

# Case Study: ShopKo Stores, Inc.

## Key Takeaways

- Elliott Management maintained the best interests of the shareholders throughout its entire interaction with ShopKo Stores, Inc., ultimately leading to a deal significantly higher offer for its acquisition. Elliott patiently worked with ShopKo to evaluate its holdings and search for the best possible deal before management potentially significantly undervalued the company.

## The Facts

- In April 2005, ShopKo Stores, Inc., a Wisconsin-based specialty discount retailer with \$3 billion in sales and approximately 360 stores primarily in the Midwest and West, announced that it had agreed to be acquired for approximately \$1 billion by a private equity firm with close ties to several ShopKo board members, Goldner Hawn Johnson & Morrison. After studying the deal terms and the process, Elliott determined that ShopKo was being acquired at a substantial discount to its true value and that numerous conflicts of interest were evident throughout the original sale process. In September 2005, Elliott announced that it had acquired approximately eight percent of ShopKo's stock, and

that it strongly opposed the \$24 per share offer. Elliott outlined its concerns in a letter to the board of directors explaining its concerns and reasoning behind its apprehensions to the merger.

- Following Elliott's announcement of its opposition to the current offer, the private equity firm trying to buy ShopKo raised its initial bid several times and ultimately offered \$25.50 per share for the company. However, Elliott still believed that ShopKo offered significantly more value than even this amended offer. Elliott immediately began a dialogue with Sun Capital, a leading private equity firm with extensive retail experience. Ultimately, Sun Capital, with Elliott's support and continued financial participation, signed a final, binding agreement to acquire ShopKo for \$29 per share, representing a 21 percent increase over the original offer by insiders.

## Crucial Metrics

- 10/18/2005: ShopKo Stores Inc. ended almost six months of acquisition talks and agreed to be bought by an affiliate of Sun Capital Partners Inc., in a deal valued at approximately \$877 million.