Hudson's Bay Co. and Macy's Inc.: A Perfect Match?

Description

A little over a year ago, I wrote an article on why I believed that **Macy's Inc.** (NYSE:M) might be the next takeover target for **Hudson's Bay Co.** (TSX:HBC).

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Some of the reasons mentioned back then included that Hudson's Bay has developed a knack in recent years for going after big chains, it can see the value in massive real estate holdings, and the company has experience turning around troubled retailers.

It looks like my prediction could come to fruition after all as reports last week indicated that Hudson's Bay has approached the U.S. retail giant and the two are in discussions.

Is Macy's a good fit for Hudson's Bay?

Macy's is the largest retailer in the U.S., eclipsing other retailers such as Saks and Lord & Taylor, both of which Hudson's Bay already owns.

Macy's announced last month that it would close 68 locations and lay off up to 10,000 employees, citing weaker than expected sales and shifting consumer tastes away from the large showroom-style stores that the retailer is associated with.

If that weren't enough, the chairman and CEO of Macy's Terry Lundgren is set to step down this year, passing the reins to Macy's president Jeff Gennette.

Macy's fits Hudson's Bay's overall objective of breaking into the U.S. retail market. That being said, Hudson's Bay could find it a challenging move to absorb Macy's, which has a market cap of roughly five times that of Hudson's Bay and carries a significant debt.

Hudson's Bay has made significant progress towards transitioning the physical store model of the past into a more digital-first model which embraces the online world as part of the sales process. The integration of the Gilt online retail platform was intended to bridge this gap, and, in theory, this platform could be applied to Macy's as well.

Macy's response to the changing and challenging retail market was the introduction of the Backstage at Macy's segment, which, while ambitious, lacks the reach of Gilt and other online platforms.

Real estate is key

As with nearly every acquisition Hudson's Bay has made in recent memory, real estate is key. The ultimate success of the Saks acquisition was defined by the masterstroke deal where Hudson's Bay purchased Saks for less than the Saks New York flagship location was worth.

By way of comparison, while Macy's market cap is estimated to be just shy of US$10 billion with US$7 billion in debt, prominent investors speculate that Macy's real estate assets could fetch upwards of US$21 billion.

That's not to say that Hudson's Bay is swimming in cash to make a bid for Macy's. Hudson's Bay has a market cap of under $2 billion and has a fair share of its own problems to deal with; the stock is down 20% this year alone on weaker numbers.

Could the deal happen?

The deal could very well go through. Retailers are still struggling to deal with the onslaught of mobile-based purchases which have overtaken desktop purchases and are now taking a toll on foot traffic in stores. For large retailers like Macy's, this is a game-changing shift in business, which some companies just can't handle.

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Another option potentially on the table could be an agreement between the two retail behemoths that could spawn cost savings for both.

Either way, the retail landscape continues to evolve, and Hudson's Bay Co. remains at the forefront as an enticing investment opportunity.

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