UK
- Contract: Scandinavia, Germany, UK, Netherlands

International

- Exposure is Mainly Northern Europe
- Soft Demand: European Headwinds
- Expanding Mid-Market Contract Selling Model
- Cost Rationalization and Reducing Headcount

International

	2011	2010	2009
Sales	\$5.3B	\$5.1B	\$5.3B
Growth	2.7%	(2.0%)	13%
EBIT	98M	167M	122M
% of Sales	1.8%	3.2%	2.3%

Free Cash Flow

- 2011 After-Tax FCF \$1.2B
- 2011 D&A \$482M
- 2011 CapEx \$383M
- 2012E After-Tax FCF \$1B

Capital Allocation

- Paying Down Debt
 - \$325M 7.375% due 10/2012
 - \$1.5B 9.75% due 1/2014
 - \$170M Line of Credit
- Dividends
 - 3/2012 Raised Dividend 10% to \$0.44/share: ~\$300M / year
- Buybacks
 - 9/2011 Authorized \$1.5B repurchase program
 - As of 4/2012, repurchased \$275M (18.5M shares @ \$14.86)

Valuation

- Closing Price (6/19/2012): \$12.99
- 689M shares out
- Market cap: \$8.95B
- Cash: \$1.2B, Debt: \$2B
- EV: \$9.75B
- EBIT (2011): \$1.63B
- Earnings (2012E): ~\$1.45-\$1.49 / share

Risks

- ODP/OMX – Destructive Pricing
 - Both companies at EBIT Breakeven
 - In Shrink to Profitability Mode
- Other Channels: WMT, COST
 - SPLS Has Larger Scale in Office Supply
 - Better Ability to Service Business Customers
 - Not a New Source of Competition

Risks

- Amazon
 - Staples Already Has Sizable Online Business
 - Staples Focused on Business Customer Rather Than Consumer
 - Local / Next Day Delivery is Important
 - SPLS has Distribution Assets
 - AmazonSupply: Staples has Scale in Office Supply Purchasing
 - “Less than 5% of their SKUs are office and Jan/San products. So it's very much industrial products and the pricing that they have on those products for office and Jan/San are, quite honestly, not very sharp.” –Joseph Doody, President Staples North America Delivery

Risks

- Secular Decline of Office Supplies
 - Will We Still Print and Write in an iPad / Kindle World?

Q&A

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