

# J Sainsbury PLC

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## Sainsbury's plunges as UK regulators leaning towards blocking £10bn Asda merger

J Sainsbury plc (LON:SBRY) saw its shares plunge on Wednesday after UK regulators hinted they are swaying towards blocking the supermarket giant's proposed £10bn merger with Wal-Mart Inc (NYSE:WMT) owned Asda after an in-depth investigation found "extensive competition concerns".

Provisional findings from the Competition and Markets Authority's (CMA) probe suggested that the tie-up between the UK's second and third largest food retailers could lead to a "worse experience" for shoppers both in-store and online.

READ: Sainsbury's could absorb at least 132 store closures, says UBS  
Top of their fears was that food and petrol prices could rise, while the quality and number of product ranges offered could reduce. Overall, the CMA found that any deal could lead to a "sUBStantial lessening of competition", especially in areas where Sainsbury's and Asda stores overlap.

In reaction, Sainsbury's shares tumbled 13.2% lower to 249.80p, while rival food retailers also fell with Wm Morrison Supermarkets PLC (LON:MRW) - seen as a possible beneficiary from merger store sell-offs - shedding 4.6% at 229p, and market leader Tesco PLC (LON:TSCO) down 0.3% at 227p.

Laith Khalaf, senior analyst at Hargreaves Lansdown commented: "The supermarkets will now have to bend over backwards if they want to proceed with the merger, and even then, wouldn't be guaranteed a favourable ruling from the CMA.

"The thorny issue of competition in the online delivery market also means they may have to get rid of one of the brands, reducing their ability to target different customer bases.

They also have to find a suitable buyer for the assets on sale, one who is big enough to provide proper competition in the eyes of the regulator."

In a statement reacting to the CMA news, Sainsbury's said it "fundamentally disagree[d]" with the findings and would continue to make its case in the coming weeks.

"These [findings] misunderstand how people shop in the UK today and the intensity of competition in the grocery market," read their response.

"Combining Sainsbury's and Asda would create significant cost savings which would allow us to lower prices. Despite the savings being independently reviewed by two separate industry specialists, the CMA has chosen to discount them as benefits."

Three options now

The CMA said there were now three options on the table:

**Price:** 211.3

**Market Cap:** £4.68 billion

### 1 Year Share Price Graph



### Share Information

**Code:** SBRY

**Listing:** LSE

**52 week High Low**  
**20130 177.05**

**Sector:** Retail

**Website:** [www.sainsburys.co.uk](http://www.sainsburys.co.uk)

### Company Synopsis:

*J Sainsbury PLC is a United Kingdom-based company principally engaged in grocery and related retailing, and financial services.*

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it could block the merger entirely

it could force Sainsbury's and Asda to sell off a "significant number of stores"

or, it could make the pair sell off other assets - including one of the Sainsbury's or Asda brands

UBS analysts have previously said that the deal would still be worthwhile for Sainsbury's and Asda even if they were forced to close as many as 132 stores.

But the CMA hinted that it is more in favour of option one - blocking the deal altogether - after claiming that it is "likely to be difficult for the companies to address the concerns it has identified".

Stuart McIntosh, chair of the independent inquiry group carrying out the investigation, said: "These are two of the biggest supermarkets in the UK, with millions of people purchasing their products and services every day.

Final decision due by end of April

"We have provisionally found that, should the two merge, shoppers could face higher prices, reduced quality and choice, and a poorer overall shopping experience across the UK. We also have concerns that prices could rise at a large number of their petrol stations.

He added: "These are our provisional findings, however, and the companies and others now have the opportunity to respond to the analysis we've set out today. It's our responsibility to carry out a thorough assessment of the deal to make sure that the sector remains competitive and shoppers don't lose out."

The two grocers have until 6 March to suggest possible remedies that could convince the CMA to approve the merger.

Interested parties, which may include retail rivals Tesco PLC (LON:TSCO) and Wm Morrison Supermarkets PLC (LON:MRW), have until 13 March to respond to the provisional findings.

The final report is due to be issued before the end of April.

-- Adds share prices, analyst comment --

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