



## Macy's Inc. Offers Hope for Hudson's Bay Co. Shareholders

### Description

It takes courage to own **Hudson's Bay Co.** (TSX:HBC) stock.

That's because everybody and their dog has written off the department store chain before it's even been pronounced dead by the coroner. Thankfully, Executive Chairman Richard Baker and CEO Helena Foulkes can look to **Macy's Inc.** ([NYSE:M](#)) for divine inspiration.

You see, they said the same thing about Macy's, but it's clearly still here. In fact, its business is starting to thrive under CEO Jeff Gennette. Evercore ISI analyst Omar Saad double-upgraded Macy's stock June 4 from "short" to "long," thereby suggesting that classic retailers are figuring out how to manage inventory and market to consumers in the digital age.

"Multi-year share price underperformance and still modest valuations despite a very healthy consumer macro environment tell us that the market is still married to the sensational "retailpocalypse" narrative, which assumes that Amazon and other digital disruptors will continue unabated," Saad said in a note to clients. "[That's] a viewpoint with which we no longer agree."

I'll second that opinion. I've always maintained that brick-and-mortar retail is anything but dead.

One only need [look](#) to **Lululemon Athletica Inc.'s** ([NASDAQ:LULU](#)) earnings and revenue growth to understand that the winners in retail will be those companies that do a good job marrying in-store with online to provide a seamless, quality customer experience.

### Outside the box

In March, I suggested that HBC [merge](#) with **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)), a radical idea that would see the combined entity franchise all but the strongest HBC locations harness the power of entrepreneurship.

That might be pie in the sky thinking, but old school ideas are not what Hudson's Bay needs at the moment. As I said in March, I still believe HBC has a lot more game than most investors give it credit for.

Helena Foulkes is working quickly to turn its business around, shedding assets such as Gilt Groupe that never fit into the company's mid- to higher-end price points as well as closing 10 Lord & Taylor stores in the U.S., including its flagship in New York while also cutting layers of management in its European stores to ensure quicker decision making.

That said, it's not easy floating a bloated operation.

"Over the last month, we have worked rapidly to put in place a leadership team focused on driving business results, streamlining our processes and fostering a culture of accountability. We need to improve across all areas of the business, and this begins with rededicating ourselves to putting the customer first in everything we do," stated Foulkes in the company's Q1 2018 earnings release. "Accountability begins with our leadership team, and I am confident that we now have the right people in place across HBC to drive actions that will result in profitable growth."

Foulkes is a veteran retailer who deserved the CEO job. I believe that she's on the right path to success. Investors shouldn't be scared by the increased losses in the first quarter because they weren't entirely unexpected.

Plus, there were some bright points in the quarter: Saks same-store sales grew by 6%, the Hudson's Bay banner achieved its 31 consecutive quarterly same-store sales increase, and adjusted EBITDAR rose by \$11 million in the quarter to \$173 million.

If this were a hockey game, we'd barely be at the first intermission. There's a lot to happen before the game ends.

### **The bottom line on HBC stock**

Macy's is doing five things in 2018 to strengthen its business. One of them is focusing on its top 50 stores in the U.S. — it has more than 690 compared to 488 for HBC — and I could see Foulkes doing something similar.

In the past I've [said](#) that most investors shouldn't own HBC stock because people are generally too impatient and want results now. For those who are patient and can also handle above-average risk, I'm actually more excited about the company's future today than I was six months or a year ago despite the higher losses.

Quarter by quarter, inch by inch, Foulkes' team will be held accountable. And that's all you can ask of management.

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1. Investing

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2. NYSE:M (Macy's, Inc.)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)

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