The Deal Pipeline

A&P to receive $175M from Yucaipa, Tengelmann

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Updated 05:07 PM EDT, Jul-23-2009

Supermarket chain Great Atlantic & Pacific Tea Co. said Thursday that Los Angeles private equity firm **Yucaipa Cos. LLC** would inject $115 million in convertible preferred stock to boost its liquidity.

Longtime shareholder Tengelmann Warenhandelsgesellschaft KG of Germany is investing $60 million as part of the private placement, A&P said.

Before the infusion, Yucaipa owned less than 5% of common stock plus warrants in A&P, emanating from the chain's purchase of Yucaipa-controlled **Pathmark Stores Inc.** in 2007. Through the private investment in public equity, Yucaipa will have a 27.6% stake, while Tengelmann will remain the largest single shareholder, with 38.6% on a fully diluted basis.

Raising new equity from Ron Burkle's investment fund, which boasts a track record in supermarkets, appeared to be a defensive move intended to strengthen the grocer's balance sheet amid economic conditions. In its latest 10-K filing, management warned that in 2009 the U.S. retail market will experience one of the "most difficult" years, as customers are expected to have lower disposable income.

Solvency was not a big concern for the grocery chain, said Simeon Gutman, vice president at **Canaccord Adams Inc.**, but "if you're trying to move the needle of the business, it needed a bigger capital push in reinvestment."

A&P's stock has shed about 80% of its value in the past 12 months. Shares were trading around $5.38 late Thursday, up 15.7%. "We believe this strategic partnership has the potential to unlock significant shareholder value," said Christian Haub, A&P executive chairman and co-CEO of Tengelmann.

The equity infusion requires the completion of a new debt offering amounting to $225 million in senior secured notes due 2015 that A&P announced simultaneously. **Bank of America Corp.** is lead arranger, according to **Standard & Poor's** Leveraged Commentary & Data. Proceeds will be used to repay outstanding borrowings under its existing credit facility, as well as for general corporate purposes.

The preferred stock will get an 8% quarterly dividend and is convertible at a strike price of $5 per share, representing a roughly 7.5% premium to Wednesday's closing price.

Montvale, N.J.-based A&P started as a purveyor of teas, coffees and spices 150 years ago. It was a category killer until it switched to a supermarket business in the mid-'50s, becoming the first national supermarket chain in the country. It went into decline in the late '70s, when its owners, the Hartford family members, ceded majority control to the Tengelmann Group in 1979. The chain then went on an acquisition binge, buying six chains between 1982 and 1992.

As competition rose, A&P suffered from poor management and a tired business, its stock losing nearly 80% in 2000. It recovered nicely, mainly from improvements instituted by president and CEO Eric Claus, who joined the company in 2002.

"Much of that recovery — upgrading the storefronts, improving the consistency of quality and other efforts — was engineered by Claus," said Gutman.

A&P, operating 436 stores in eight states and the **District of Columbia**, posted a $139.9 million net loss in the year ended Feb. 28, compared with a net gain of $160.7 million. The losses stemmed in part to store closings after the merger with Pathmark, which now accounts for about 40% of 2008 revenues totaling $9.5 billion. Despite synergies of $150 million that A&P recognized in fiscal 2008, Pathmark's performance has been lackluster, said Gutman.

Yucaipa was advised by Robert O'Shea at **Latham & Watkins LLP**; Tengelmann by **Cravath, Swaine & Moore LLP**'s Sarkis Jebejian, LizabethAnn Eisen and Stephen Burns, and A&P by **Akin Gump Strauss Hauer & Feld**

LLP's Patrick Dooley. A&P's special committee tapped **Peter J. Solomon Co.**'s Jeffrey Hornstein and by **Cahill Gordon & Reindel LLP**'s Kenneth Orce and John Schuster.