

# LANDandBUILDINGS

## **Land and Buildings Issues Letter to Hudson's Bay Shareholders Regarding Potential Call of Special Meeting to Remove Directors**

- Believes Rapidly Evolving Department Store Landscape Necessitates Immediate Action to Close the Substantial Gap Between the C\$11 Share Price and the Company's C\$35 Real Estate Value Estimate –*
- Outlines Strategic Plan to Monetize Real Estate, Consolidate and Streamline Operations –*
- Believes Saks Fifth Avenue Flagship Location Could be Worth in Excess of the C\$16 Appraisal by Undertaking a Redevelopment Plan Including Boutique Retail, Residential and Smaller Saks Fifth Avenue Presence in the Building –*
- Land and Buildings May be Forced to Call a Special Meeting to Remove Directors if Actions are Not Taken by the Company to Present and Implement Plan to Close Gap to Underlying Asset Value –*

**Stamford, CT**, July 31, 2017 – Land & Buildings Investment Management, LLC (together with its affiliates, "Land and Buildings") today issued the following letter to shareholders 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 outlines a strategic plan to unlock substantial untapped real estate value embedded in the Company and the potential to call a special meeting of shareholders to remove members of Hudson's Bay Board of Directors (the "Board").

The full text of the letter follows:

Dear Fellow Hudson's Bay Shareholders:

Land and Buildings, a large shareholder of Hudson's Bay with ownership approaching 5% of the Company's outstanding shares, is deeply concerned that the Company, after stating it would respond "in due course", has failed to publicly respond to Land and Buildings' June 2017 public letter to the Board. We recently met with the senior management team of the Company, including Richard Baker, the Company's Executive Chairman, and Jerry Storch, the Company's CEO, to discuss our concerns and the opportunities we believe are available to drive value for the benefit of all Hudson's Bay shareholders. Unfortunately, during the course of our meeting, it became clear to us that the Company feels it has looked at all options to improve value. We completely disagree. We are therefore taking this opportunity to outline what we believe is a path to unlock value at the Company, and why, if left with no other choice, we believe it will be necessary to call a special meeting of shareholders to remove Board members.

The department store landscape is rapidly evolving, as evidenced by management having to reduce its EBITDA guidance on multiple occasions with 2016 actual Adjusted EBITDA 27% below its initial guidance and by the Company announcing a restructuring plan earlier this year that is seeking to save C\$350 million annually. The Company must act expeditiously before value continues to deteriorate by consolidating its operations and monetizing its real estate to capitalize on the disconnect between the Company's current share price and underlying real estate value.

The departures of two well-respected senior executives in recent months – Paul Beesley, the Company's CFO, and Brian Pall, President of HBC Real Estate – are deeply troubling and represent real losses in talent in the areas of capital structure and real estate strategy for the Company. We can't help but wonder if these departures were a result seeking to further consolidate decision-making power at the top?

## Plan to Maximize Shareholder Value

Hudson's Bay has a unique portfolio of highly coveted real estate that has been independently valued by third parties, including some of the largest owners of retail real estate in North America. The Company's real estate is valued at C\$35 by third parties, *more than three times the current share price*, but is being valued in the public markets like other department store companies. There are a multitude of options to unlock HBC's real estate value based on the highest and best use of each location. Below we outline one potential plan to unlock substantial value in the real estate. We believe a deliberate approach to implementing this plan over the next three to five years could maximize value for all shareholders while limiting shutdown expenses and other costs.

- **Re-invent Saks Fifth Avenue flagship location** – A 650,000 sq. ft. department store is likely not the highest and best use of the real estate at one of the best locations in the United States. Adding boutique retailers on the first three floors, redeveloping the upper floors to high-end residential condos with terraces and extraordinary views of Rockefeller Center, St. Patrick's Cathedral and Central Park, and shrinking the department store footprint would likely help maximize the value, which we believe could well be in excess of the C\$5 billion, or C\$16 per share net of debt, that the asset was appraised for as department store real estate.
- **Focus Company on its Canadian roots** – Hudson's Bay should migrate back to its roots as a Canadian retailer. The Saks Fifth Avenue banner would likely be in high demand from potential buyers, allowing the Company to focus on the Canadian market it has long dominated. By shrinking the store base across the Company's US banners, Hudson's Bay could create a leaner organization with proceeds from monetizing the real estate distributed to shareholders.
- **Exit Europe** – The Company should exit Europe by selling Galeria Kaufhof real estate, operations, or both, with proceeds distributed to shareholders.
- **Monetize real estate joint ventures** – Develop a plan for each asset in the US and Canadian joint ventures and communicate the highest and best use for each asset to the investment community. Seritage Growth Properties (NYSE: SRG), which is a REIT spun out of Sears Holdings (Nasdaq: SHLD) developed a clear detailed redevelopment strategy that has been embraced by the investment community, including Warren Buffet who established a 7% stake in Seritage, generating a more than 30% return since the spin-off two years ago.
- **Laser focus on return on invested capital** – There should be a thorough review of all capital expenditures related to existing assets, new store openings and the M&A ambitions of the Company. The Company should disclose the expected and realized returns of all such expenditures to ensure proper discipline is being displayed. Is spending \$250 million to renovate the Saks Fifth Avenue location a shrewd investment when a department store is likely not the highest and best use of the real estate? Is the over C\$1 billion of gross capital investment expected in 2017, three-quarters of which is being earmarked for "growth initiatives", the best use of capital in the current operating environment?
- **Evaluate strategic alternatives** – The Company should always evaluate strategic alternatives if a transaction would maximize long-term shareholder value. If management, which owns approximately 20% of the Company's shares, would like to continue its ambition of being a global department store consolidator, a management led buyout could be an intriguing avenue to pursue for all parties.

## Potential Call of Special Meeting to Remove Directors

If we do not see substantive progress on a plan to close the gap to underlying asset value, Land and Buildings may be left with no choice but to call a special meeting of shareholders to remove directors. We believe the Board's lack of independence may compromise its ability to properly evaluate and address the opportunities to enhance shareholder value at the Company with the best interests of shareholders in mind. As Institutional Shareholders Services noted in its 2016 report, a majority of the Company's 11 directors are non-independent, and thus recommended a withhold vote on the election of each of the six non-independent directors up for re-election at the annual meeting. Removing existing non-independent directors could help improve corporate governance at the Company and instill accountability in the boardroom.

The Company's shares declined from a high of nearly C\$30 two years ago to below C\$10 as the Company has executed on its own agenda. This troubling trend of value destruction should not persist. Calling a special meeting requires the consent of 5% of all shares entitled to vote, a low hurdle that should allow, if necessary, for an expeditious calling of a special meeting to remove directors.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon", enclosed in a light gray rectangular box.

Jonathan Litt

Founder & CIO

Land and Buildings Investment Management, LLC

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