INTRODUCTION

- Mackenzie
- Morgan
- Abby
- Nupur
How can J.L.P navigate the uncertainty presented by recent political changes in the U.K.?
RECOMMENDATION

Acquire a grocery store in Australia to diversify markets, while taking domestic steps to prepare for Brexit.
JLP’S BUSINESSES

- 34 Department Stores
- 353 Waitrose Supermarkets
- Other (e.g., Home store)
JLP’S FINANCIALS

❖ Growth in both grocery and department store businesses
❖ Margins have been acceptable in grocery store but department store margins weak
❖ Partnership bonus’ have been decreasing
❖ Overall profit has increased from 2013-2017
❖ Borrowings have been stable
Unlike competitors you are not geographically diversified – with Brexit uncertainty

**Strengths**
- Strong culture
- Democratic in Partnerships
- Unique governance structure
- Local presence
- Diversity of businesses
- Knowledge and expertise in retail

**Weaknesses**
- Lack of diversity in supply chain
- Dependence of labour from non UK resident
- Slow to establish online presence
- Need governance process (hinders quick decisions)

**Opportunities**
- Utilize UK suppliers
- Leverage expertise in retail internationally
- Strong relationships with commonwealth nations

**Threats**
- Online shopping
- Technology replacing jobs
- Competitors with international presence – less exposed to pound
- Brexit (discussed above)
BREXIT

**Potential Currency Fluctuation**

- Cost of imported goods – supply chain
- Loss of unskilled workers – HR issues

**Need to focus on stabilizing business – not large growth**
ALTERNATIVES CRITERIA

Brexit: Human Resource issues?
Brexit: Supply Chain issues?
Ease of implementation
Cost
TIME
SELL ALL DEPARTMENT STORES

Advantages

• More affected by Brexit
• Focus efforts in one areas
• Poor margins

Disadvantages

• Less diversified
• Large portion of the business
• Huge hit on culture – firing employees
• Who will buy acquisition of that size
ACQUIRE A SERVICE ORIENTED BUSINESS WITHIN THE UK

Advantages
• Diversify business type
• Fixes supply chain issues

Disadvantages
• Will not solve labour issues
• Unknown businesses
• Further investing in the UK
## INTERNATIONAL MERGER

### Advantages

- Less exposed to pound
- Diversify markets

### Disadvantages

- Hard to find partner quickly
- All partners have to be on board
- No relationships
INTERNATIONAL ACQUISITION

Advantages
- Less exposed to pound
- Diversify markets
- Full control
- No rushed relationships

Disadvantages
- Tight timeline
RECOMMENDATION

International acquisition of a chain of stores, while taking domestic steps to combat potential Brexit threats.
RECOMMENDATION

- Acquire a *grocery store in Australia* to diversify markets
- Free up *capital* by closing 6 department stores
- Take *domestic steps* for labour and supply chain to prepare for Brexit
WHY AUSTRALIA?

- Similar cultural fit
- Potential of “Canzuk” in light of Brexit
  - Freedom of movement organization between Canada, Australia, New Zealand, UK
  - UK and Australia likely to be first
- Australia dollar low right now – could enter market at a good price
CRITERIA FOR ACQUISITION

- Culture
  - Australian culture – good fit with the partnership
  - Australian “everyone deserves a go”
  - Higher wages/benefits
  - Commonwealth connection

- Stores actively looking for purchases (i.e. Broger)

- Small enough that its not too big
  - No capital to buy similar size
## Example: Broger in Australia

<table>
<thead>
<tr>
<th>Small to mid sized grocery</th>
<th>20 grocery stores in Queensland and NSW</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sourced with Australian and SE Asian goods</td>
</tr>
<tr>
<td></td>
<td>Fairly paid employees</td>
</tr>
<tr>
<td></td>
<td>Local connections – similar to J.L.P</td>
</tr>
</tbody>
</table>
IMPLEMENTATION — STEP 1

- Get consensus on international expansion and store closures

Call a partnership council and board meeting immediately
HOW TO PROMOTE IDEA WITH PARTNERS?

- Emphasize need to diversify to other markets
- Brexit could pose a sudden and serious threat to all partners in the UK – emphasize all threats
- Have a backup plan – another source of income if Brexit hurts sales in the UK through currency devaluation (rising prices)
- Australia has strong protections for workers and passionate about community development so this fits with culture of partnership
IMPLEMENTATION — STEP 2 AND 3

2) Hire an Australian consultant to get background information and evaluation of Brogers

3) Create an acquisition proposal and approach Broger
4) Negotiate the terms of acquisition with Broger and create a *change management process*

- Workforce
- Culture
- Supply Chain
- Exchange Range
- Communication
  - Project champion
**TIMELINE FOR ACQUISITION**

- **Now:** Council and board meeting
- **2 months:** Get board and council approved
- **4 months:** Finalize Acquisition proposal
- **6 months:** Approach Broker and start negotiations
- **1 year:** Finish negotiations and acquire

***Simultaneously taking domestic actions***

16 Months: Streamline Operations in Australia

16 months

18 months
DOMESTIC ACTIONS — SUPPLY CHAIN

- With 6 stores closing, less dependence on EU suppliers — helps mitigate threat from Brexit
- Start partnering up with UK based suppliers — UK wants more “local”
  - Less disrupted by currency fluctuations
- Combat further domestic problems:
  - In the long run, leverage your presence into the Asian market, due to the new acquisitions from relationships with potential suppliers
DOMESTIC ACTIONS — LABOUR CONSIDERATIONS

- Phase out 6 shops across the UK
- Unskilled labour loss as they are affected by Brexit
- Funnel remaining staff into positions in still open stores and is not online logistics
- Less unskilled labour needs — which are currently being filled by out of country
  - Brexit will not hurt
- Highly skilled people can transition into logistics and IT needs of online commerce
2017 was a strong year.

Revenues from Waitrose and JL dept stores increased in 2017.
Overall margins have decreased. Acquisition margins have been 5.5%.
- Sale of 6 JLP department stores: total value of £97 million, based on expected land value in key locations
- Value of Australian acquisition £120 million, based on exchange rates and expected land value in Australian locations
- Partnership bonuses recommended to decrease to 3% in 2017 to assist in financing acquisition
- Will require borrowing £17 million
- Cost of hiring company to assist in acquisition: £500,000
**FINANCIAL OUTLOOK**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Borrowings</strong></td>
<td>£(966.6) million</td>
<td>£(983) million</td>
<td>£(967) million</td>
</tr>
</tbody>
</table>

Recommended that debt from acquisition be paid back immediately in 2018.
FINANCIAL OUTLOOK

Profit for the year

<table>
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<tr>
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<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>£353 million</td>
<td>£336 million</td>
<td>£341 million</td>
<td>£350 million</td>
</tr>
</tbody>
</table>

- Acquisition will stabilize the company through Brexit
- Profit doesn’t jump back to 2016 levels as it is recommended debt by paid back immediately and continue to be paid back going forward
- Recommend 6% Partnership bonus be sustained in 2018 and 2019
- Longer term, company will be able to utilize supply chain connections in Southeast Asian countries in order to shift some of their supply chain from EU based countries
KEY PERFORMANCE INDICATORS

Within the first year of operations in Australia, revenue from Australia – 6% of total revenue

Borrowings of less than €900 M by 2019

Partner approval rate for the strategy of 75% or more
## RISKS AND MITIGATION

<table>
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<th>Mitigation</th>
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<tbody>
<tr>
<td>Cannot sell 6 department stores</td>
<td>Look at other forms of financing</td>
</tr>
<tr>
<td>Partnership does not vote to acquire</td>
<td>Continue with domestic plan – value your governance structure</td>
</tr>
<tr>
<td>Acquisition does not go through</td>
<td>Still take domestic action, investigate options elsewhere eg. Canada, India</td>
</tr>
</tbody>
</table>
CONCLUSION

Mitigate Brexit Threats
Keeping partners happy

Geographical diversification
More international partnerships

International Acquisition