

# HBC posts \$76M loss in fourth quarter

## Strategy 'not working'

**Hollie Shaw, Financial Post**

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The last public set of year-end results for Hudson's Bay Co. reveals plenty of red ink.

Canada's oldest retailer, taken over by U.S. investor Jerry Zucker last month, lost \$76-million in the fourth quarter, or \$1.08 per share, compared with earnings of \$106-million, (\$1.53), in the same period a year earlier. Analysts surveyed by Thomson First Call were anticipating profit of \$1.51.

The retailer's fourth-quarter sales declined to \$2.24-billion from \$2.26-billion.

"We're not surprised [by the results]," said Robert Johnston, vice-president at Mr. Zucker's InterTech Group Inc. "There are charges, but they are not cash charges; there are goodwill adjustments, writedowns. The company generated positive cash and paid down debt. We're focusing now on going forward."

The company wrote off \$138-million, or \$1.98 per share, for the Zellers business in the fourth quarter. Mr. Zucker plans to improve service and in-stock position at the chain through technology, and he wants to accelerate its expansion into a big-box format to better compete with Wal-Mart.

The company spent \$12-million (11 cents per share) on fending off Mr. Zucker's hostile bid and searching out other interested parties. The South Carolina investor received board approval when he raised his offer to \$15.25 per share from \$14.75.

Before interest and taxes, the company lost \$32-million in the fourth quarter compared with EBIT of \$160-million in the same quarter of 2004.

"It's amazing that they managed to lose money on retail in the fourth quarter," said **Peter Holden**, an analyst at **Veritas Investment Research** in Toronto.

The fourth quarter is generally regarded as the major profit generator for cyclical retailers such as department stores.

"This certainly makes it clear that the strategy of [CEO George] Heller and his management team was not working," he said.

Sales sank 1.7% in 2005 to \$6.94-billion from \$7.07-billion in 2004. Sales at stores open for more than a year, an important retailing metric, declined 1.6% in 2005, the fifth year in a row of declines.

Revenue in the company's financial services division, which has been bought by GE Money Canada in a \$370-million deal expected to close this quarter, declined to \$288-million from \$317-million as sales declined and consumers carried lower card balances.

Net debt declined \$20-million to \$422-million. Free cash flow for fiscal 2005 was \$24 -million.

The retailer lost \$175-million for the year ended Jan. 31, or \$2.52 per share, compared with

earnings of \$60-million (86 cents) in the same period a year earlier.

Mr. Zucker, who holds 82% of HBC's outstanding shares, has extended his takeover offer from Feb. 24 until today to take up the stake he does not own. The stock will then be delisted.

It is widely expected that Mr. Heller and the rest of upper management will step down after the deal closes.