



It's Time for Hudson's Bay Co. to Send Land & Buildings Packing

Description

What do you get for a 4.3% ownership stake in department store conglomerate **Hudson's Bay Co.** (TSX:HBC)? Apparently, you get a seat at the big boys' table.

Connecticut activist investor Jonathan Litt's Land & Buildings (L&B) is an investment management firm that specializes in owning securities of real estate and real estate-related companies.

This summer, L&B acquired a stake in HBC and has been a thorn in the side of executive chairman and interim CEO Richard Baker ever since.

Most recent example

At the beginning of November, I'd [highlighted](#) the three pieces of good news Baker delivered for HBC shareholders — the most important being the US\$850 million sale of its Lord & Taylor flagship store in New York City — pulling a rabbit out of his hat.

Litt dared to question Baker's motives for doing the dilutive transaction, arguing the deal with Rhone Capital and WeWork Companies should be voted on by non-insider shareholders — L&B being the most important of those shareholders on the outside looking in.

As a result of the so-called snub by Baker, L&B petitioned the Ontario Securities Commission (OSC) to review the TSX's conditional approval for HBC's convertible preferred share issuance. HBC and Rhone have agreed to put off closing the deal until December 4 or the release of the OSC findings on the matter, whichever comes first.

As I've said previously, I don't see how HBC's deal with Rhone Capital is any concern of Land & Buildings.

Baker, through L&T B Cayman, owns 17.7% of HBC's shares and has nominating rights agreements in place that allow for the election of two of the company's directors. The Ontario Teachers' Pension Plan (OTPP) and the Abu Dhabi Investment Council, who own 12.6% and 17.7%, respectively, both have the right to nominate one director apiece; that's four out of the 11 directors.

The remaining seven directors are independent of HBC's largest shareholders and are duty bound to consider the best interests of all shareholders, including L&B.

So, Litt is essentially accusing the independent directors of being in the pocket of Richard Baker and the other large investors.

What irks me

The thing that irks me the most about L&B's activism is that we're not hearing from the other large HBC investors.

The Abu Dhabi Investment Council have been aboard as shareholders since Baker bought the company in 2008. The OTPP invested in 2013, providing US\$500 million in equity funding for HBC's purchase of Saks. OTPP paid \$17 per share for approximately 30 million shares and five million warrants, also at \$17 per share.

L&B didn't pay anywhere near that amount for its investment, and yet it's doing all the bellyaching, while the OTPP patiently waits for Baker to pull more rabbits out of his hat.

I don't know what Baker can do to appease L&B at this point short of buying back their shares at double the price they paid for them.

Hopefully, the OSC will rule in favour of HBC and Rhone Capital and let the preferred share issuance proceed. By hook or by crook, Baker has got to figure out how to send L&B packing.

It's a complete distraction from finding a new CEO and delivering value for shareholders. With or without L&B, Hudson's Bay should stay the course and not give in to an owner of 4.3% of its stock.

At current prices, HBC continues to a [great buy](#).

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