



Toronto Stock Exchange: **HBC**

ISIN: **CA4442181018**

MEETING DATE: 17 DECEMBER 2019

RECORD DATE: 08 NOVEMBER 2019

PUBLISH DATE: 10 DECEMBER 2019

INDEX MEMBERSHIP: S&P/TSX COMPOSITE

SECTOR: CONSUMER DISCRETIONARY

INDUSTRY: DEPARTMENT STORES

COUNTRY OF TRADE: CANADA

COUNTRY OF INCORPORATION: CANADA

VOTING IMPEDIMENT: NONE

COMPANY DESCRIPTION

Hudson's Bay Company owns and operates department stores in Canada and the United States. Its stores offers fashion apparels, accessories, cosmetics, and home products.

OWNERSHIP	COMPANY PROFILE	ESG PROFILE	COMPENSATION	COMPANY UPDATES	COMPENSATION ANALYSIS
VOTE RESULTS	APPENDIX				

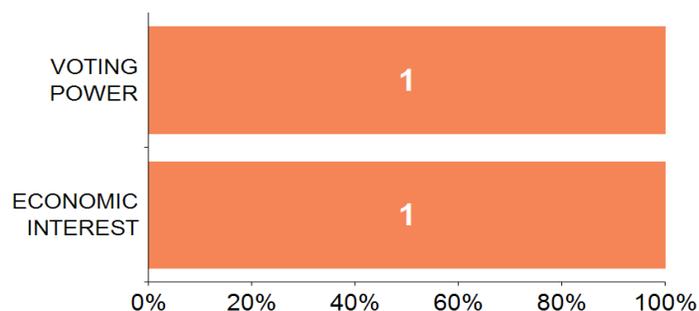
2019 MERGER PROXY

PROPOSAL	ISSUE	BOARD	GLASS LEWIS	CONCERNS
1.00	Merger/Going-Private Transaction	FOR	FOR	

SHARE OWNERSHIP PROFILE

SHARE BREAKDOWN

	1
SHARE CLASS	Class B Common Shares
SHARES OUTSTANDING	184.4 M
VOTES PER SHARE	1
INSIDE OWNERSHIP	8.20%
STRATEGIC OWNERS**	70.30%
FREE FLOAT	29.70%



SOURCE CAPITAL IQ AND GLASS LEWIS. AS OF 10-DEC-2019

TOP 20 SHAREHOLDERS

	HOLDER	OWNED*	COUNTRY	INVESTOR TYPE
1.	Rhone Capital, L.L.C.	21.64%	United States	VC/PE Firm
2.	Abu Dhabi Investment Council	13.71%	United Arab Emirates	Sovereign Wealth Fund
3.	The Catalyst Capital Group Inc.	13.70%	Canada	VC/PE Firm
4.	Abrams Capital Management LP	9.62%	United States	Hedge Fund Manager/CTA
5.	Baker, Richard A.	5.08%	N/A	Individuals/Insiders
6.	Douglas Lane & Associates, LLC	4.06%	United States	Family Offices/Family Trust
7.	L&T B (Cayman) Inc.	3.23%	Cayman Islands	Private Company
8.	azValor Asset Management SGIIC, S.A.U.	2.95%	Spain	Traditional Investment Manager
9.	Mackenzie Financial Corporation	1.85%	Canada	Traditional Investment Manager
10.	Baker, Robert C.	1.43%	N/A	Individuals/Insiders
11.	Neibart, Lee Stuart	1.40%	N/A	Individuals/Insiders
12.	CI Investments Inc.	1.39%	Canada	Traditional Investment Manager
13.	The Vanguard Group, Inc.	1.05%	United States	Traditional Investment Manager
14.	Dimensional Fund Advisors L.P.	0.46%	United States	Traditional Investment Manager
15.	Columbia Management Investment Advisers, LLC	0.34%	United States	Traditional Investment Manager
16.	Charles Schwab Investment Management, Inc.	0.22%	United States	Traditional Investment Manager
17.	Robert Baker Family Foundation, Endowment Arm	0.21%	United States	Foundation Fund Sponsor
18.	BlackRock, Inc.	0.21%	United States	Traditional Investment Manager
19.	William and Phyllis Mack Foundation, Endowment Arm	0.15%	United States	Foundation Fund Sponsor
20.	TD Asset Management, Inc.	0.14%	Canada	Traditional Investment Manager

*COMMON STOCK EQUIVALENTS (AGGREGATE ECONOMIC INTEREST) SOURCE: CAPITAL IQ. AS OF 10-DEC-2019

**CAPITAL IQ DEFINES STRATEGIC SHAREHOLDER AS A PUBLIC OR PRIVATE CORPORATION, INDIVIDUAL/INSIDER, COMPANY CONTROLLED FOUNDATION, ESOP OR STATE OWNED SHARES OR ANY HEDGE FUND MANAGERS, VC/PE FIRMS OR SOVEREIGN WEALTH FUNDS WITH A STAKE GREATER THAN 5%.

SHAREHOLDER RIGHTS

	MARKET THRESHOLD	COMPANY THRESHOLD ¹
VOTING POWER REQUIRED TO CALL A SPECIAL MEETING	N/A	5.00%
VOTING POWER REQUIRED TO ADD AGENDA ITEM	1.00% ²	1.00% ²

¹N/A INDICATES THAT THE COMPANY DOES NOT PROVIDE THE CORRESPONDING SHAREHOLDER RIGHT.

²SHAREHOLDERS MUST OWN THE CORRESPONDING PERCENTAGE OR SHARES WITH MARKET VALUE OF AT LEAST C\$2,000 FOR AT LEAST SIX MONTHS.

SUMMARY

Hudson's Bay Company ("HBC" or the "Company") has entered into a definitive arrangement agreement (the "Arrangement Agreement") with a group of HBC shareholders (the "Continuing Shareholders"), pursuant to which the Continuing Shareholders will acquire the remaining minority equity stake in the Company that they do not already own – i.e., approximately 100.8 million HBC common shares, representing approximately 41.8% of the Company's outstanding common shares on an as-converted basis – in an all-cash transaction valued at approximately C\$1.04 billion. The deal values the Company's total issued common and preferred share capital at approximately C\$2.48 billion (on an as-converted basis) and the Company's total enterprise value at approximately C\$9.08 billion.

The Continuing Shareholders comprise individuals and entities related to, or affiliated with: (i) Richard A. Baker, Governor and Executive Chairman of HBC; (ii) Rhône Capital L.L.C.; (iii) WeWork Property Advisors; (iv) Hanover Investments (Luxembourg) S.A.; and (v) Abrams Capital Management, L.P.

On June 10, 2019, the Company announced that it had formed a special committee of independent directors to review an initial all-cash buyout proposal from the Continuing Shareholders at a price of C\$9.45 per common share. On October 21, 2019, the Company announced the execution of the Arrangement Agreement, which would provide for the privatization of the Company at a price of C\$10.30 per common share. The Company's unaffiliated directors unanimously support the proposed transaction with the Continuing Shareholders.

The Company anticipates that the proposed transaction will become effective in late December 2019 or early January 2020, assuming timely satisfaction of the requisite closing conditions, including shareholder approval of this proposal. The Arrangement Agreement provides for a drop-dead date of March 30, 2020, though such date may be extended by mutual written consent of the merger parties.

Shareholder Opposition

Catalyst Capital Group Inc. ("Catalyst"), a Toronto-based private equity firm that owns approximately 17.5% of the Company's common stock and 13.4% of the Company's total voting power, publicly opposes the Arrangement Agreement and submitted a competing all-cash, full-bid takeover proposal for the Company at a price of C\$11.00 per HBC common share (the "Catalyst Proposal").

In addition, on December 6, 2019, Ortelius Advisors, L.P., an event-driven investment management firm, filed a [lawsuit](#) in the Ontario Superior Court of Justice against the Company seeking to restrain the Continuing Shareholders from proceeding with their takeover proposal.

VOTE REQUIRED

This proposal, which seeks shareholder approval of the Arrangement Agreement, requires the affirmative vote of at least: (i) 75% of the votes cast by the Company's shareholders, voting together as a single class, present in person or represented by proxy at the meeting; and (ii) a simple majority of the votes cast by unaffiliated common shareholders entitled to vote thereon.

As of the record date, the Company's share capital comprises: (i) 184,384,651 shares of common stock; and (ii) 50,919,608 unlisted shares of series "A" 8-year mandatory convertible preferred stock (the "preferred shares") that are convertible into an aggregate of 56,636,276 shares of HBC common stock and are deemed to have voting rights on an as-converted basis. All of the outstanding preferred shares are held by Rhône Capital LLC, a member of the Continuing Shareholders.

The Continuing Shareholders own approximately 45.3% of the Company's common stock and 100% of the Company's preferred stock, which collectively represents approximately 58.2% of the Company's total voting power. The votes cast by the Continuing Shareholders and their affiliates will not be counted towards the "majority-of-the-minority" vote.

Termination Fee

The Company is not obligated to pay a termination fee, nor make any expense reimbursements, to the Continuing Shareholders should the Arrangement Agreement be terminated for any reason.

THE ARRANGEMENT AGREEMENT

Under the terms of the Arrangement Agreement, each outstanding share of HBC common stock not already owned by the Continuing Shareholders will be converted into the right to receive C\$10.30 in cash. The arrangement consideration represents:

- A premium of approximately 9.0% over the Company's pre-announcement closing price of C\$9.45 on October 18, 2019, being the last trading day before the initial announcement of the Arrangement Agreement; and
- A premium of approximately 61.7% over the Company's unaffected closing price of C\$6.37 on June 7, 2019, being the last trading day before the Company first announced that it had received a going-private proposal of C\$9.45 per HBC share from the Continuing Shareholders.

The following table summarizes the implied market premiums of the arrangement consideration relative to the volume weighted average prices ("VWAPs") of the Company's shares for various periods spanning the unaffected two-year period:

Reference Period	VWAP of HBC	Implied Market Premium
Unaffected 1-month period	C\$6.82	51.0%
Unaffected 3-month period	C\$7.43	38.7%
Unaffected 6-month period	C\$7.67	34.3%
Unaffected 12-month period	C\$8.76	17.6%
Unaffected 24-month period	C\$10.09	2.1%

The Continuing Shareholders have expressed that their proposal of C\$10.30 per common share represents their "best and final" offer.

FINANCING THE ARRANGEMENT CONSIDERATION

The aggregate amount of the arrangement consideration will be funded from: (i) existing cash resources of the Company; and (ii) committed debt financing in an aggregate principal amount of US\$150 million available to the Company arranged by a consortium of bank lenders.

As of August 3, 2019, the Company had total cash and cash equivalents of approximately C\$21.0 million.

On June 10, 2019 (the same day that the Company announced the initial buyout proposal by the Continuing Shareholders), the Company announced that it had entered into definitive agreements to: (i) sell its remaining stake in its European real estate joint venture and divest its related retail joint venture to its partner, SIGNA Holding GmbH ("SIGNA"), along with assumption of certain obligations for total consideration of C\$1.5 billion; and (ii) assume ownership of the Company's Netherlands retail business and release SIGNA from its guarantee of certain obligations of Hudson's Bay Netherlands (the "SIGNA Transactions"). On October 1, 2019, the Company announced the closing of the SIGNA Transactions and the repayment of a C\$429 million term loan using a portion of the sale proceeds thereof, as required under the terms of the loan.

CANADIAN FEDERAL INCOME TAX CONSEQUENCES

The receipt of the arrangement consideration will generally be considered a taxable transaction to the Company's Canada-based shareholders ("Resident Holders") for Canadian federal income tax purposes. Each Resident Holder that disposes of their HBC shares to the Company in exchange for the arrangement consideration will be deemed to have received a dividend in an amount equal to the difference between the cash consideration and the paid-up-capital ("PUC") per common share. The Company currently estimates that the PUC per common share on the effective date will be approximately C\$7.26 per common share. As a result, the Company currently expects that non-dissenting Resident Holders will be deemed to receive a dividend in the amount of C\$3.04 per share.

A non-dissenting Resident Holder will be considered to have disposed of its HBC common shares for disposal proceeds equal to the cash amount received for such shares less any amount that is deemed to be a dividend received by such holder. A non-dissenting Resident Holder will realize a capital gain (or capital loss) to the extent that the sale proceeds, net of any deemed dividend, exceed (or are less than) the adjusted cost base to the holder of such shares.

BACKGROUND REGARDING CATALYST'S APPROACH

Information Regarding Catalyst

Catalyst is a private equity firm that specializes in making investments in distressed and undervalued Canadian situations where it can exert influence and/or control. To the best of our knowledge, Catalyst initially became a shareholder of the Company after it completed a partial public tender offer for the Company's common shares in August 2019. As of the record date, Catalyst beneficially owns 32,326,878 shares of HBC common stock, representing approximately 17.5% of the Company's common stock and 13.4% of the Company's total voting power.

The Catalyst Partial Offer

On July 22, 2019 (six weeks after the Company first announced that the Continuing Shareholders had made a C\$9.45 per share buyout proposal), Catalyst publicly [announced](#) an offer to purchase up to 14,836,795 shares of HBC common stock, representing approximately 8.06% of the Company's outstanding common shares, at a price of C\$10.11 per share (the "Catalyst Partial Offer").

Catalyst argued that the Continuing Shareholders' initial buyout proposal undervalued the Company's common shares, and that the Company's special committee should pursue a more comprehensive review of strategic alternatives. On August 5, 2019, Catalyst increased the scope of its partial offer to cover up to 19,782,393 HBC common shares, representing approximately 10.75% of the Company's outstanding common shares.

On August 19, 2019, Catalyst [announced](#) that it had successfully acquired 18,491,502 HBC common shares, representing approximately 10.05% of the Company's outstanding common shares, through the Catalyst Partial Offer.

Catalyst's Opposition to the Arrangement Agreement

On October 31, 2019, Catalyst issued a [press release](#) indicating that it and other shareholders representing approximately 28.24% of HBC's common stock intend to vote against the Arrangement Agreement. Catalyst contends that the special committee's review process was "fundamentally conflicted" and further argued that the proposed transaction with the Continuing Shareholders amounted to the board was using "shareholders' funds in a severely undervalued share buyback with massive tax leakage." Catalyst indicated that it was aware of a number of strategic investors that were interested in participating in an open sale process involving the Company, and that Catalyst itself would be prepared to make a bid for the Company in such a process.

The Catalyst Proposal

On November 27, 2019, Catalyst [announced](#) that it had made an unsolicited offer to acquire the Company's entire issued share capital for cash consideration of C\$11.00 per HBC common share, being C\$0.70 (or approximately 6.8%) higher than the purchase price contemplated under the Arrangement Agreement. Catalyst also indicated that it was prepared to consider making a higher offer based on the results of its due diligence and cooperation of the special committee, and it expressed confidence that its proposal could be voted on by shareholders and closed by February 2020. Catalyst further noted that it was prepared to allow other shareholders to be co-equity sponsors to join its offer.

Rejection by the Special Committee of the Catalyst Proposal

On December 2, 2019, the Company [announced](#) that the special committee had completed its review of the Catalyst Proposal and had rejected such proposal. In arriving at this decision, the special committee noted that the Continuing Shareholders, in their capacity as HBC shareholders, were not interested in any transaction that would result in a sale of their interests in the Company. Since the Continuing Shareholders collectively hold a majority of the Company's common shares on an as-converted basis and do not support the Catalyst Proposal, and the Catalyst Proposal would require the approval of at least 75% of the votes cast by the Company's shareholders at a special meeting, the special committee concluded that the Catalyst Proposal was not reasonably capable of being consummated and thus could not be considered a "superior proposal" (as such term is defined under the Arrangement Agreement).

Ontario Securities Commission Complaint

On November 27, 2019, Catalyst announced that it had filed a complaint with the Ontario Securities Commission (the "OSC") in relation to the Arrangement Agreement. On December 2, 2019, Catalyst applied to have the OSC either block the Continuing Shareholders from proceeding with the proposed transaction, or to delay this shareholder meeting until the Company provides certain additional disclosures in an amended information circular.

In the relevant [notice of application](#), Catalyst alleges, among other things, that (i) the proposed transaction was the result of a deeply flawed process by the Company; (ii) the Continuing Shareholders formed a group that negated key aspects of the mandate of the special committee and otherwise acted in a coercive manner to undermine the committee; and (iii) the

Company's information circular contains misrepresentations and omits material information relating to the proposed transaction. Catalyst also alleges that the Company relied on "deficient valuations and appraisals" in advancing the proposed transaction.

On December 5, 2019, the OSC [announced](#) that it would proceed with a hearing, to be held on December 11, 2019, to consider the merits of Catalyst's application.

GLASS LEWIS RECOMMENDATION

OVERVIEW / BACKGROUND

The underlying impetus for the proposed transaction appears to us to be driven in large part by the challenging outlook facing the Company. Brick-and-mortar retailers such as the HBC have largely struggled to cope with the broader consumer shift towards e-commerce, which in turn has resulted in declining foot traffic at physical stores. Retailers have had to adapt to the industry changes by investing significant capital into store remodels and technology. But with the operating environment expected to remain challenging for the foreseeable future, many retailers have had to close a large portion of their stores, with some historically-prominent brands (e.g., Sears, Toys "R" Us, and Barneys) even being forced into bankruptcy. The Company notes that in the past five years, U.S. department store sector sales have fallen by an annualized rate of around 4%, while the share prices of U.S. department stores have, on average, lost more than half their value. Despite a series of recent initiatives to restructure the Company's assets (including undertaking various asset sales and certain store/division closures), the Company's shares have not been immune to the broader industry decline; over the one-, three- and five-year periods ended June 7, 2019, the Company's dividend-adjusted share price had fallen by approximately 40.8%, 59.4% and 61.1%, respectively. Against this backdrop, we recognize that a take-private transaction that offers a meaningful market premium could present an attractive alternative to HBC shareholders.

Speaking to the Company's review process, we believe that the board implemented reasonable safeguards to protect the interests of the Company's unaffiliated shareholders, including the establishment of a special committee of independent directors to oversee negotiations with the Continuing Shareholders and the appointment of multiple external advisers to assist with the committee's review. The special committee also appears to have given due consideration to a number of potential alternatives reasonably available to the Company, including distributing a substantial portion of the net sale proceeds from the SIGNA Transactions to the Company's shareholders (via a share repurchase or special dividend) and redeveloping the Company's real estate portfolio. However, the former was unlikely to yield as much immediate value to the Company's unaffiliated shareholders compared to the proposed transaction, while the latter would have required substantial capital investments by the Company over the medium term and entailed significant execution risk.

We recognize that the Company did not run a competitive pre-signing sale process here, which may raise questions among investors as to whether the Company was truly able to extract the highest possible value available to shareholders. In general, we believe that shareholders of a target firm are best served by a competitive process that is designed to invite or solicit expressions of interest from any likely suitor. Here, it appears to us that the Continuing Shareholders were never asked to compete for this deal.

Notwithstanding the foregoing, we recognize that a full sale process here would likely have been a futile undertaking by the Company given that the Continuing Shareholders collectively hold a majority of the Company's voting power and had expressly indicated that they would not support an alternative transaction. We understand that without the consent of the Continuing Shareholders, the board's ability to meaningfully pursue third-party bids was all but constrained. It's worth noting though that the initial offer made by the Continuing Shareholders was publicly disclosed at the outset by the Company in June 2019, and in the four months thereafter up to the execution of the Arrangement Agreement, no third party ever came forward with a competing takeover proposal for the Company. We also note that the special committee was ultimately able to successfully negotiate an increase to the consideration to be received by HBC minority shareholders, from C\$9.45 per common share under the initial proposal to C\$10.30 per share under the Arrangement Agreement, representing a 9.0% (or C\$0.85 per share) increase over the initial proposal.

We recognize that Catalyst recently submitted its own competing all-cash offer to acquire the Company at a price of C\$11.00 per common share, a price that is approximately 6.8% higher than the proposed consideration provided in the Arrangement Agreement. While this might, at a glance, suggest that the Catalyst Proposal represents a superior proposal to the proposed transaction, shareholders should strongly consider the feasibility (or lack thereof) of the Catalyst Proposal. Even putting aside whether Catalyst has obtained sufficient funding commitments for its proposal (which is unclear to us at the moment), Catalyst has not shown that it would be able to secure the support of most, if not all, of the Continuing Shareholders. In the absence of support undertakings from the Continuing Shareholders, the Catalyst Proposal has no conceivable path to getting shareholder approval, as best we can gather. Therefore, we believe that the Catalyst Proposal cannot be considered a superior proposal, and the value offered by the Catalyst Proposal is illusory as

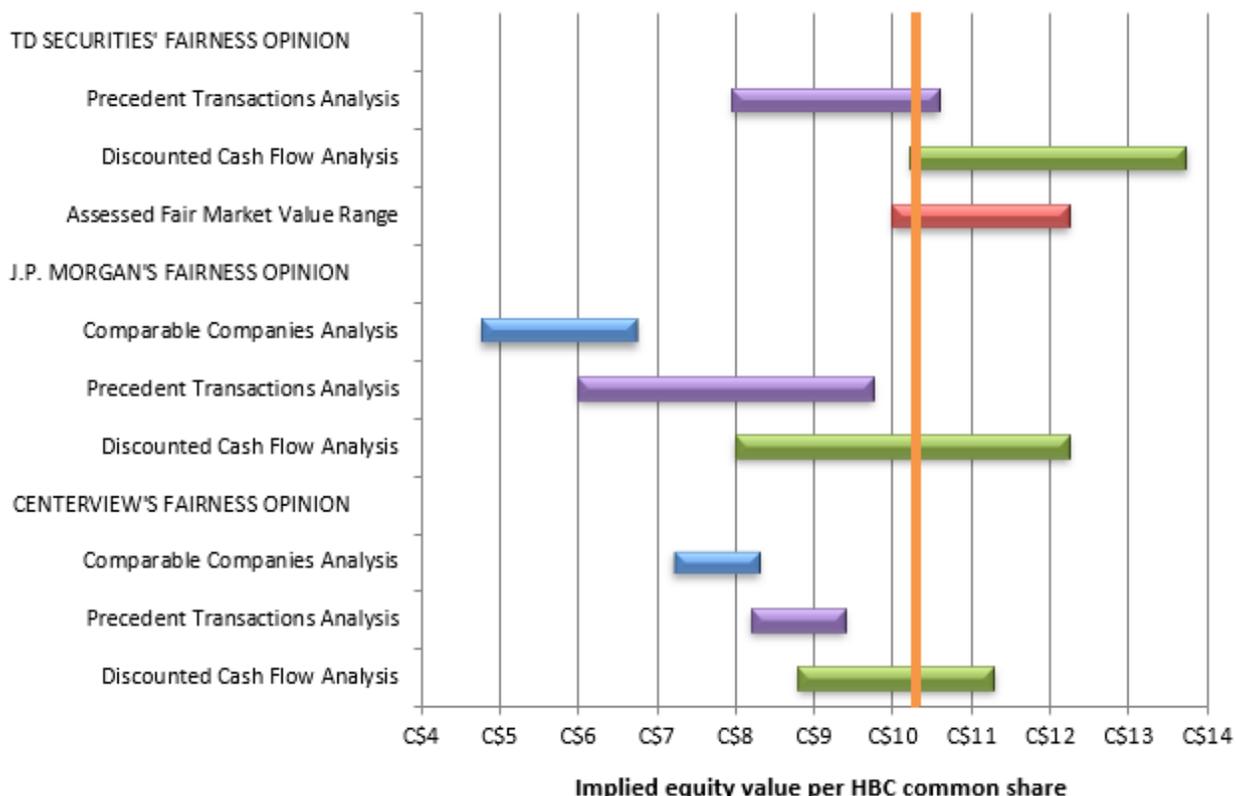
far as unaffiliated HBC shareholders are concerned.

ASSESSMENT OF THE ARRANGEMENT CONSIDERATION

The special committee engaged two external appraisers – Cushman & Wakefield, Inc. (“Cushman”) and CBRE, Inc. (“CBRE”) – to appraise the Company’s real estate portfolio on an as-is and alternative use basis. The Company also engaged a planning consultant, IBI Group Inc., to conduct a planning assessment of certain properties with the aim of identifying redevelopment opportunities within the Company’s portfolio. The Company has [disclosed](#) the appraisal reports for 79 of its properties, which can be reviewed online by the public.

The most prominent of the Company’s properties, being the Saks Fifth Avenue flagship property in New York City, has been appraised on an as-is basis by CBRE at US\$1.58 billion (C\$2.08 billion) and US\$1.6 billion (C\$2.10 billion), using the comparable transactions approach and the income capitalization approach, respectively. CBRE also determined that the Saks flagship property would have a lower value in other scenarios, including a conversion to mixed-use office/retail use. The foregoing valuation has been the subject of scrutiny among certain shareholders, including Catalyst, who contend that the Saks flagship property should be worth more. On the one hand, we understand that a downward revision to the valuation on a given property, just ahead of an insider-led buyout, could optically make the Continuing Shareholders’ proposal appear more attractive to unaffiliated shareholders. Having said that, we find no substantive evidence to suggest that the appraisers were conflicted and were purposely acting in a manner to benefit the Continuing Shareholders at the expense of the Company’s minority shareholders. In our view, a downward revision to the fair market value of the Saks flagship property does not strike us as particularly unusual, especially considering the falling rents for high-end real estate in the area. In our view, shareholders may reasonably rely on and consider the findings from the appraisal reports as part of their assessment of the proposed transaction.

Additionally, the special committee retained three financial advisers – TD Securities Inc. (“TD Securities”), J.P. Morgan Securities Canada Inc. (“J.P. Morgan”) and Centerview Partners LLC (“Centerview”) – to render separate fairness opinions in respect of the proposed transaction. For each of their selected valuation analyses, the financial advisers utilized a sum-of-the-parts approach that involved conducting separate assessments of the Company’s retail business and the Company’s real estate business. TD Securities was additionally tasked with providing an independent, formal valuation of the Company’s shares in accordance with the requirements of MI 61-101. We have summarized the key findings of the financial advisers’ analyses in the chart below:



We see that the arrangement consideration of C\$10.30 per HBC common share falls: (i) at the high end or above the implied equity value per common share reference ranges derived from the financial advisers’ market-based analyses; and

(ii) within the implied equity value per common share reference ranges derived from the financial advisers' discounted cash flow analyses. TD Securities further opined that, as of October 20, 2019, the fair market value of the Company's common shares was in the range of C\$10.00 to C\$12.25 per share, which we see overlaps with the proposed consideration.

Looking back at the Company's recent unaffected trading history, we see that over the two-year period ended June 7, 2019, the Company's shares traded at an average enterprise value-to-NTM EBITDA multiple of 13.3x, which exceeded the range of forward multiples observed in a select group of five U.S. department store retailers (5.0x to 6.5x) but fell below the range of forward multiples observed in a selected set of 11 comparable U.S. and Canadian real estate firms (16.7x to 27.7x). We further observed that the average price-to-book value multiple of the Company over the unaffected two-year period (1.05x) ranked in the bottom quartile of the overall peer group range, excluding three upper-end outliers (0.70x to 2.44x, average of 1.47x and median of 1.40x) (source: S&P Capital IQ).

In comparison, as of December 9, 2019, the arrangement consideration implied an enterprise value-to-NTM EBITDA multiple of 18.5x, which continues to exceed the valuations of the comparable U.S. department store peers (5.6x to 10.3x) while now also falling largely in line with the median multiple observed in the selected U.S. and Canadian real estate peers (18.7x). We also observe that the implied price-to-book value multiple of the deal (2.43x) ranks in the upper decile of the overall peer group range, excluding three upper-end outliers (0.42x to 2.44x, average of 1.35x and median of 1.43x) (source: S&P Capital IQ). These findings, together with the financial advisers' analyses, suggest to us that the arrangement consideration represents a relatively reasonable exit valuation for the Company's unaffiliated shareholders.

POST-ANNOUNCEMENT ARBITRAGE SPREAD

For all but two of the trading days since June 10, 2019 (the day the Continuing Shareholders' initial takeover proposal was first announced), the Company's share price has closed below the value of the arrangement consideration of C\$10.30 per share. Since the initial announcement of the Arrangement Agreement, the Company's share price has, on average, closed approximately 6.3% below the value of the arrangement consideration. The arbitrage spread expanded to double-digit percentage points around mid-November 2019, before narrowing to around 4.5% to 5.6% between November 27 and December 2, 2019, coinciding with time period that the special committee was actively considering the merits of the Catalyst Proposal. However, since the Company's rejection of the Catalyst Proposal, the arbitrage spread has widened once again to double digits. As of December 9, 2019, the Company's closing share price of C\$9.04 was more than 12% below the value of the arrangement consideration.

CONCLUSION

Unaffiliated minority shareholders must consider opposing cases being presented among two competing factions. On the one side, the Continuing Shareholders and the special committee contend that the Company's minority shareholders should accept the C\$10.30 per share premium take-private transaction contemplated under the Arrangement Agreement, as the likely alternative scenario, in which the Company remains a standalone publicly-traded firm, would leave minority shareholders with continued exposure to the deteriorating retail environment and significant further downside risk. On the other side, Catalyst has argued that HBC shareholders should reject the Arrangement Agreement and that the Company could achieve greater value for HBC shareholders by running an open sale process. Catalyst has attempted to generate further support for its case by putting forth the Catalyst Proposal, pursuant to which Catalyst has offered to acquire the Company for C\$11.00 per common share, a price that is nearly 7% higher than the Continuing Shareholders' proposal. For its part, the special committee has rejected the Catalyst Proposal on the grounds that such proposal is not reasonably capable of being consummated.

Considering the relevant circumstances, we believe that the special committee has made a reasonable determination and conclusion in rejecting the Catalyst Proposal. Since the Continuing Shareholders, who collectively hold a majority of the Company's voting power, have clearly expressed that they would oppose the Catalyst Proposal in their capacity as HBC shareholders, we simply see no viable path for the Catalyst Proposal to achieve any of the requisite shareholder vote hurdles at this time. Therefore, we believe it would be nonsensical for the board to terminate the Arrangement Agreement, and imprudent for HBC shareholders to reject the Arrangement Agreement, simply for the opportunity to consider an alternative proposal that would ultimately stand no chance of being approved.

In our view, rejecting the Arrangement Agreement would only potentially make sense here for those shareholders who have an aggressive risk tolerance and a particularly strong conviction regarding the Company's upside (and the Company's ability to achieve such upside). However, it's hard for us to believe that most unaffiliated shareholders have taken such a view, particularly considering the substantial decline in the Company's share price in recent years and the significant ongoing headwinds facing the Company. The recent post-announcement trading pattern in the Company's shares further suggests to us that investors are not optimistic about the Company's ability to realistically obtain a value in the near term that is higher than that offered by the Continuing Shareholders, whether through an alternative transaction or on a standalone basis. Rather, we believe that the arbitrage spread indicates significant trepidation among investors as

to the likelihood of the proposed arrangement being completed, which may be attributed in large part to Catalyst's public opposition to the deal. Catalyst indicated back in late October 2019 that holders of over 28% of the Company's common stock would vote against the proposed transaction. By our calculation, that equity stake would correspond to more than 21% of the Company's total voting power, which raises some legitimate doubts as to whether the Company will be able to clear the 75% supermajority vote hurdle.

While some shareholders might hold out hope that most, if not all, of the Continuing Shareholders may eventually back an alternative transaction that provides minority shareholders with a higher value, we see no compelling evidence at this time to suggest that such a change in position by the Continuing Shareholders is imminent. Thus, in the absence of the proposed transaction contemplated under the Arrangement Agreement, we believe it is reasonable to expect that the Company's share price would experience a substantial decline in value in the immediate term, with any future price recovery subject to further material uncertainty. In comparison, the Arrangement Agreement would provide unaffiliated shareholders with certainty of value for their HBC shares at a sizable market premium and a relatively attractive valuation.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

NOTE: C\$1.00 = US\$0.7614 (exchange rate as of October 18, 2019).

APPENDIX

Questions or comments about this report, GL policies, methodologies or data? Contact your client service representative or go to www.glasslewis.com/issuer/ for information and contact directions.

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