Hudson's Bay Co. Buys [Fill in the Blank]

Description

The retail rumour mill is starting to get a little ridiculous.

The latest morsel: Richard Baker's **Hudson's Bay Co.** (TSX:HBC) is seriously considering making a bid for Neiman Marcus. *The Financial Post* ran a story March 14 that re-reported the fact the *Wall Street Journal* had reported that HBC, according to those always elusive "unnamed sources," is in talks to buy the department store — but doesn't want to take on Neiman's debt.

The idea itself isn't so outlandish, but it seems to say more about how desperate department store owners have become, not to mention business journalists, than it does about the actual business sense of such an acquisition.

"The WSJ just keeps making one BS story after another," commented a *Financial Post* reader. "First it was Macy's, now Neiman Marcus. Time to end the rumour mill."

Well said.

HBC shareholders should be especially irked by this report because it makes it sound as if Baker is some mad scientist concocting really cool ways to pull off acquisitions with absolutely no regard for other shareholders — and that's simply not true.

Steven Dennis (he was a senior executive with Neiman Marcus from 2004 until 2008) wrote a nice piece in *Forbes* March 14 that does a good job explaining the complexities of the Neiman Marcus situation. Trust me, **Macy's Inc.** (NYSE:M) is a well-oiled machine in comparison.

Like so many retailers acquired by private equity interests, Neiman Marcus has been saddled with a debt load that makes it virtually impossible to pull itself up by the bootstraps. Clearly, it's in need of financial cleansing. You can be sure Richard Baker isn't the one who will be providing the financial tonic.

Yes, HBC is a consolidator in the department store industry, and yes, it's looking to buy assets, but that's not the same thing as rescuing a company that never should have been bought by the Canada

Pension Plan and Ares Management in such a leveraged manner — the *Dallas Morning News* says Neiman Marcus took on US$4.7 billion in debt along with US$1.6 billion in equity from CPP and Ares Management to seal the deal back in 2013.

Less debt and more equity would have been helpful.

According to Neiman Marcus's pulled IPO registration statement, it had 2014 revenues of US$4.8 billion and adjusted EBITDA of US$698.4 million. In the latest quarter, it had revenues of US$1.4 billion — down 6.1% over the same quarter last year — and adjusted EBITDA of US$126.8 million — down 30.7% from a year earlier.

The boat is sinking, albeit slowly.

Think of it this way: Neiman Marcus has a dollar of revenue for each dollar of debt. By comparison, Macy's has almost four dollars of revenue for every dollar of debt, and it has considerably better real estate.

Getting back to Steven Dennis's article, the section that probably intrigues Richard Baker the most is the following: "While e-commerce is growing (now representing 31% of Neiman's total revenues), most of that is now merely channel shift. Moreover, there are virtually no new full-line store opportunities for either Saks or Neiman's."

Like **Wal-Mart Stores, Inc.** (NYSE:WMT), which bought Jet.com to help grow online revenue, if HBC could simultaneously ramp up its online sales while putting one of Saks's biggest competitors out of business, it would be a win/win situation for Baker and company.

But if it doesn't happen, could we stop all the speculation about HBC? It's getting very old.

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Date
2025/08/18
Date Created
2017/03/16

Author
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