Hudson’s Bay Company Agrees to Be Taken Private at $10.30 per Share

October 21, 2019

Definitive Agreement with Shareholder Group on Revised Privatization Proposal Follows Independent and Thorough Evaluation Process and Negotiations by Special Committee of the Board of HBC and its Advisors

Transaction Delivers Substantial 62% Premium, Provides Immediate and Certain Cash Value to HBC Minority Shareholders

TORONTO & NEW YORK--(BUSINESS WIRE)--Oct. 21, 2019-- Hudson's Bay Company (TSX: HBC) ("HBC" or the “Company”) today announced that, based on the unanimous recommendation of an independent Special Committee of its Board of Directors (the “Special Committee”) following an extensive review and analysis, it has entered into a definitive arrangement agreement (the “Arrangement Agreement”) with a group of HBC shareholders (the “Shareholder Group”) to take the Company private.

Under the terms of the Arrangement Agreement, the common shares of HBC not held by the Shareholder Group (who collectively own approximately 57% of the common shares of the Company on an as-converted basis), will be purchased for cancellation at a price of $10.30 per share in cash. This price represents a premium of approximately 62% to HBC’s closing share price on the Toronto Stock Exchange on June 7, 2019, the last trading day prior to the announcement of the Shareholder Group’s initial privatization proposal, and a premium of approximately 52% to the 20-day average closing share price on that date. The price also represents an increase of 9% over the Shareholder Group’s initial proposal on June 10, 2019 of $9.45 per share.

The Shareholder Group comprises individuals and entities related to, or affiliated with, Richard A. Baker, Governor and Executive Chairman of HBC; Rhône Capital L.L.C.; WeWork Property Advisors; Hanover Investments (Luxembourg) S.A.; and Abrams Capital Management, L.P.

The Special Committee of independent directors was established by the HBC Board of Directors (the “Board”) to consider the initial privatization proposal, as well as other alternatives available to the Company, including the status quo, and, if it deemed advisable, to negotiate with the Shareholder Group. Following a comprehensive evaluation of the proposal, the Special Committee and its financial and legal advisors engaged in extensive negotiations with the Shareholder Group on pricing and other terms of the arrangement to ensure the arrangement was fair to the HBC shareholders other than the Shareholder Group (the “Minority Shareholders”). The Board (excluding conflicted directors, who did not participate in deliberations), 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. It recommends that Minority Shareholders vote in favour of the arrangement at the special meeting of shareholders to be held to approve the arrangement.

David Leith, Chair of the Special Committee, said, "Over the last four months, with the assistance of our independent financial and legal advisors, we have conducted a thorough evaluation of the Shareholder Group’s proposal and alternatives available to HBC to maximize shareholder value. Following this comprehensive evaluation and extensive negotiations with the Shareholder Group, and consideration of the applicable risks and the opportunities and alternatives available, we are pleased to have reached an agreement with respect to a transaction that provides immediate and fair value to the Minority Shareholders. The Special Committee is confident that this transaction represents the best path forward for HBC and the Minority Shareholders."

Transaction Rationale

The conclusions and recommendations of the Special Committee and the Board have been based on a number of factors, including the following:

- **Compelling value proposition for Minority Shareholders in deteriorating retail environment**: The cash premium transaction provides Minority Shareholders with immediate and certain value that is expected to be higher than that realizable in the foreseeable future. Continued industry headwinds and the deterioration in operating performance have negatively affected the Company’s financial results. Despite the execution of several strategic initiatives, the Company’s share price has continued to decline. The department store and specialty retail competitive landscape continues to evolve rapidly and the Company will be required to invest substantial capital and resources to remain relevant to its customers and successfully compete.

- **Significant cash obligations**: The restructuring costs associated with the closure of the Netherlands operations and the sale of the Lord + Taylor operations to Le Tote, as well as ongoing rent obligations of Lord + Taylor, Saks OFF 5TH, Home Outfitters and other closed store locations, represent a significant use of cash over the next 24 to 36 months. These and other working capital obligations constrain the Company’s ability to return capital from the sale of its European joint venture interests to shareholders.

- **Value of HBC’s real estate:** In addition to its independent financial and legal advisors, the Special Committee engaged two internationally recognized real estate firms that appraised HBC’s real estate portfolio of 79 properties on an as-is and alternative use basis. The Special Committee also engaged an independent planning and consulting firm that completed a planning assessment to identify redevelopment opportunities in the portfolio. Based on these in-depth analyses, the Company estimates its pro rata share of its real estate portfolio is valued at $8.75 per diluted share,[1] which reflects the combination of lower current market rents, the increasing risks associated with the retail industry, recent operating challenges, and a deterioration of retail real estate market conditions.

- **Assessment of real estate redevelopment potential**: Any potential redevelopment of the Company's real estate portfolio would require significant capital expenditures, involve material execution risk and a long time horizon – over the course of numerous years, and, for the majority of the Company's assets, require the consent and participation of the Company's joint venture partners. Additionally, based on the appraisals, the Special Committee determined that redeveloping the Company's real estate would not result in creating additional value for shareholders in the foreseeable future, compared to the certain value provided by the transaction.
- **Premium valuation and certainty when compared to other alternatives:** The payment to Minority Shareholders pursuant to the arrangement will be all cash, which provides Minority Shareholders with certainty of value and immediate liquidity. The purchase price represents a 62% premium to the closing share price on the last trading day prior to the announcement of the Shareholder Group's initial privatization proposal. The transaction presents the most compelling value proposition, based on the Special Committee's review of any reasonable alternatives.

Independent Valuation and Fairness Opinions

In connection with its review, the Special Committee retained TD Securities Inc. ("TD Securities") to prepare an independent, formal valuation of the Company's common shares in accordance with applicable securities law. The Special Committee also engaged two leading international real estate firms, CBRE, Inc. and Cushman & Wakefield Inc., to independently value HBC's real estate assets.

TD Securities has provided the Special Committee with a formal valuation of the common shares of HBC which determined that, as of October 20, 2019, and subject to the assumptions, limitations and qualifications to be set out in TD Securities' written valuation report, the fair market value of the common shares of HBC ranged between $10.00 and $12.25 per common share. TD Securities has also provided an opinion to the Special Committee that, as of October 20, 2019, and subject to the assumptions, limitations and qualifications to be set out in TD Securities' written fairness opinion, the consideration to be received by the common shareholders of HBC other than the Shareholder Group is fair, from a financial point of view, to such shareholders.

Each of J.P. Morgan and Centerview Partners LLC ("Centerview Partners") has provided the HBC Board of Directors with a fairness opinion.

Transaction Details

The transaction is to be effected by way of a court-approved plan of arrangement under the *Canada Business Corporations Act* (the "CBCA"). The transaction will be funded from existing cash resources of the Company and committed debt financing available to the Company arranged by Bank of America, N.A., BofA Securities, Inc., and Royal Bank of Canada. Completion of the transaction is subject to a number of conditions, including court approval, receipt of certain regulatory approvals and the approval of a majority of the minority of the HBC shareholders (which excludes the Shareholder Group and its affiliates) and approval of holders of 75% of the shares voted at the special meeting of shareholders held to approve the transaction. HBC expects to mail an information circular for the special meeting in November 2019, and to hold the special meeting in December 2019.

In connection with entering into the Arrangement Agreement, the HBC Board of Directors (excluding conflicted directors, who did not participate in deliberations) determined that, if the arrangement was completed on the date of the Arrangement Agreement, the repurchase of common shares pursuant to the arrangement would not violate the provisions of the CBCA governing the repurchase of shares. The HBC Board of Directors engaged an internationally recognized financial advisory firm to provide certain financial advice to assist the HBC Board of Directors in connection with such determination. The Arrangement Agreement includes a closing condition that the repurchase of common shares at closing will not violate the provisions of the CBCA governing the repurchase of common shares.

The Arrangement Agreement includes customary provisions relating to non-solicitation, subject to customary "fiduciary out" provisions that entitle HBC to consider and accept a superior proposal if the Shareholder Group does not match the superior proposal.

HBC is permitted to continue paying its regular quarterly cash dividend consistent with its dividend policy and past practice until closing.

The transaction is structured as a purchase for cancellation of common shares by HBC. As a result, a shareholder will be deemed to receive a dividend to the extent that the repurchase price exceeds the "paid-up capital" ("PUC") of the shareholder's common shares. The amount of this deemed dividend may differ significantly from the shareholder's economic gain. HBC's current preliminary estimate is that PUC is approximately $7.00 per common share. A shareholder who holds their shares as capital property for Canadian income tax purposes may also realize a capital gain (or a capital loss) to the extent that the purchase price received, net of any deemed dividend, exceeds (or is exceeded by) the aggregate of the adjusted cost base of the shareholder's common shares and any reasonable costs of disposition.

The Canadian federal income tax rate applicable to the receipt of a deemed dividend by a shareholder resident in Canada may be higher than the rate that would apply to a capital gain. Shareholders who are not residents of Canada generally will not be subject to Canadian federal income tax on capital gains realized on disposition of their common shares, but will be subject to Canadian withholding tax at a rate of 25% (subject to reduction under an applicable treaty) on any deemed dividend arising from the purchase for cancellation. As a result, shareholders may prefer to sell their common shares in the public markets with a settlement date that is prior to the completion of the transaction. It is strongly suggested that shareholders consult their own tax advisors and read carefully the tax disclosure section of the information circular relating to the transaction when it is available.

Further details regarding the terms and conditions of the transaction are set out in the Arrangement Agreement, which will be publicly filed by HBC under its profile at www.sedar.com. Additional information regarding the terms of the Arrangement Agreement, the background of the transaction and the independent valuation and fairness opinions will be provided in the information circular for the special meeting of shareholders, which will also be filed at www.sedar.com.

Advisors

J.P. Morgan is acting as lead financial advisor and Centerview Partners as special advisor to the Special Committee. Blake, Cassels & Graydon LLP is acting as Canadian legal advisor to the Special Committee and Paul, Weiss, Rifkind, Wharton & Garrison is acting as U.S. legal advisor to the Special Committee. TD Securities was engaged by the Special Committee as independent valuator for the transaction.

BofA Merrill Lynch and RBC Capital Markets are acting as financial advisors to the Shareholder Group. Stikeman Elliott LLP is acting as Canadian legal advisor to the Shareholder Group and Willkie Farr & Gallagher LLP is serving as U.S. legal advisor to the Shareholder Group.

The Company's public filings are available at www.sedar.com and on the Investor Relations page of the Company's website at www.investor.hbc.com/investor-relations.

Forward-Looking Statements

Certain statements made in this news release are forward-looking statements within the meaning of applicable securities laws, including, but not limited to, statements with respect to the rationale of the Special Committee and the Board of Directors for entering into the Arrangement Agreement, the terms and conditions of the Arrangement Agreement, the timing of various steps to be completed in connection with the transaction, and other statements that are not material facts. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology.

Although HBC believes that the forward-looking statements in this news release are based on information and assumptions that are current, reasonable and complete, these statements are by their nature subject to a number of factors that could cause actual results to differ materially from management's expectations and plans as set forth in such forward-looking statements, including, without limitation, the following factors, many of which are beyond HBC's control and the effects of which can be difficult to predict: (a) the possibility that the transaction will not be completed on the terms and conditions, or on the timing, currently contemplated, and that it may not be completed at all, due to a failure to obtain or satisfy, in a timely manner or otherwise, required shareholder and regulatory approvals and other conditions of closing necessary to complete the transaction or for other reasons; (b) risks related to tax matters; (c) the possibility of adverse reactions or changes in business relationships resulting from the announcement or completion of the transaction; (d) risks relating to HBC's ability to retain and attract key personnel during the interim period; (e) the possibility of litigation relating to the transaction; (g) credit, market, currency, operational, real estate, liquidity and funding risks generally and relating specifically to the transaction, including changes in economic conditions, interest rates or tax rates; (h) risks and uncertainties relating to information management, technology, supply chain, product safety, changes in law, competition, seasonality, commodity price and business; and (i) other risks inherent to the Company's business and/or factors beyond its control which could have a material adverse effect on the Company or the ability to consummate the transaction.

HBC cautions that the foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect its results. For more information on the risks, uncertainties and assumptions that could cause HBC's actual results to differ from current expectations, please refer to the "Risk Factors" section of HBC's Annual Information Form dated May 3, 2019 as well as HBC's other public filings, available at www.sedar.com and at www.hbc.com.

The forward-looking statements contained in this news release describe HBC's expectations at the date of this news release and, accordingly, are subject to change after such date. Except as may be required by applicable Canadian securities laws, HBC does not undertake any obligation to update or revise any forward-looking statements contained in this news release, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on these forward-looking statements.

Required Early Warning Report Information

HBC's head office is located at 8925 Torbram Road, Brampton, Ontario L6T 4G1.

The Shareholder Group and their affiliates and associates have ownership and control over an aggregate of 82,889,382 Common Shares (approx. 45% of the issued and outstanding common shares), 50,919,608 Series A preferred shares (100% of the issued and outstanding Series A preferred shares) and assuming the conversion of the outstanding Series A preferred shares into common shares as of October 21, 2019, 139,384,830 common shares (approx. 57% of the issued and outstanding common shares), all on an undiluted basis. An investment fund managed by Abrams Capital Management, L.P. holds 1,196,035 common shares (approx. 0.65% of the issued and outstanding common shares, and approx. 0.5% of the common shares, assuming the conversion of the outstanding Series A preferred shares into common shares as of October 21, 2019) that do not currently form part of the rollover shares under the take-private proposal.

Upon closing of the arrangement, the Shareholder Group intends to cause the common shares to cease to be listed on the Toronto Stock Exchange and to cause HBC to submit an application to cease to be a reporting issuer under applicable Canadian securities laws and to otherwise terminate HBC's public reporting requirements.

Early warning reports will be filed by the Shareholder Group, as applicable, with applicable Canadian securities regulatory authorities. To obtain copies of the early warning report, please contact Joele Frank, Wilkinson Brimmer Katcher at (212) 355-4449 (Contact: Matthew Sherman / Kelly Sullivan / Annabelle Rinehart / Matthew Gross).

About HBC

HBC is a diversified retailer focused on driving the performance of high-quality stores and their omni-channel platforms and unlocking the value of real estate holdings. Founded in 1670, HBC is the oldest company in North America. HBC's portfolio today includes formats ranging from luxury to premium department stores to off price fashion shopping destinations, with more than 300 stores and about 40,000 employees around the world. HBC's leading businesses across North America include Saks Fifth Avenue, Hudson's Bay, Lord + Taylor, and Saks OFF 5TH.

HBC also has significant investments in joint ventures. It has partnered with Simon Property Group Inc. in the HBS Joint Venture, which owns properties in the United States. In Canada, it has partnered with RioCan Real Estate Investment Trust in the RioCan-HBC Joint Venture.

[1] Based on 249 million total diluted shares outstanding.

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Source: Hudson's Bay Company

Investor Relations:
Jennifer Bewley, 646-802-4631
jennifer.bewley@hbc.com

Media:
Special Committee
Sard Verbinnen & Co
Liz Zale/Paul Scarpetta, 212-687-8080
Meghan Gavigan, 415-618-8750

Company
Andrew Blecher, 646-802-4030
press@hbc.com