



## Hudson's Bay Co.: Is it a Buy Without Macy's Inc.?

### Description

News came out March 3 that **Hudson's Bay Co.** (TSX:HBC) couldn't line up the financing to buy **Macy's Inc.** ([NYSE:M](#)), which sent HBC stock down almost 6%. Now it appears that Macy's might have been asking too much, forcing Hudson's Bay to walk away from talks that have been ongoing for three months.

Whatever the truth, it appears that Hudson's Bay will have to carry on with its plan to become a global retail powerhouse without Macy's in tow. Investors are now asking themselves is if HBC stock is still a buy.

Here's my take on things.

### No longer a white knight

I recently [explained](#) how Hudson's Bay could pay for the Macy's acquisition — a deal that was rumoured to see Macy's shares valued as high as \$50 per share and costing HBC US\$22 billion, including debt.

Personally, I believe Richard Baker, HBC's executive chairman, would have been able to pull together the financing and partners to make it happen. Unfortunately, with activist investor Starboard Value backing away from its all-out assault on Macy's, its management aren't nearly as incentivized to reach a deal with Baker, and in the process, forced the asking price even higher.

While I don't believe this is over by a long shot, it's going to take some serious arm-twisting to get incoming CEO, Jeff Gennette — he takes the helm March 23 — back to the negotiating table because doing so would likely mean the end of his run as Macy's CEO before he'd even gotten started. Gennette has been with Macy's for 34 years, so he likely wants to see if his team can successfully right size its business before entering the wholesale divestiture of real estate assets.

Baker might have been interested in Macy's real estate, but I'm fairly certain Gennette is primarily thinking about how he can keep his department store relevant in an era of online buying and fast-fashion retail.

### **What lies ahead for HBC**

The old saying, "Be careful what you wish for because it just might come true," definitely applies in this situation. While Baker is a real estate genius, he's still got retail troubles within his existing business that are far from solved; a deal of Macy's magnitude would most certainly test his ability to keep the department store group (Hudson's Bay, Saks, Lord & Taylor and Galeria Kaufhof) moving ahead while successfully integrating Macy's.

Sometimes the deal you don't do is the best outcome of all.

Saks' Off 5th discount business is suffering. In the fourth quarter, the division saw same-store sales decline by 5.9%; that's not a good thing when you consider that discount retail is one of the industry's only bright spots at the moment.

For HBC stock to retest \$20, a level it last hit in late 2015, Saks Off 5th must be generating positive same-store sales growth.

### **M&A possibilities**

Macy's might be dead in the water, but that doesn't mean Baker shouldn't consider opportunities elsewhere, such as Latin America. It's not a secret that the U.S. is over-retailed, whereas department store operations in South America are still growing.

In Chile, for example, there is **Falabella**, a holding company with US\$12.8 billion in total revenue, including US\$4.1 billion in the department store category. In fiscal 2016, Falabella's EBITDA profit was US\$1.7 billion — a little more than two times HBC's profit. It's family controlled, so it would be a difficult task to buy the company, but its growth profile is much better than any of HBC's businesses.

### **Bottom line**

Failing to at least attempt to buy Macy's would have been the biggest mistake Richard Baker could make. Now that it looks as though that's not going to work, there are plenty of opportunities for HBC to spread its wings on a global basis.

Hudson's Bay Co., in my opinion, is still a buy without Macy's. What comes next for Baker will be fun to watch.

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1. Investing

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