

# The Deal Pipeline

## BC Partners bets \$350M on Office Depot

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Office products purveyor **Office Depot Inc.** said Tuesday that affiliates of London private equity firm **BC Partners Ltd.** have invested \$350 million in the company through a convertible preferred stock purchase.

The move is part of the Boca Raton, Fla., company's efforts to shore up its liquidity and cash flow. **Moody's Investors Service** downgraded the company's ratings in May with expectations of continuing declines in operating performance.

BC Partners has bought roughly \$275 million of new 10% Series A convertible preferred stock and about \$75 million of Series B conditional convertible preferreds with a 10% coupon. Proceeds from the transaction, which closed Tuesday, will be used for general corporate purposes, the company said.

The Series A preferred is immediately convertible into common shares at a conversion price of \$5 per share, or roughly a 32% premium to Monday's closing of \$3.79 per share. The Series B will become convertible into common on the same terms upon approval by the company's shareholders.

The company said the dividends on both classes of preferreds will decrease after three years and the company will have the option to redeem both Series A and B preferreds after three years if the company's common stock price is greater than or equal to \$9.75 per share for 20 consecutive days.

"It's relatively rare for a private equity firm to invest in a global brand like Office Depot in a non-rescue context," said James Rubin, senior partner at BC Partners. "They didn't need capital, they've got plenty of liquidity. But having a big anchor tenant in the company is generally helpful."

The investment "significantly strengthens our balance sheet. Going forward, as business conditions improve, we believe this financial flexibility is a strategic advantage as we look to invest in high-return projects to drive profitability," Office Depot chairman and CEO Steve Odland said in a statement. The company's shares gained 4.22% early Tuesday, to \$3.94.

**Peter J. Solomon Co.** and **Morgan Stanley** were the company's financial advisers. **Wachtell, Lipton, Rosen & Katz** represented Office Depot. **Goldman, Sachs & Co.**'s Rob Sweeney and Jason Lee advised BC Partners, which also tapped Gerard Maron of PricewaterhouseCoopers and Raymond Lin of law firm **Latham & Watkins LLP**.

Three BC Partners principals — Raymond Svider, James Rubin and Justin Bateman — will join Office Depot's board.

Office Depot is the second-largest retailer of office supplies in the U.S., with about 1,160 retail locations in North America, generating about \$13.5 billion in annual revenue. It reported a 19% drop in first-quarter sales, to \$3.2 billion, in the period ended March 28, compared with the prior-year period, with North America down 17% and international sales down 24%. Its net loss was \$55 million, versus net earnings of \$69 million in the same quarter last year.

On May 12, Moody's downgraded the company's probability of default ratings to B2, from B1, and its senior unsecured notes to Caa1, from B3, with about \$400 million of rated debt affected.

The agency cited Office Depot's continuing difficulties in the recession.