FINANCIAL TIMES

Best Buy's Schulze faces skeptical financial sponsors, industry sources say

- Suspicion Schulze interested in monetizing his stake
- Minnesota, company bylaws block hostile bid

Best Buy (NYSE:BBY, BB+/Baa2) has not piqued the interest of many private equity firms, said several industry sources and a private equity principal.

A leveraged buyout of the Richfield, Minnesota-based electronics retailer has been widely discussed during presentations to private equity firms in the past year and no tangible interest has surfaced, one of the industry sources said. Best Buy did not respond to a request for comment.

On Monday, Best Buy founder and 20% stakeholder Richard Schulze disclosed he had sent to a letter to Best Buy that said he was talking to large private equity firms about a possible USD 24 to USD 26 per share buyout bid for the company.

The private equity principal said the only firms that could write an equity check alongside Schulze are probably **Carlyle**, **KKR** (NYSE:KKR) and **Blackstone** (NYSE:BX). He pegged Carlyle as the most likely firm to nibble at the opportunity to be part of the equity check to take Best Buy private. A spokesperson for Carlyle declined to comment.

Fortune Magazine reported earlier that Bain Capital could be interested in taking a stake in the firm.

Leonard Green & Partners, a private equity firm specializing in the retail space, may be too small to pursue even a partial investment in Best Buy, the private equity principal said. The Los Angeles-based financial sponsor did not return a request for comment.

The private equity principal and one of the industry sources said that Schulze is probably interested in putting Best Buy in play in order to monetize his 20% stake in the company. “He is watching his baby flounder,” the private equity source said. Best Buy's stock has dropped more than 50% over the past five years.

The private equity principal added that he would be shocked if a deal for all of Best Buy gets done. The first industry source said it was possible Schulze would either accept some board seats, or by creating a nuisance and management distraction, a buyout of his 20% stake.

Schulze said he was willing to push USD 1bn into the deal. Schulze's stake was worth USD 1.63bn if the company sold at the lower of the range that Schulze offered in his letter. The private equity principal said "it would be a neat trick" to have Schulze pay only USD 1bn and have a financial sponsor buy out his remaining stake in Best Buy.

Schulze could increase his investment above USD 1bn depending on the final deal structure agreed upon with his prospective partners, said a person familiar with the matter.

This news service has previously reported that it will be challenging for a buyout group to raise debt to back a bid. Schulze's letter states that Credit Suisse is confident it can line up financing.

On Monday, S&P downgraded Best Buy to below investment grade at BB+ on concerns over a possible buyout. Still the deal could be financed through both term debt and borrowing secured by Best Buy's inventory, the second industry source said. The private equity principal said that based on the risk profile of Best Buy, the equity check would have to be around 50%.

Best Buy is incorporated in Minnesota, creating several legal obstacles to any buyout offer that is not backed by Best Buy's board, said Brett Larson, a corporate lawyer at Minneapolis-based **Saliterman & Siefferman, P.C.**

Schulze has said he has requested approval from Best Buy's board to form a buyout group. The person familiar with Schulze's strategy said he is waiting for the board's approval following the statement on Monday.

The buyout group will need to submit an informational statement to Best Buy that identifies the names and backgrounds of the parties backing the buyout. The group may also need to file a similar statement with Minnesota's Department of Commerce under a blue sky law.

The state rules are in place to protect the shareholders of a company, but a company's "bylaws can override the Minnesota statutory default applicable to voting," said Larson.

Best Buy has additional defenses against a hostile offer. In June, it amended its bylaws regarding the rights of shareholders to call special meetings, increasing the minimum ownership threshold to 25%, up from 10%.

Larson said the amendment is significant because altering the level of support means Schulze now needs an additional 5% stake to even force a special meeting of the shareholders to consider his proposals.