

NRDC Heading North: Buys Hudson's Bay Co., Sees L&T in Canada

By David Moin

The Hudson's Bay Co. is about get an American-style makeover from its new owner. NRDC Equity Partners closed Wednesday on a deal to buy Toronto-based Hudson's Bay, which has revenues of about \$7 billion, and plans to infuse the company with fresh high-level management and better brands, as well as reformat much of its square footage. The potential plans include expansion of NRDC-owned Lord & Taylor to Canada. Industry sources said NRDC paid more than \$1.1 billion for Hudson's Bay, which operates 94 The Bay department stores, 280 Zellers discount units, 61 Home Outfitters and 161 Fields stores. Hudson's Bay is North America's oldest retail brand.

Sources also said Jeff Sherman, former president and chief operating officer of Polo Ralph Lauren Retail, and a former president of Bloomingdale's, has been tapped as the head of all Hudson's Bay Co. retail operations. He is to succeed Robert Johnston, president and chief executive officer of the company, who also was chief strategy officer.

In addition, NRDC plans to name new divisional merchant heads to oversee The Bay and Zellers divisions.

The deal, first reported in WWD on July 9, is a bold move linking North America's two oldest department stores, Lord & Taylor, founded in 1826 on Catherine Street in lower Manhattan, and The Bay, which was originally a fur trading company that dates back to 1670.

NRDC also owns Fortunoff, the home and jewelry chain, and Creative Design Studio, which designs and develops fashion products under the Kate Hill, Context and Black/Brown 1826 labels. They're sold at Lord & Taylor and expected to be wholesaled to other stores, including The Bay, for the next holiday and spring seasons.

The private equity firm already had a 20 percent stake in Hudson's Bay, giving it the inside track on purchasing the company from the Zucker family. The deal was done privately without any bidding process. South Carolina businessman Jerry Zucker bought Hudson's Bay for almost \$1 billion in 2006. Zucker, who died in April, was chairman and ceo of InterTech, the corporate owner of Hudson's Bay.

Richard Baker, president and ceo of NRDC and chairman of Lord & Taylor, said the acquisition represents "a culmination" of a plan to create synergies, accelerate growth of its store holdings and re-create much of the retail landscape in North America. Baker will assume the titles of ceo and governor of the newly formed The Hudson's Trading Bay Co.

"Lord & Taylor now has the opportunity to open a certain number of stores in Canada because we have a lot of Bay stores in world-class locations that are too big," Baker said.

Although no commitments have been made, it's possible that 200,000-square-foot Lord & Taylors could be carved out of some of The Bay flagships, such as the 900,000-square-foot store in Toronto, or the 650,000-square-foot flagship in Vancouver, Baker said. He estimated 10 to 15 Lord & Taylor units could open in Canada, but gave no guarantees.

A Lord & Taylor rollout in Canada "makes a tremendous amount of sense because there is a void in the market between Holt Renfrew [Canada's luxury chain] and The Bay," which is a traditional department store, Baker said. "There is no Bloomingdale's. No Saks Fifth Avenue. No Nordstrom. No Macy's in Canada."

Some retailers have been deterred from expanding to Canada because of the language and logistics challenges posed by such growth. But Baker pointed out that he has a jump start bringing L&T and Fortunoff north of the border because the acquisition of Hudson's Bay provides a ready-made Canadian infrastructure.

"The second piece here is with Fortunoff, where beginning in February, we will have Fortunoff shops inside Lord & Taylor stores," Baker said. "What an opportunity we now have to replace the existing jewelry in The Bay with Fortunoff jewelry. We can also roll out freestanding Fortunoffs," with potentially 125,000-square-foot Fortunoff units inside one or more of the mammoth-sized The Bay emporiums that operate in some of Canada's larger cities.

In addition, Baker said Zellers will see greater focus on branded apparel, improved customer service and a future rollout of a 125,000-square-foot prototype. The strategy is geared to better compete against Wal-Mart Canada.

The Fields unit of Hudson's Bay will continue to focus on delivering value-priced merchandise to Canadian consumers.

NRDC Equity Partners said Francis Casale will serve as chief financial officer of The Hudson's Bay Trading Co. Donald Watros will be chief administration officer and Brian Pall will serve as president of the HBTC Property Co.

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Alluding to the U.S. downturn marked by higher prices, tight credit and falling consumer confidence and home values, Baker said: "The Canadian economy is much stronger than the U.S. economy. It's not going through the same turmoil that the U.S. has [been]. The good news is, it's a commodities-rich economy that doesn't have any of the housing issues....With much less competition in Canada, if we properly execute and move aggressively and efficiently, we believe there is a huge opportunity.

"Everybody wants to be in Canada," he said. "Every day there is an announcement regarding another U.S. retailer moving in. It's an underserved, hot market."

Baker said no store closings are planned.

"We are here to make The Bay and Zellers more exciting and more interesting."

He said the acquisition involves 47 million square feet of retail real estate, including seven huge flagships where the real estate is owned. A substantial portion of the retail real estate is owned, but it's less than half of the total square footage, Baker said.

The Hudson's Bay Trading Co. is a holding company comprising Hudson's Bay, Lord & Taylor, Fortunoff and Creative Design Studio. The holding company represents \$8 billion in retail sales, measured in U.S. dollars, 75,000 employees and 55 million square feet of stores in the U.S. and Canada.

Baker said \$500 million will be pumped into the new entity to upgrade the assortments and store experience.

It's also possible that The Hudson's Bay Trading Co. will grow through another acquisition. In the fall, NRDC formed NRDC Acquisition Corp. to raise about \$400 million for the possible purchase of one or more operating companies. It's considered a "blank-check company," otherwise known as a SPAC, or special purpose acquisition company.

Reaction to the deal was largely positive.

"I have long considered Hudson's Bay one of those sterling retail names with great brand equity,

comparable to Macy's and Harrods," said Isaac Lagnado, of Tactical Retail Solutions, the consulting and market research firm.

However, in the last few decades, "Hudson's Bay has suffered a little bit sometimes due to a lack of image clarity" by trying to cater to a wide range of demographics, with budget to moderate to better prices, and sometimes emulating American stores such as Nordstrom or Macy's.

"There was always this tug-of-war within the company," Lagnado said. "They were very lucky never to have been challenged by a really powerful U.S. department store. Had they been, they would have lost a lot of market share."

Lagnado added, "There is a lot of upside potential here to optimize the brand. Productivity per square foot of a typical Bay store pales in comparison to what a major department store does here, except for The Bay's best stores."

Financo Inc., the investment bank, helped in raising capital for the deal.

"It's hard in this environment to grow any kind of retail [business], but over the long run, this will be extremely beneficial to NRDC and Hudson's Bay," said Financo chairman Gilbert Harrison. "It's a deal with a lot of extremely good real estate and provides Richard Baker an opportunity to extend his management skills to a much larger base."