



## MICHIGAN BUSINESS

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### Struggling Borders makes bold move

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Borders Group made its boldest move yet Monday offering to pay \$16 a share for larger competitor Barnes & Noble, but will the deal also mean an end to the Borders name?



"I think only one name will survive -- Barnes & Noble," said Ken Dalto, a Farmington Hills-based turnaround expert. "Barnes & Noble doesn't have to do this, but I think they will to protect themselves and get rid of the competition."

But the offer Borders made Monday may not be enough to tempt Barnes & Noble shareholders, who must approve a merger.

Ann Arbor-based Borders is the nation's second largest bookseller and has been losing money for years. The book industry, shaken by competition from Internet and mass retailers, is moving to sell more digital books and devices on which to read them.

Most analysts agreed that the combination would help Borders much more than Barnes & Noble. Borders, with a \$100-million market capitalization, ranks about 35th in size among 70 publicly traded stocks with headquarters in Michigan, according to David Sowerby, chief market analyst with Loomis, Sayles in Bloomfield Hills.

Barnes & Noble has an \$884-million market cap. By comparison, Ford's market cap is \$57.82 billion, and GM's is \$51.72 billion.

### Borders offers to buy Barnes & Noble

Borders Group and Barnes & Noble could put their books on the same shelf if Borders' offer to buy the nation's largest bookseller for the price of a discounted bestseller per share is accepted.

Both companies' shares rose Monday after Ann Arbor-based Borders made an all-cash offer of \$16 a share. Barnes & Noble shares closed up 10.6%, to \$14.69 a share, while Borders shares closed up 28.7%, to \$1.39 a share.

William Ackman, one of Borders' largest shareholders, said he would provide financial backing for the deal in a filing with the U.S. Securities and Exchange Commission. Ackman, who owns shares through Pershing Square Capital Management, has stock and warrants that add up to 37.3% of outstanding shares, according to the filing.

The all-cash offer amounts to \$960 million, but that may not be enough, said Michael Souers, retail analyst for Standard & Poor's Equity Research.

Souers wrote in a note to investors that even though the offer is reasonable, it would not likely be enough for Leonard Riggio, Barnes & Noble's founder, chairman and largest shareholder. Barnes & Noble's digital advantage over Borders, plus the costs associated with closing redundant stores, would make a merger unappealing, he said.

Barnes & Noble, with annual sales of \$5.8 billion, announced in August it was for sale. It has made an aggressive push into digital books. Borders has been struggling with losses for the last four years. It lost \$109.4 million on sales of \$2.8 billion last year.

Borders spokeswoman Mary Davis said the company welcomes Ackman's participation in a merger with Barnes & Noble. A Barnes & Noble spokeswoman declined to comment.

"We have previously expressed to Barnes & Noble our interest in such a business combination, and we look forward to continuing those discussions," Davis said.

Turnaround experts said Monday that Borders has more to gain from a combination because it's the weaker competitor.

Ken Dalto, a Farmington Hills-based turnaround expert, said that with the changes in the brick-and-mortar bookselling business brought on by technology, there are too many stores. Barnes & Noble operates 720 locations; Borders has 508.

"It is going to mean a lot of cost-cutting because there will naturally be a lot of duplication," he said.

Jim McTevia, managing member of McTevia & Associates based in Bingham Farms, said he has been predicting Borders' downfall for several years as it struggled to face competitors including Amazon .com and Walmart.

"I wondered how long was it going to take for Borders and Barnes & Noble to stop hitting each other over the head and instead join to fight Amazon," McTevia said. "The best way to duck for cover is to get yourself lost in a merger. If these two giants don't do something soon, one of them is going to go."