



I've Got 55 Million Reasons to Own This Stock

Description

Hudson's Bay Co. (TSX:HBC) announced a first-quarter loss of \$400 million June 5 — far bigger than analysts were expecting, yet its share price moved higher.

That's not the reaction to bad news one would expect, especially when you consider Executive Chairman Richard Baker faced significant opposition leading up to the company's annual meeting from institutional investors over his \$55 million pay package.

"It seems very odd that you would have such excessive pay when there's such underperformance," Richard Leblanc, associate professor of law, corporate governance, and ethics at York University, said in an interview.

While the Ontario Teachers' Pension Plan, BC Investment Management Corp., and several large U.S. pension systems voted against the pay package, more than 70% of shareholders voted for it, easily winning the day.

Here's why that's a good thing

HBC remains, very much, a work in progress.

It's hypocritical for institutional investors to complain about Baker's pay package when they're the ones who've been screaming for the company to move faster to fix what ails it, including finding better uses for some of its excess [real estate](#).

In case they've forgotten, it is Baker's real estate expertise and connections that will help HBC find the right opportunities for some of that excess real estate. The WeWork partnership that Baker put together is a perfect example of what can be achieved on the real estate front.

On the retail front, Baker has brought in a seasoned pro in Helena Foulkes to remake HBC into a nimbler organization where its leaders, Foulkes included, will be accountable for the performance of its various businesses.

The role of any good manager, whether it's at the store or executive level, is to provide their people with the tools necessary for them to be successful.

Up until now, HBC's brick-and-mortar and online businesses haven't operated in a truly omnichannel manner, reducing the effectiveness of both areas of its retail business.

To fix that, Foulkes has brought in Bari Harlam and Vanessa LeFebvre to help provide customers with a more seamless shopping experience. Harlam created the **CVS Health Corp.** loyalty program — the world's largest. Foulkes and Harlam worked together at CVS. LeFebvre, who is president of Lord & Taylor, started her retail career as a buyer at the department store, coming full circle.

I, for one, am more confident of HBC's [future](#) than I have been for a couple of years. It continues to do well in Canada, where it is gaining market share in certain segments that once belonged to Sears Canada, while Saks in the U.S. is delivering mid to high single-digit same-store sales growth.

The real weaknesses are at Lord & Taylor, its European stores, and its off-price business.

To fix Lord & Taylor, Foulkes is closing 11 stores, including the flagship in New York City, while moving the chain further online, where it can use the banner's strong name recognition to drive traffic at a lower cost than in the stores.

To fix its European stores, Foulkes has cut out a layer of management to speed up the decision making. Ultimately, if the company decides to sell the stores in Europe, a rightsized management team will make it more attractive to potential buyers.

Lastly, some might think selling off Gilt Groupe is a sign it's not going to be able to turn around Saks OFF 5TH, but I see just the opposite. Gilt Group was never a good fit; its business had deteriorated for some time before HBC acquired it, and it really was a distraction from a quality name like Saks.

The bottom line

If HBC doesn't succeed, it won't be for a lack of trying by Foulkes and Baker.

As for the so-called lavish \$55 million pay package in 2017, one needs to look more closely at what it entails. For example, Baker's 2015 reported compensation was \$15.3 million, yet he actually made \$1.2 million. In 2016, his reported compensation was \$7.7 million; he actually made \$1.1 million.

So, although Baker's reported 2017 compensation is \$54.8 million, if HBC goes down in flames — and with it, its share price — he makes \$1 million.

I'm pretty sure a person with his background can find an easier, less-stressful way to make a million dollars in a given year — don't you?

The pensions doth protest too much.

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