LANDandBUILDINGS

Land and Buildings Issues Letter to Hudson's Bay Board Calling on Company to Evaluate All Strategic Alternatives to Maximize Value

– The Highest Value and Best Use of Hudson's Bay's One-of-a-Kind Real Estate Likely Not as Department Stores –

– Real Estate Valued at C$35 Per Share, or 4x The Current C$8.88 Share Price –

– NYC Saks Fifth Avenue Location Alone Has Been Independently Valued at about C$5B or C$16 a Share –

– Company Should Evaluate Monetization or Repurposing of Real Estate, as well as Being Taken Private by Management, Given ~20% Insider Ownership –

Stamford, CT, June 19, 2017 – Land & Buildings Investment Management, LLC (together with its affiliates, "Land and Buildings") today issued the following letter to the Board of Directors of Hudson's Bay Company (TSX: HBC) ("Hudson's Bay" or the "Company"), a Toronto listed department store operator of various brands in the U.S., Canada and Europe including Saks Fifth Avenue, Lord & Taylor, Galeria Kaufhof and Hudson's Bay. The letter highlights the substantial untapped real estate value embedded in the Company.

The full text of the letter follows:

Dear Members of the Board:

As an approximately 4.3% shareholder of Hudson's Bay, Land and Buildings has watched over the past few months as the Company publicly sought a merger partner such as Neiman Marcus or Macy's. As has been thoroughly reported, any transaction of this type would be challenging and complicated. To date, the only result of these efforts has been the stock declining nearly 25% since the deal talks surfaced, and the Company announcing last Thursday that it would be undertaking a massive $350 million restructuring to realign its own business "to get ahead of the changing retail landscape." [1]

We believe this sequence of events underscores a core fact: <u>the path to maximizing the value of Hudson's Bay lies in its real estate, not its retail brands</u>. In our view, the whole time the Company's management has been struggling to navigate this complicated maze of M&A options, the answer lies in its own real estate portfolio.

Ostensibly, Hudson's Bay is a department store company, but unlike its peers that may own some of their real estate and whose values may approach or slightly exceed their share prices, Hudson's Bay owns the vast majority of its real estate. As such, it is one of those rare diamonds in the rough that a real estate investor occasionally finds in a career, where the value of the real estate, which the Company estimates is worth C$35 per share, could be worth 4x the current share price of C$8.88. Even if the real estate is worth half the Company's estimate, the shares would still be worth double today's share price.

<u>This drastic public markets mispricing is why Hudson's Bay should evaluate all strategic options to maximize value for shareholders, including monetization or repurposing of real estate or the Company being taken private by management.</u>

Hudson's Bay's portfolio of assets is truly unique. Consider that the Saks Fifth Avenue store between 49th Street and 50th Street, across from Rockefeller Center, was recently appraised at C$16 per share net of

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[1] Press Release, HBC Announces Transformation Plan for North American Operations to Deliver Best-in-Class All-Channel Customer Experience, 6/8/17

debt, and is likely one of the most valuable locations not only in Manhattan, but in the United States. Is the best use of this location truly a department store? What about a hotel? Or office? Or boutique retail stores the likes of Apple and Gucci? Or an internet retailer looking to go upscale through a bricks and mortar presence as Amazon appears to be doing with its purchase of Whole Foods? The point is that with real estate this valuable, there are a myriad options for value creation, all of which must be explored.

What is also striking about Hudson's Bay when compared to other department store companies is that savvy real estate executives, including David Simon, CEO of Simon Property Group (NYSE: SPG), have recently independently validated the value of the Company's real estate through joint venture investments. Specifically, Simon's investment in Hudson's Bay's US and European real estate (excluding the Fifth Avenue stores) implies a valuation of C$10 per share alone.[2] Further, RioCan Real Estate Investment Trust, a leading Canadian shopping center REIT, marked the Company's Canadian real estate portfolio recently when it invested in Hudson's Bay Canadian real estate, implying a valuation of C$7 per share.[3]

The real estate value of these two joint ventures, alongside the Fifth Avenue stores, supports the Company's valuation of Hudson's Bay's real estate of C$35 per share, or 4x the current share price.

With a modest market cap of $1.2 billion, and insider ownership of ~ 20%, a go-private transaction could be readily financed. Selling the Fifth Avenue Saks location and additional interests in the Company's joint ventures with Simon and RioCan, as well as with participation from other institutional real estate investors such as Abu Dhabi Investment Council or Ontario Teacher's Pension Fund, who are current investors, could round out the capital needed for the move. As we have seen recently with the sale of the $2.2 billion retail real estate portfolio of Forest City Realty Trust (NYSE: FCE/A) at a 5% cap rate, institutional demand for high quality and well-located retail real estate is high.

What gives us some comfort in this situation is that this Board is stacked with true real estate professionals. Bill Mack, a highly successful real estate investor, is a substantial investor and Board member at Hudson's Bay. He is also Chairman of the Board of Mack-Cali (NYSE: CLI), where I served as a board member. Bill is a practical and commercial real estate investor who likely sees the extraordinary value in the Company's real estate and would know how to unlock it.

We do not know Richard Baker – the Chairman and chief visionary at Hudson's Bay – very well. However, other real estate executives speak highly of him. That said, the jury still appears out in our view, if for no other reason that during his tenure, the Company's shares have declined from a high of nearly C$30 to the current C$8.88.

Hudson's Bay is a real estate company, full stop. If there is a smarter and better use of any or all of the locations, stores should be closed and redeveloped and put towards their optimal use. It is worth noting that Steve Roth, Chairman and CEO of Vornado Realty Trust (NYSE: VNO), has twice bought companies, shut the retailer down and redeveloped the real estate, earning his investors enviable returns. The best example was Alexander's, Inc. (NYSE: ALX), the department store company he gained control of and shut the department store business down. Vornado and Alexander's redeveloped the full city block at 59th Street and Lexington Avenue in Manhattan into what is today the Bloomberg Building which now includes retail, office and condos, making his investors over a billion dollars.

Hudson's Bay has aggressively moved to address the changing retail landscape, committing to reduce expenses by C$350 million and reduce headcount by 2,000 people. The next logical step is to aggressively move to monetize and redevelop the Company's real estate, including some of its irreplaceable crown jewel locations. We are confident this is the path Hudson's Bay must take in order to truly realize its value for all shareholders.

We are readily available and eager to discuss the contents of this letter at your convenience.

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[2] Net of debt for Hudson's Bay's 63% stake in the joint venture (HBS Global Properties)
[3] Net of debt for Hudson's Bay's 88% stake in the joint venture (RioCan Joint Venture)

Sincerely,

Jonathan Litt

Founder & CIO

Land and Buildings Investment Management, LLC

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Media Contact:
Dan Zacchei / Joe Germani
Sloane & Company
212-486-9500
Dzacchei@sloanepr.com
JGermani@sloanepr.com