

Hudson's Bay Takeover Offer to Department Store Titan, Macy's

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On February 3, 2017, multiple news outlets reported that Hudson's Bay Co. (HBC), the Canadian owner of Lord & Taylor and Saks Fifth Avenue, moved to takeover Macy's Inc., the biggest U.S. department-store chain. According to [the Wall Street Journal](#), the conversations between the two companies are still at a preliminary stage and the proposed deal is not assured.

In recent years, Macy's has confronted a serious decline in sales. In 2016, [the quarterly net sales of the company](#)'s first, second and third quarters dropped 7.4%, 3.9% and 4.2% from a year earlier, respectively. The middle-tier department-store chain has struggled to keep up with a shift of consumer tendencies to recession-friendly low-cost retailers (such as H&M and T. J. Maxx), and to convenient online shopping platforms like Amazon. Last August, Macy's [announced](#) that it would close approximately 100 stores out of a portfolio of 728. Just last month, the company [published](#) its plan to close 68 stores and eliminate more than 10,000 jobs in the course of its restructuring plan. Further, the company's longtime chief executive, Terry Lundgren, is expected to step down by the end of March and will be replaced by current president Jeff Gennette.

Macy's has also faced pressures from the activist fund Starboard Value LP ("Starboard"). Starboard, in its [public statement](#), estimated the value of Macy's real estate at \$21 billion, nearly double the company's market value of \$11 billion. Furthermore, Starboard is pressuring Macy's to spin-off its real estate. However, the company remains reluctant to take such drastic action.

If its takeover of Macy's succeeds, HBC would emerge as one of the largest retailers in North America. In addition to the expected synergies the acquisition would create, HBC is known for bringing the potential value of retail chain's real estate to light. Indeed, a year after the takeover of Saks Fifth Avenue for \$2.9 billion, its New York flagship store was appraised for \$3.7 billion. Furthermore, to show the unrevealed value of real estate to shareholders, HBC has formed joint ventures with mall owners and property developers while retaining ownership. Chairman Richard Baker told [the Wall Street Journal](#) that "many retailers are not properly valued by the market because investors do not fully understand the real estate they hold and sale-leaseback deals are not appealing to most retailers."

However, [some analysts](#) are pessimistic about the proposed takeover because HBC will face difficulties adapting Macy's to the rapidly changing retail market. In regards to this concern, [Oliver Chen](#), an analyst at Cowen Group, stated that an acquisition of Macy's by tech giants (such as Amazon) "would be a revolutionary combination of establishment retail meets new media." Conversely, Craig Johnson, president of retail consultancy firm Customer Growth Partners, sees an Amazon-Macy's merger as unrealistic and described it as "fighting yesterday's war to get into the retail real estate business."

Both Macy's and HBC have declined to comment on the February 3 report. According to [Bloomberg](#), however, Macy's stock shot up as much as 12% on the same day, while it had fallen 25% in the last twelve months. Likewise, HBC's stocks surged as much as 6.2% in Toronto.