

Schulte, Latham Lead on \$9 Billion Safeway Sale

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March 7, 2014

An investor group led by Cerberus Capital Management has struck a deal to acquire Pleasanton, Calif.-based grocery store chain Safeway for roughly \$9 billion in the largest leveraged buyout so far this year.

The consortium buying Safeway—the nation's second-largest grocery chain, behind Kroger—plans to merge the acquisition with its current portfolio of grocery store brands, led by the Albertsons chain.

The transaction follows the Cerberus-led investor group's acquisition last year of the Albertsons, Acme, Jewel-Osco, Shaw's and Star Market chains from Supervalu in a \$3.3 billion deal that consisted mostly of assumed debt. Prior to that, the consortium had bought more than 650 Albertsons locations in a \$17.4 billion deal that divvied that Boise-based chain's stores up three ways between the Cerberus-led group, Supervalu and CVS in 2006.

The terms of the deal announced Friday call for Safeway shareholders to receive \$32.50 in cash for each of their shares in the company, along with distributions of proceeds from asset sales valued at \$3.65 per Safeway share. The Safeway shareholders will also receive an additional \$3.95 per share as part of the company's previously announced plan to distribute its remaining shares in gift card company Blackhawk Network to shareholders. Overall, the deal values Safeway shares at \$40 apiece—a 17 percent premium over the target's closing price on Feb. 18, the day before Safeway said it was in talks to be sold.

The Cerberus-led group—which also includes Kimco Realty Corporation, Klaff Realty, Lubert-Adler Partners and Schottenstein Stores Corporation—will finance the deal with \$7.6 billion in debt, as well as equity and cash on hand.

Safeway operates 1,335 stores and employs 138,000 people. Cerberus said in its announcement of the deal that the acquisition will result in a combined portfolio of 2,400 grocery stores, 27 distribution facilities and 20 manufacturing plants that taken together employ more than 250,000 people. Cerberus added that it does not foresee any stores closing as a result of the deal, which is expected to close in the fourth quarter, pending approval by regulators as well as Safeway shareholders.

Schulte Roth & Zabel is acting as lead counsel to Albertsons and the investor consortium. The firm is longtime outside counsel to Cerberus, where former Schulte partner Mark Neporent serves as chief operating officer, general counsel and senior managing director. Schulte advised the investor group on last year's purchase of the grocery chains from Supervalu, and the firm also advised Albertsons on last September's \$385 million purchase of Texas grocery store chain United Supermarkets.

The Schulte team working on the Safeway deal includes New York-based business transactions partners Stuart Freedman, John Pollack and Robert Loper. Employee benefits partners Ronald Richman and Laurence Moss are also advising on the deal, along with antitrust



partner Michael Swartz, tax partner Alan Waldenberg, finance partner Ronald Risdon, business transactions special counsel Kimberly Monroe and tax special counsel Noah Beck. The deal team also includes real estate partners Jeffrey Lenobel, Robert Nash and Julian Wise. The Schulte associates working on the deal are Matthew Gruenberg, Colin McKeon, Kristen Poole and Elliott Tapp.

The buyers are receiving antitrust advice from a group of firms that includes Schulte as well as Dechert and Baker Botts. Washington, D.C.-based Dechert antitrust partners Paul Denis and James Fishkin are advising Albertsons along with associates Rani Habash and Craig Falls. Washington, D.C.-based Baker Botts antitrust partner Christopher MacAvoy is also advising Albertsons on matters related to the Federal Trade Commission.

The buyers' in-house team includes Lisa Gray—general counsel of Cerberus Operations & Advisory Company—as well as Albertsons general counsel Paul Rowan and assistant general counsel Susan McMillan.

For its part, Safeway has turned to a team of Latham & Watkins attorneys led by San Francisco-based corporate partner Scott Haber, as well as New York-based corporate partners M. Adel Aslani-Far and Eli Hunt. Real estate partner Robert Buday, employee benefits partner James Barrall and tax partners Grace Chen and Kirt Switzer are also advising, along with corporate of counsel Barry Bryer, tax of counsel John Clair and employee benefits counsel Scott Thompson.

Robert Gordon is Safeway's general counsel.

Skadden, Arps, Slate, Meagher & Flom is advising Goldman Sachs in connection with its role as financial adviser to Safeway with a team led by M&A partner David Eisman and M&A counsel Troy Vigil. Munger, Tolles & Olson is advising Greenhill & Co. in its role as financial adviser to Safeway's board of directors with a team led by corporate partner Mary Ann Todd that also includes corporate partner Brett Rodda and associate Andrew Wolstan.