

RETAIL

## Saks owner HBC's insider group sends stinger letter to oppose Catalyst Capital offer

December 3, 2019



*Fireworks display as Saks unveils holiday windows and lighting at its Fifth Avenue flagship store in New York. Image credit: Saks Fifth Avenue*

By STAFF REPORTS

The battle for control of Saks owner Hudson's Bay Company has escalated after current management sent a letter to a special committee to reject an all-cash offer from Catalyst Capital Group that values the company at around \$1.5 billion.

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Led by Richard Baker, current boss of HBC, a group of shareholders who collectively own roughly 57 percent of the outstanding common shares of HBC have said the shareholders have a choice to make: accept the all-cash offer from Catalyst or remain invested in HBC as a public company.

Catalyst, which owns 17.5 percent of HBC equity, has made its own unsolicited offer for the 349-year-old company that owns Saks Fifth Avenue, Saks Off 5<sup>th</sup> and Hudson's Bay ([see story](#)).



*Saks models in sequins. Image credit: Saks Fifth Avenue*

Here is the letter in its entirety from Rupert Acquisition LLC, which is backed by Mr. Baker:

December 2, 2019

Special Committee of the Board of Directors

Hudson's Bay Company

401 Bay Street, Suite 500

Toronto, ON M5H 2Y4

Re: Catalyst Announcement

Dear Members of the Special Committee:

We refer to the announcement by The Catalyst Group Inc. (Catalyst) on November 27, 2019 (the Catalyst Announcement) and to the arrangement agreement dated October 20, 2019 between Rupert Acquisition LLC and Hudson's Bay Company (the Company) (the Arrangement Agreement).

As you know, under the Arrangement Agreement the Continuing Shareholders have agreed to roll approximately \$1.5 billion of equity in the Company into a transaction that delivers \$10.30 per share to the Company's minority shareholders. The Special Committee and the full Board of Directors approved the terms of the transaction after extensive analysis and negotiations. The transaction has been pending before the minority shareholders since October 21, 2019.

We and our advisors have reviewed the Catalyst Announcement and have serious concerns.

It is intended to mislead and manipulate

- We believe that the Catalyst Announcement is an illusory offer, intended to mislead minority shareholders, manipulate the market, and would only serve to frustrate the opportunity for minority shareholders to receive premium cash consideration for their shares.

It is not capable of being financed

- The Catalyst Announcement fails to identify or account for obvious and significant uses of cash to fund its proposal, and is not realistic in its assumptions regarding sources of cash.
- Even on their flawed sources and uses, the Catalyst Announcement contemplates the Company incurring in excess of \$1 billion in incremental net indebtedness. The amount of pro forma leverage is unrealistic, and much higher than the Company, or any department store retailer, can achieve or bear.
- Catalyst's reckless financing plans would swiftly add the Company to the long list of retailers that have been forced to close their doors, shed jobs and impact pensioners. Indeed, we question how the Board or any financing source could ever be satisfied with the solvency of the Company under Catalyst's highly levered capital structure, which appears to be approximately 90% debt financed.

Catalyst is not a credible counterparty

- HBC is a storied and important Canadian company and its shareholders deserve certainty and transparency. We believe it is also highly relevant to the review of the Catalyst Announcement for the Special Committee to consider Catalyst's track record and reputation.
- As is widely reported, Catalyst has a track record of failing to execute on its promises and of engaging in conduct that is viewed critically by many participants in the capital markets.
- Rupert Acquisition LLC has made a complaint to the Ontario Securities Commission about Catalyst's misleading disclosure regarding, among other things, the adequacy of their publicly stated financing arrangements (which have not been committed by any means) and their purported "blocking position" in respect of our transaction.

It is not capable of being completed

- We have consistently stated that we are not, in our capacities as shareholders, interested in any transaction that would result in a sale of our interests in HBC a fact that is well known by Catalyst. The Catalyst Announcement is therefore a tactic, plain and simple, designed to confuse and mislead the markets and minority shareholders.

Sincerely,

Rupert Acquisition LLC

*The Continuing Shareholders include individuals and entities related to, or affiliated with, Richard A. Baker, Governor and Executive Chairman of HBC; Rhne Capital L.L.C.; WeWork Property Advisors; Hanover Investments (Luxembourg) S.A.; and Abrams Capital Management, L.P.*

*HBC's Circular states that HBC's Board, having received the unanimous recommendation of the Special Committee, determined that the Arrangement is in the best interests of HBC and fair to the minority shareholders. The HBC Board has recommended that minority shareholders vote in favor of the arrangement at the special meeting of shareholders to approve the take private transaction on December 17, 2019.*

*Your vote is important no matter how many shares you own. The Special Committee and the Board recommend that minority shareholders vote FOR the transaction well in advance of the proxy voting deadline for the special meeting of shareholders, which is 10:00 a.m. ET on Friday, December 13, 2019.*

*Shareholders who have any questions or require assistance with voting, please contact the Company's proxy solicitation agent Kingsdale Advisors: (toll-free) 1.866.581.0512 (collect) 1.416.8672272 or [contactus@kingsdaleadvisors.com](mailto:contactus@kingsdaleadvisors.com).*

*For further information on the arrangement to take HBC private, please refer to the Company's Management Information Circular dated November 14, 2019 and related proxy materials. A copy of the Management Information Circular and related proxy materials may be found under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on HBC's website at <http://investor.hbc.com/investor-relations>.*