



**Growing our business the Co-op Way: Wholesale - Nisa acquisition**  
**A leader's briefing guide**

**November 2017**

**What this pack is for:**

- To help you brief your teams on our successful wholesale acquisition of Nisa which will help us reach out to new customers and grow our business
- To tell a consistent story about our plans and how they fit with our True North strategy to be number one in convenience
- To answer common questions your colleagues may have.

## USE THESE TO TALK TO YOUR TEAMS

### Key messages

- We want to grow the scale of our business. One way for us to do this is through the wholesale sector.
- We made an offer to buy 100% of the shares of Nisa Retail Ltd (the wholesale business), which currently services 3,200 stores
- This offer has been approved by Nisa's 1,186 shareholders, who voted on it on 13 November.
- We're not looking to buy or refit Nisa's stores, these are owned by independent retailers. Nisa simply supplies them and provides some additional services to them
- It's exciting because it accelerates our ambition to be the UK's leading convenience retailer and strengthen our community Food footprint as part of our wider Co-op business purpose and strategy.
- This move complements our successful franchise pilots with petrol forecourt operator MRH and McColl's wholesale trials where we've been developing our understanding of Co-op retail partnerships and the mutual benefit they can bring
- This expansion approach is in addition to our new store expansion plans (circa 100 new stores a year).
- The deal remains subject to approval by the CMA, which is expected to take until Spring 2018 before completion

### Why wholesale?

- We want to reach more people with our own brand products and find new opportunities to put our products where they aren't currently
- Retail space for convenience stores is at a premium because of increased competition.
- The food market is increasingly competitive with consolidation among major competitors (Tesco/ Booker) and new entrants such as Amazon Fresh
- Working with like-minded retailers, brings mutual benefit to counter the threat:
  - Increased buying-power which will in turn increase price competitiveness across the combined Co-op (including independent Co-op Societies) and Nisa estates
  - Opportunity to extend Co-op own brand and Co-op membership across the UK
  - Increased profitability over time, which will directly return value back to our members and their communities, through the quality of our products, member rewards and increased community awards to thousands of local charities

### Why Nisa?

- Nisa is a well-known wholesale business which has around 1,186 shareholders and services over 3,200 retail stores.

- Its ownership model and strong community focus and heritage aligns very well with ours and we believe that this deal, will create a win-win for all parties concerned.
- If approved by the CMA, this would strengthen the presence of a member-led, community-focused business within the UK food convenience sector

### **What's happening?**

- We have had our offer approved by the Nisa shareholders, at a meeting on 13 November 2017
- We're now heading into an exciting, yet challenging time as we work with stakeholders across the businesses to develop the detail. We've already set up a new integration team who are tasked with every aspect of our combined business operation, including trading, IT and marketing. However, we are working through a CMA (Competition and Markets Authority) process, which will likely take us into spring 2018 before completion (subject to CMA approval)

**USE THESE TO HELP YOU ANSWER  
COLLEAGUE QUESTIONS IF ASKED**

Q&As

**Why are we growing our wholesale approach?**

About half of the UK population still don't visit us at all. To drive growth we had to think about where we weren't reaching people, how could we reach them? Buying and building new stores needs a lot of capital and while we're still always looking for the best new sites for our business, other retailers are too. Wholesale is in our DNA, and expanding our wholesale capability, getting more Co-op products into more baskets, will help boost our brand and increase our buying scale.

**How have we got here?**

We've been working on this for a long time; discussing with Co-op Board, Council, Senate and other trading bodies across FRTS. We've also trialled a franchise model and another wholesale model with McColl's to help us understand how we can really 'co-create' a new partnership model.

**Will I see my local Nisa become a Co-op?**

Nisa does not own the 3,200 stores it supplies. These are owned independently. In the majority of cases the Nisa fascia stores will remain. We will not be operating any of the stores ourselves. However, in time some stores will have the opportunity to apply to become a Co-op franchise, which would mean as well as stocking our products, the store would be refitted, rebranded including uniforms and offering Co-op membership.

**Does this mean you're creating a new wholesale division?**

It's not about creating wholesale – we've always done it. Wholesale is how we started 170 years ago - our model has always been one of working together to create shared value. Already today, around 25% of our £6bn buying volume is bought for other co-ops or similar organisations.

**Is this going to change the way we run all our stores from now on?**

Not at all. Wholesale is about being flexible in how we think about growing our business – economies of scale across the supply chain but also reaching more people with our Co-op products and making a difference with our ethics and product quality. But it doesn't replace our acquisitions, it will complement them. We need a lot of capital to open new stores, so while we'll continue to look at the best new stores to buy

or build, (our new store expansion plans are around 100 stores a year), expanding our reach in ways such as wholesale will help us to put more Co-ops, and more Co-op products, in more places, more quickly.

### **Why tie up with a competitor?**

Our businesses are complementary. Nisa is a like-minded retailer mutual supplying a large store estate. This will lead to benefit from increased buying power and price competitiveness. In addition we can extend our Co-op own brand across thousands of additional stores, reaching more customers and communities than ever before. Over time we'll be able to return more value to our members through the quality of our products, member rewards and increased community awards to thousands of local charities

### **What's in it for them?**

As a mutual, it's really important to Nisa that members can continue to run their business independently. And in an evolving market, Nisa members will gain a compelling proposition – focussed on convenience including top-up missions, greater focus on fresh and healthy and access to over 23,000 products, including a fantastic award winning 3,500 line own label range. And, with a combined buying power of c£7bn, Co-op can improve scale and help deliver competitive prices to our members. Nisa stores would also have the opportunity to apply to become a Co-op franchisee.

This is all on top of a compelling financial offer for their shares.

### **How will we supply these additional 3,200 stores?**

Nisa currently services the 3,200 stores through its own logistics network. We'll be considering all the options for combining the networks over time to make sure we offer the best operation for Co-op, Nisa and other independent societies.

### **What's it costing us?**

We've offered to purchase 100% of members' shares in Nisa Retail Limited for up to £137.5 million as well as covering other costs of up to £5.5million and taking on the Nisa debt.

**Will customers get the full Co-op membership benefits e.g. 5% & 1%?**

No. This is just about wholesale supply of our products. However a number of stores will have the opportunity to apply to become Co-op franchisees, which licenses, for a fee, the Co-op brand across the whole store experience, and would include the full Membership offer.

**What will the impact be on our existing store estate?**

There will be some duplication, but Nisa stores will still have their own individual proposition that will differentiate them from Co-op stores. We are not seeking to buy Nisa members' stores, or the shares in their independent businesses, only to supply them.

If the Nisa offer is approved, then in addition to supplying our core Co-op food stores, and co-op independent societies, we'd have Co-op products in over 7,000 stores nationwide.

**Will this mean job losses as you combine roles?**

Currently we plan to operate Nisa as a standalone business in its existing form.

**Is this the first of many acquisitions within the food sector? Are you looking at other brands such as Spar?**

We're not speculating – we keep a close eye on the market and will always seek to add value for our members and look at ways we can extend the reach of the Co-op brand.

**What share of the convenience / wholesale market will this deal give us?**

Our share of the convenience market remains unchanged as Nisa shopkeepers will still own their shops. Our share of the wholesale market will be about 6%.

**How does this deal create a better outcome for consumers?**

- This will help to bring a wider range of products to customers – particularly in fresh.
- The enhanced scale and buying power will benefit customers with better value keeping prices down.

**There was a lot of noise during the bid process from unhappy Nisa members – how do you plan to build bridges?**

- We've spoken with many Nisa members during the Roadshows and we've been really pleased with the reception.
- There was always going to be a range of views and we look forward to working with all Nisa members to ensure everyone benefits from this tie-up.
- Ultimately we will be judged on the service and range we give Nisa members and we feel very confident about our ability to do that.

**Will there be job losses at Nisa?**

- This deal is about growth.
- By coming together, we can grow for the benefit of Nisa and Co-op members.
- It's too early to talk about jobs.

**Will the Nisa brand remain?**

Yes.

**What will Nisa members get if the deal goes through?**

Nisa shareholders will receive an equal initial payment, a deferred share payment payable over three years, as well as additional rebates payable over four years.

**What guarantee is there that Nisa members will remain with the Group after the deal completes?**

We have set out what we believe is a compelling proposition for the Nisa members and hope that this, together with us delivering on this proposition, will mean that Nisa members stay, and more customers are attracted in the future.

**How many members does Nisa have?**

1,186.

**This deal will harm suppliers won't it? What commitment are you making to them?**

- This deal is about growth, for Nisa members, for Co-op members and for our suppliers.
- We're combining the skills and expertise of our two organisations and we will see efficiencies as a result, which we can then pass onto consumers through lower prices and even better products.

**Are you paying over the odds – the multiple looks very high?**

- This deal plays exactly to the strategy we've set out for our business, both in convenience and in wholesaling.
- We want to grow wholesale and we've just enjoyed our 14th consecutive quarter of like-for-like sales growth so it's about supporting our ambition for further growth.
- We also believe there are significant synergy opportunities from doing the deal.



**What are the business upsides to this deal?**

The deal will lead to greater scale for the combined organisation, generating buying efficiencies and the ability for Nisa members to benefit from a wider range and award winning own label proposition. This in turn is expected to add more buying strength and the opportunity to extend the reach of Co-op award winning own brand products in to more communities.

In addition, for those Nisa members that wish to, they will be able to apply to become a Co-op franchisee, accessing the Co-op brand and additional services.

