



September 11, 2018

## HBC Enters Agreement to Merge HBC Europe with Germany's Karstadt

- | Combines two iconic banners to create Germany's leading retailer with annual revenue in excess of €5 billion
- | HBC to own 49.99% of stronger, well-capitalized operator positioned for improved profitability
- | Formation of 50-50 real estate joint venture values German real estate assets at €3.25 billion
- | Net proceeds to HBC of CAD\$616 million, generated by partial sale of German real estate assets, to be used for debt repayment
- | Net proceeds from transactions and implied value of HBC's remaining interest in German real estate assets worth CAD\$8.71 per share

TORONTO & NEW YORK--(BUSINESS WIRE)-- HBC (TSX:HBC) today announced it entered into definitive agreements with SIGNA Retail Holdings ("SIGNA"), a leading European retail and real estate operator, to form a strategic partnership for its European retail and real estate assets.

"We are excited to bring together these iconic banners to create Germany's leading retail business," said Helena Foulkes, HBC's Chief Executive Officer. "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."

HBC Europe's retail operations will merge with SIGNA's Karstadt Warenhaus GmbH, with HBC taking a 49.99% interest in the combined businesses. This includes two iconic banners, Galeria Kaufhof and Karstadt, as well as other HBC and SIGNA banners to create a well-capitalized retailer positioned for improved profitability. Together, these businesses generated approximately €5.4 billion in total sales during fiscal 2017. The new retail company will be led by Dr. Stephan Fanderl, CEO of Karstadt and an experienced German retail operator. HBC and SIGNA will share six board seats and have joint oversight of all major decisions.

Foulkes added, "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."

SIGNA will acquire a 50% interest in HBC's German real estate assets from HBC and its partners, and a 50-50 joint venture will be formed to own and manage HBC's German real estate assets. These transactions will generate net proceeds to HBC of €411 million (\$616 million), and value the German real estate assets at a total of €3.25 billion (\$4.88 billion) compared to the total Galeria Kaufhof purchase price of €2.51 billion (\$3.77 billion) in 2015<sup>1</sup>. The net proceeds, together with the implied value of HBC's remaining interest in these real estate assets, net of debt, totals \$8.71 per share<sup>2</sup>.

Richard Baker, HBC's Governor and Executive Chairman, said, "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. 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."

The combination of the retail companies and the formation of the real estate joint venture are expected to occur within the next 90 days and are subject to approval from European competition authorities and satisfaction or waiver of customary closing conditions. Follow on real estate transactions, and receipt of proceeds therefrom, are expected to occur through early 2019. HBC directs investors to its public filings available at [www.sedar.com](http://www.sedar.com) and at [www.hbc.com](http://www.hbc.com) for additional information and details of the transactions.

### Advisors

J.P. Morgan Securities LLC acted as lead financial advisor and PJ SOLOMON as financial advisor to HBC on the transaction. Willkie Farr & Gallagher LLP served as M&A counsel and Stikeman Elliott LLP as company counsel. BofA Merrill Lynch was engaged by HBC to assist with obtaining amendments to HBC's term loan and revolving credit facilities.

### **HBC Financial Community Conference Call to Discuss Transaction**

HBC's management team will discuss the transaction during a conference call for the financial community today, September 11, 2018, at 8:30 am EDT. The conference call will be accessible by calling (800) 535-7056 or the international dial-in number (253) 237-1145. A live webcast of the conference call will be available on HBC's website at: <http://investor.hbc.com/events.cfm>. An audio replay will be available at this link through September 11, 2019.

Presentation slides for the conference call will be made available on the Company's website located at [www.hbc.com](http://www.hbc.com).

### **About HBC**

HBC is a diversified global retailer focused on driving the performance of high quality stores and their omnichannel 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 480 stores and approximately 65,000 employees around the world.

In North America, HBC's leading banners include Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, and Saks OFF 5TH, along with Home Outfitters. In Europe, its banners include GALERIA Kaufhof, the largest department store group in Germany, Belgium's only department store group Galeria INNO, as well as Saks OFF 5TH in Germany and the Netherlands and Hudson's Bay in the Netherlands.

HBC has significant investments in real estate joint ventures. It has partnered with Simon Property Group Inc. in the HBS Global Properties Joint Venture, which owns properties in the United States and Germany. In Canada, it has partnered with RioCan.

### **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 strategic partnership with SIGNA, including the combination of HBC Europe's retail operations with SIGNA's retail operations, the proposed real estate joint venture, the transfer of a 50% interest in HBC's German real estate assets from HBC and its partners; the expectation that the transactions will further strengthen HBC's European retail and real estate operations, unlock real estate value, create value for shareholders, improve balance sheet and improve performance; the expectation that net proceeds from the proposed transactions will provide additional liquidity and repay debt; the anticipated performance of the combined retail operating company; the anticipated completion of the proposed transactions; 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 failure to obtain or satisfy, in a timely manner or otherwise, required regulatory approvals and other conditions of closing necessary to complete the proposed transactions; (b) the failure to obtain or satisfy, in a timely manner or otherwise, conditions of closing necessary to complete the sale of the proposed transactions on the contemplated timelines; (c) the possibility that the anticipated benefits from the strategic partnership cannot be realized in a timely manner or otherwise; (d) the ability of combined retail operating company to retain and attract key Kaufhof or Karstadt personnel and for Kaufhof or Karstadt to maintain relationships with customers, suppliers and other business partners; (e) credit, market, currency, operational, real estate, liquidity and funding risks generally, including changes in economic conditions, interest rates or tax rates; (f) risks and uncertainties relating to information management, technology, supply chain, product safety, changes in law, competition, seasonality, commodity price and business and (g) other risks inherent to the Company's business and/or factors beyond its control which could have a material adverse effect on the Company.

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 4, 2018 as well as HBC's other public filings, available at [www.sedar.com](http://www.sedar.com) and at [www.hbc.com](http://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.

Unless otherwise indicated, figures in this news release assume EUR:CAD = 1:1.5.

1. See September 30, 2015 presentation "HBC Closes Acquisition of Galeria Kaufhof" available at [www.hbc.com](http://www.hbc.com).
2. Based on 235.6 million common shares of HBC outstanding, assuming conversion of the HBC's preferred shares.

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