

CARREFOUR S.A.

In the summer of 2002, with total sales of (euro) EUR53.9 billion from more than 5,200 stores, Carrefour S.A. was Europe's largest retailer. Over the past four years, Carrefour's growth had occurred almost entirely outside France and included several large acquisitions. In the past, Carrefour management had generally financed company growth through securities denominated in the currency of business operations. Its investment banks, Morgan Stanley and UBS-Warburg, however, had recently suggested that Carrefour consider borrowing in British pounds sterling in order to take advantage of a borrowing opportunity in that currency. With a debt-financing requirement of EUR750 million, the bond issue would be one of Carrefour's largest. Now, in August 2002, the investment bankers expected that the 10-year Carrefour bonds would be priced at a coupon rate of $5\frac{1}{4}$ in euros, $5\frac{3}{8}$ in British pounds, $3\frac{5}{8}$ in Swiss francs, or $5\frac{1}{2}$ in U.S. dollars.

Carrefour

In 1963, Carrefour altered the world of retailing with the introduction of the "hypermarket" concept in the small French town of Sainte-Geneviève-des-Bois, southeast of Paris. This format combined a supermarket, drugstore, discount store, and gas station into one massive, one-stop-shopping megastore. The original store had 2,500 square meters of retail space, 12 checkouts, and 400 parking spaces. The company expanded rapidly in France and beyond, opening its first store outside France (Belgium) in 1969, and outside Europe (Brazil) in 1975. In addition to strong organic growth, Carrefour pursued selective acquisitions, including notable mergers with Euromarche and Montlaur in 1991, and Promodes in 1999. **Exhibit 1** provides a history of Carrefour's store portfolio from 1992 to 2001.

Carrefour was profitable in all major operating regions. In 2001, the company generated operating profits of EUR2.8 billion on total net sales of EUR69.5 billion. Of that profit, 5% originated in Asia, 2% originated in Latin America, and 26% originated in Europe outside France, with the remainder of profits coming from French operations. The regional-sales breakdown was 7% from Asia, 12% from Latin America, and 32% from Europe outside France. For Carrefour, 2001 was the first year that total sales outside France exceeded total domestic

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sales. Carrefour was the largest retailer in France, Belgium, Greece, and Spain. **Exhibit 2** details Carrefour's consolidated financial statements.

The company expected to maintain its expansion trajectory. Carrefour's CEO, Daniel Bernard, stated his expectation that, in 2002, the company would increase sales by 5% on constant exchange rates and increase recurring net income by 10–15%. He asserted that the company continued to gain market share in most of the countries where it operated, notably in Italy, Belgium, Brazil, and Argentina. Carrefour relaunched its expansion in China, with the opening of a store in Chengdu in June.¹

Carrefour's Financing Policy

In each country, Carrefour operated primarily within the local economy when buying and selling products. Foreign-currency exposure on imported goods was generally hedged through currency-forward contracts.

In 2001, total Carrefour borrowings were EUR13.5 billion, of which EUR6.4 billion were in publicly traded bonds. Carrefour's debt was denominated in many currencies. **Exhibit 3** details the recent composition of Carrefour's borrowings by currency. Foreign-currency borrowing was generally hedged so that total debt requirements were currently 97% in euros.

Current Market Opportunities

As Carrefour management considered the bond-denomination decision, it also considered the current inflation, interest-rate, and exchange-rate environment.² Over the past three years, long-term bond yields had declined in all four currencies. The Swiss franc's interest rate, however, had consistently been the lowest rate. The decision also hinged on future movements in exchange rates. Over the past five years, the euro had depreciated against most major currencies. Should this trend continue, paying down foreign-currency debt with euro-denominated cash flow would become increasingly expensive. **Exhibits 4, 5, and 6** provide information on trends in inflation, government-benchmark bond yields, and exchange rates in the various currencies. **Exhibits 7 and 8** provide information on prevailing current spot exchange rates and the yield curve.

¹ Carrefour S.A., news release, 13 June 2002.

² Because the bonds would be offered in the eurobond market, they would be subject to similar issuance costs, liquidity, and specifications regardless of the currency denomination. Eurobonds uniformly followed an annual coupon convention.

Exhibit 1

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Total Number of Consolidated Stores

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
France	485	546	828	840	761	805	1,256	1,703	1,726	1,295
Spain	40	43	46	50	53	56	58	1,858	1,939	1,952
Portugal	2	2	2	2	2	3	4	278	277	281
Italy	0	1	6	5	6	6	6	52	413	305
Turkey	0	1	1	1	1	2	2	14	46	99
Poland						1	3	13	23	60
Czech Republic								3	6	9
Slovakia									2	2
Belgium										129
Switzerland										8
Greece								146	323	338
Argentina	6	7	9	12	15	18	21	128	361	400
Brazil	28	29	33	38	44	49	59	152	189	222
Mexico			2	7	13	17	19	17	18	19
Chile							1	2	3	4
Colombia							1	2	3	5
United States	2									
Taiwan	5	7	8	10	13	17	21	23	24	26
Malaysia			1	1	2	3	5	6	6	6
China				2	3	7	14	20	24	24
Korea					3	3	6	12	20	22
Indonesia							1	5	7	8
Singapore						1	1	1	1	1
Hong Kong					1	2	4	4		
Thailand					2	6	7	9	11	15
Japan									1	3
Total	568	636	936	968	919	996	1,489	4,448	5,423	5,233

Source: Carrefour S.A., Annual Report, 2001.

Exhibit 2

CARREFOUR S.A.Financial Statements
(in millions of euros)

	2001	2000
Sales, net of taxes	69,486	64,802
Cost of sales	53,875	49,920
Sales, general, & admin. exp.	11,729	11,236
Other income	645	763
Depreciation	<u>1,702</u>	<u>1,685</u>
EBIT	2,826	2,725
Interest expense	646	707
Income tax	<u>586</u>	<u>650</u>
Net income from recurring operations	1,594	1,369
Fixed assets	26,561	27,840
Inventories	5,909	5,716
Trade and supplier receivables	2,946	3,146
Other receivables	3,258	4,387
Cash and marketable securities	<u>4,797</u>	<u>2,941</u>
Total assets	43,470	44,031
Shareholders' equity	8,192	8,932
Provision for long-term liabilities	2,027	1,772
Borrowings	13,471	13,949
Trade payables and other debt	<u>19,781</u>	<u>19,377</u>
Total liabilities and shareholders' equity	43,470	44,031

Exhibit 3

CARREFOUR S.A.

Breakdown of Borrowings by Currency
(in millions of euros)

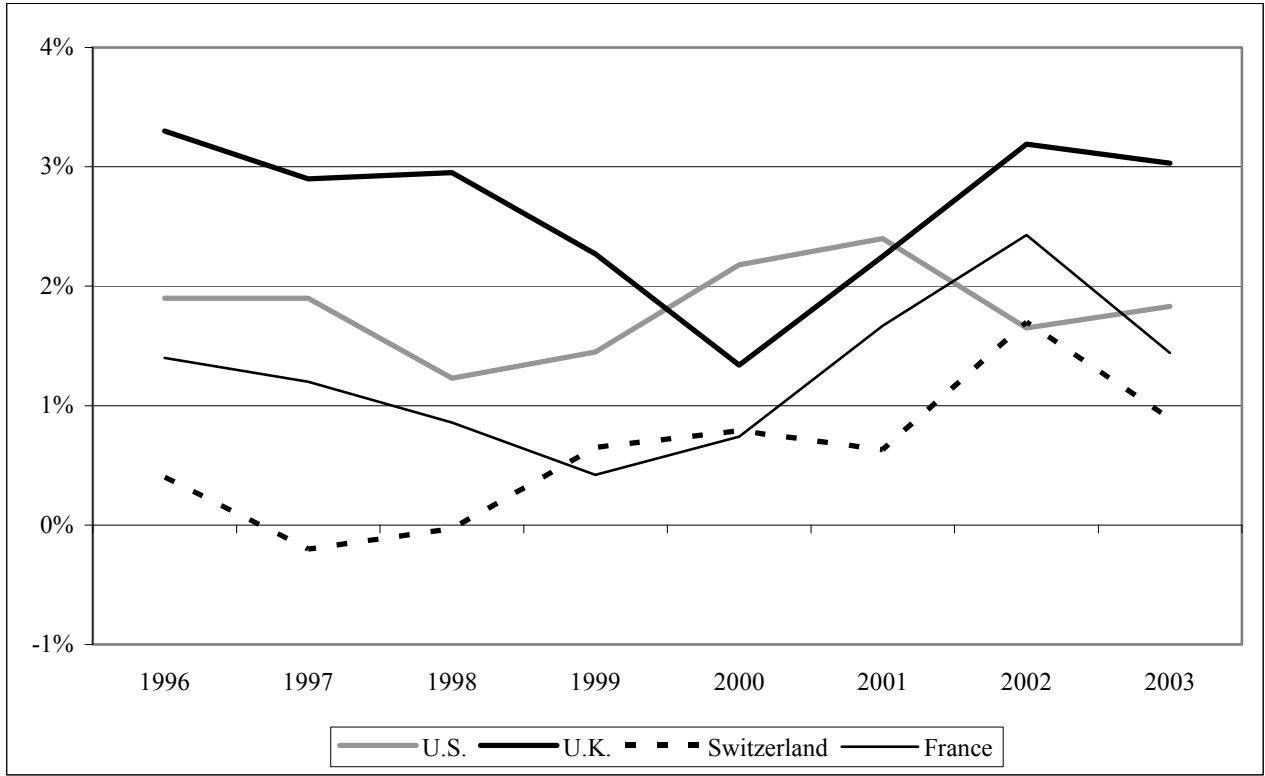
	2001	2000
Euro	12,267	12,201
Japanese yen	342	90
U.S. dollar	110	115
Argentine peso	238	903
Swiss franc	191	161
Norwegian krone	61	61
Turkish lire	49	65
Chinese yuan	39	28
Brazilian real	35	143
Malaysian ringgit	29	70
Colombian peso	26	7
Taiwanese dollar	25	71
Korean won	15	30
Others	<u>15</u>	<u>3</u>
Total	13,471	13,949

Source: Company documents.

Exhibit 4

CARREFOUR S.A.

Trends in Inflation Rates
(GDP deflator)

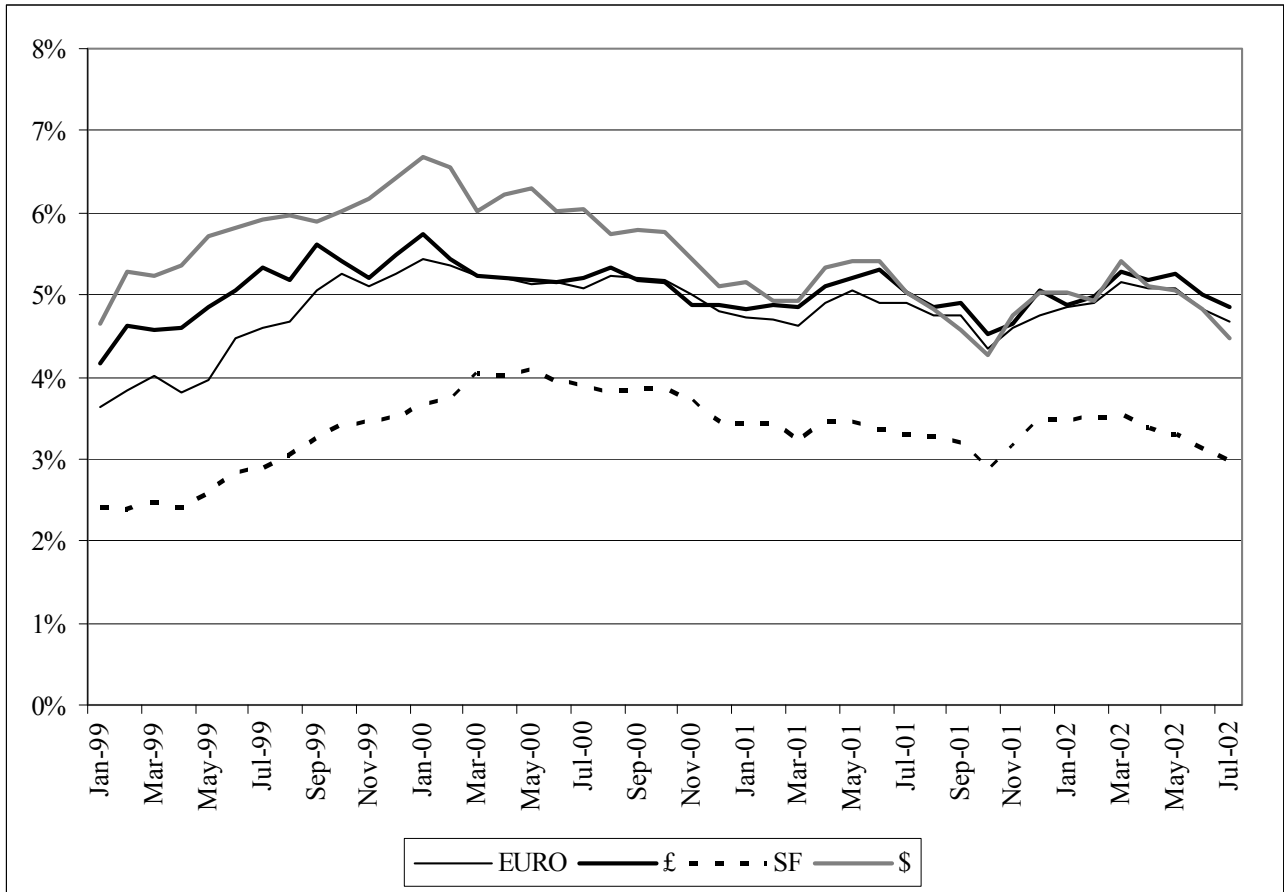


Source: Datastream.

Exhibit 5

CARREFOUR S.A.

Trends in 10-Year Government-Benchmark Bond Yields

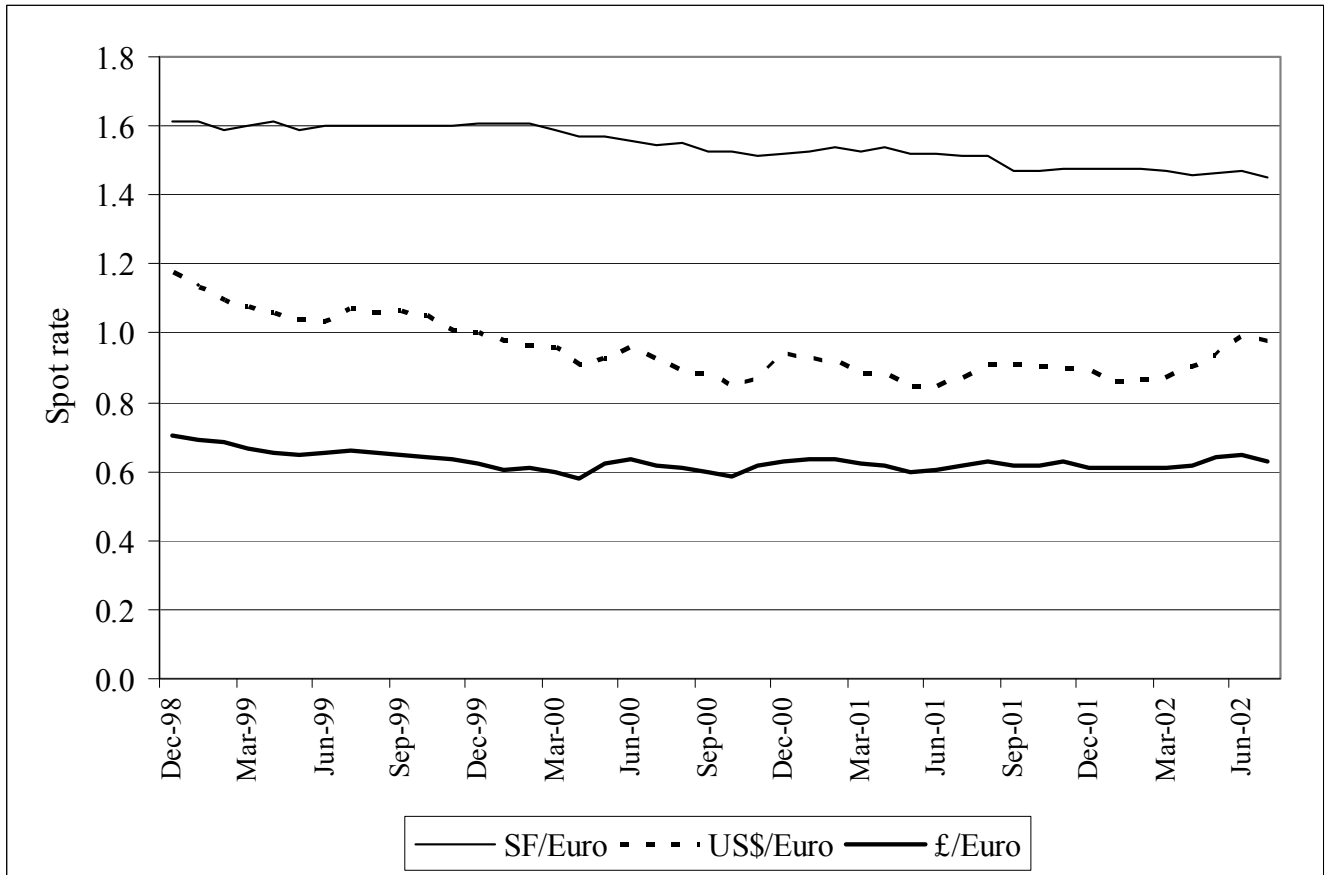


Source: Datastream.

Exhibit 6

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Trends in Foreign-Currency Spot Rates



Source: Datastream.

Exhibit 7

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Cross-Exchange Rates
(spot prices, 7/31/2002)

Row currency/ Column currency	Euro	British pound	Swiss franc	U.S. dollar
Euro	1.000	1.593	0.688	1.020
British pound	0.628	1.000	0.432	0.640
Swiss franc	1.453	2.315	1.000	1.482
U.S. dollar	0.980	1.562	0.675	1.000

Source: Datastream.

Exhibit 8

CARREFOUR S.A.Risk-Free Rates by Currency Denomination¹

Maturity	Euro	British pound	Swiss franc	U.S. dollar
1-year	3.514%	4.258%	1.125%	2.099%
2-year	3.816%	4.622%	1.713%	2.767%
3-year	4.110%	4.910%	2.172%	3.432%
4-year	4.342%	5.088%	2.498%	3.922%
5-year	4.530%	5.190%	2.743%	4.308%
6-year	4.688%	5.249%	2.948%	4.619%
7-year	4.819%	5.292%	3.120%	4.873%
8-year	4.928%	5.331%	3.267%	5.081%
9-year	5.017%	5.358%	3.394%	5.264%
10-year	5.087%	5.374%	3.499%	5.413%

¹ Rates equal to zero-curve fixed-to-floating swap rates.

Source: Datastream.