Warning: 1 Retail Stock Is in a Death Spiral

Description

Hudson's Bay (TSX:HBC) is pulling out all the stops to ensure it doesn't end up on the retail scrapheap. Over the past year, the company has hired a new CEO, announced plans to close underperforming stores, refocused efforts on its chain of discount retail outlets, and sold the original flagship location of an iconic New York department store. But will these changes help HBC avoid the fate of so many mid-tier retailers?

default watermark

Mid-tier retailers under pressure

Companies at opposite ends of the retail spectrum are faring well. For instance, the stock of boutique retailer **Lululemon** is trading at an all-time high of $171. Value retailers like **Walmart**, which is trading near its all-time high of $106, are also thriving. It's the retailers operating in the mid-tier market, between the high end and low end, that are feeling the pressure.

HBC's roster of stores in North America includes Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Saks Off 5th, and Home Outfitters. Several of these brands serve as anchors in large shopping malls. As foot traffic in North America's malls continues to decline, can HBC survive the changing retail landscape?

New CEO

CEO Helena Foulkes has been at the helm for just over a year. As a former **CVS Health** executive, she brings a wealth of experience when it comes to brick-and-mortar retail. In the latest earnings call, Foulkes seemed focused on improving the balance sheet through real estate transactions.

HBC lost $837 million in Q4 2018. This loss is almost 70% higher than in fiscal 2017. HBC's sales fell by 0.2% in terms of same-store sales.

Closing underperforming assets

HBC has announced plans to shutter all locations of its Canadian home store, Home Outfitters, by the end of 2019. Last year, the revenue from Home Outfitters negatively impacted the company's EBITDA by $7 million, with a total revenue of $113 million.

This announcement came on the heels of the company's sale of money-losing Gilt. HBC purchased Gilt in 2016 for $250 million and created Gilt shops inside its Saks Off 5th retail locations.

Renewed efforts for off-price retail

The company hopes that its off-price retail arm, Saks Off 5th, will benefit from a renewed effort to improve sales. Foulkes plans to "operate the stores less like small department stores and more like our version of off-price retailers."

The off-price retail chain allows HBC to clear out its inventory of unsold merchandise and appeals to consumers' love of discount designer goods.

default watermark

These efforts come just as the company reported that sales at Saks Off 5th have declined for the last 12 consecutive quarters. Clearly, HBC sees opportunity in this sector. Sales in similar retailer Nordstrom Rack, the off-price chain of Seattle-based **Nordstrom**, have outpaced competitors in recent years.

Sale of iconic landmark in New York

HBC completed the sale of the Lord & Taylor flagship store on Fifth Avenue in New York. The total sale of $1.1 billion allowed HBC to maintain $163 million of the transaction value as preferred equity stake in the building. HBC and its partners intend to transform the landmark building into better use for current generations who are changing the way in which they live and work.

The bottom line

Although HBC is making notable efforts to improve its bottom line, the company has a lot of work ahead. HBC is North America's oldest company, and like many older, established retailers, the company has some die-hard fans. But legions of loyal fans weren't enough to prevent the downfall of beloved brands **JCPenney** and **Sears**. Time will tell if HBC can save itself from the growing pile of retailers that are now defunct or barely functioning on life support. In the meantime, investors should be wary of the stock.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/26
Date Created
2019/04/18
Author
cdye

default watermark

default watermark