

RETAIL

HBC merges European business with Karstadt

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Galeria Kaufhof is merging with Karstadt. Image credit: Galeria Kaufhof

By STAFF REPORTS

Saks Fifth Avenue parent company Hudson's Bay Company is looking to raise its profitability by joining forces with German retailer Karstadt.

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HBC is partnering with retail real estate firm Signa Retail Holdings, signing a 50-50 joint venture for HBC's German real estate holdings, including Galeria Kaufhof and other banners. HBC's sales were up slightly in the first quarter of the year, but it continues to make strategic moves to boost its financial growth.

Joining forces

With this deal, Signa is taking a 50 percent interest in HBC's retail assets in Germany, which are valued at \$4.88 billion. This is greater than the price that HBC paid for Galeria Kaufhof in 2015.

Meanwhile, HBC will be taking a 49.99 percent stake in the newly formed company.

"This transaction highlights the significant value of our German real estate assets, which are worth approximately \$1.1 billion more than what we paid for Galeria Kaufhof in 2015," said Richard Baker, governor and executive chairman of HBC, in a statement. "Our partnership with Signa will serve our business extremely well as it establishes a platform to further strengthen our European retail and real estate operations.

"This transaction reinforces our long-term focus of unlocking real estate value through strategic partnerships, redevelopment and enhancing the credit profile of retailer tenants along with managing a portfolio of retail banners," he said.

HBC's partial sale of its real estate will go towards paying down debt.

The joint venture will be led by Stephan Fanderl, CEO of Karstadt.

"We are excited to bring together these iconic banners to create Germany's leading retail business," said Helena Foulkes, CEO of HBC, in a statement. "We are creating a stronger retail entity that is better positioned to capitalize on market opportunities.

"This transaction builds on our recent efforts to streamline HBC and provides a clear path forward to improve our European operations," she said. "We are taking strong action to strengthen our retail portfolio and enhance HBC's profitability.

"This transaction creates significant value for our shareholders, enhances our balance sheet and provides a better operating platform for our European business. The creation of a stronger operator in Europe allows us to focus our attention on our North American banners, helping to ensure we are making the right strategic decisions to drive performance and profitability within those businesses."



Galeria Kaufhof in Berlin. Image courtesy of Galeria Kaufhof

Lately, HBC has been facing pressure from an activist shareholder that wants to see it use its retail real estate to drive financial performance.

While HBC's overall revenues were up 1 percent in the first quarter of this year, its European business' comparable sales fell almost 7 percent.

Last year, Hudson's Bay Company entered a global, multi-faceted strategic relationship with communal workspace network WeWork.

One of retail's primary stressors is the operational cost associated with bricks-and-mortar storefronts now that so much of the market share as moved online. HBC's strategic partnership with WeWork and Rhne Capital, an affiliate of WeWork Property Advisors, hopes to lessen the burden by maximizing the productivity and value of the retailer's global real estate assets while also positioning its brands as being on the forefront of experiential retailing ([see story](#)).