



# Report on Business


**JCClark**  
 Investments

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 **S&P/TSX**  
 13,401.48 (-58.73)

 **DOW**  
 11,731.90 (-23.54)

 **S&P 500**  
 1,283.76 (-2.20)

 **DOLLAR**  
 101.09 (-0.24)

 **GOLD**  
 1,387.00 (+1.20)

 **OIL**  
 91.40 (-0.46)

 **GCAN 10-YR**  
 3.247% (-0.01)

**TARGET COMING TO CANADA**

## RETAILERS FACE NEW RIVAL

U.S. department store chain Target has been searching for a way into Canada for years.

When it appeared competitors were eyeing a bid for Zellers, the company moved fast. In just 30 days, the \$1.8-billion deal was done, and now the retail landscape of this country is set for a massive makeover

**MARINA STRAUSS**  
**JACQUIE MCNISH**

Less than three years after Richard Baker bought a struggling Hudson's Bay Co. from the widow of its former owner, the New York investor is set to pocket close to \$2-billion in a deal that accelerates Target Corp.'s entry into Canada.

HBC sold the bulk of its weakest chain, Zellers Inc., to the U.S. retail giant. Target will assume control of up to 220 Zellers stores and said it will spend more than \$1-billion to convert 100 to 150 of them to its own banner within the next two to three years.

The move, which comes after years of rumours and discussion about Target's desire to acquire space in Canada, will dramatically reshape the domestic retail landscape.

It underscores the growing demand by foreign retailers for Canadian locations to take advantage of the country's relatively healthy economy. It also opens the door to other U.S. chains, such as Kohl's Corp., which are believed to be interested in Canadian expansion and are now expected to examine some of the Zellers locations that Target doesn't want.

Mr. Baker owes much of his windfall to a vibrant Canadian retail sector and brisk consumer spending activity. According to sources, the interest from popular U.S. chains is so great that when word leaked out last fall that Mr. Baker's private equity fund NRDC Equity Partners might consider a sale of Zellers, a number of U.S. players expressed interest.

The most ardent suitor was Target Corp., which had quietly been eyeing a Canadian perch for a decade.

The popular retail chain has never operated outside the United States, but sources familiar with the discussions said Target pushed its search into high gear in November by entering talks with Mr. Baker when it learned that competitors were also stalking Zellers.

"They didn't want to get beat out by other parties," Mr. Baker said in an interview Thursday.

Zellers, which has struggled since the mid-1990s, entered what could be its last chapter in its 70-year history last week in Target's headquarters in Minneapolis, Minn., where Mr. Baker travelled to negotiate an agreement.

The deal relieves Hudson's Bay of the burden of a tired retail chain that was losing ground to bigger U.S. competitors, particularly discount giant Wal-Mart Stores Inc.

**Target, Page 5**
**INSIDE**
**Zellers: From hero to zero**

A retail chain that once boasted of having deep roots in communities across Canada with intensely loyal customers is not yet dead. But it will be a shell of its former self after Target carries out its conversion plans.

**Page 5**
**Funky for the whole family**

It's the store where celebrities and soccer moms alike feel comfortable shopping. Target is discount shopping without the bargain-basement feel, and it's already a popular destination for Canadian shoppers.

**Page 4**
**It all started in 1902**

Before it was Target, it was The Dayton Dry Good Company in Minneapolis. The chain's philanthropic roots stretch back to 1918, and by 1979, Target stores reached \$1-billion in annual sales.

**Target timeline, Page 4**
**Have your say**

Take our online poll and tell us how you feel about Target coming to Canada. Can't wait to sample the goods? Or are you disappointed about the demise of another Canadian retailer?

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## Target: The sale is a financial coup for Baker

» The deal ultimately was done in about 30 days, Mr. Baker said, opening the way for the cheap-chic U.S. discounter, often referred to as Tar-zhay by the style-savvy, to launch its first outlets in Canada by 2013.

And it will undoubtedly change retail dynamics, providing solid competition to Wal-Mart, which was also at the table with Mr. Baker, looking to pick up Zellers stores. "Wal-Mart Canada should be concerned about the Target entry," said Rick Pennycooke, president of the retail-real estate consultancy Lakeshore Group. "There will definitely be an impact on their stores, at least in the short term."

The sale is a financial coup for Mr. Baker. He acquired HBC in 2008 for roughly \$1.1-billion; now he's set to collect more than \$1.8-billion in the agreement, plus "hundreds of millions of dollars" for an estimated \$800-million worth of Zellers inventory that will be divested, sources said.

In addition, Mr. Baker is sitting on more than \$1-billion worth of real estate that HBC owns, including its downtown Toronto flagship Bay store and the connecting office tower.

The deal provides Target with 240 days to select the Zellers stores it wants to occupy. The company expects to eventually have more than 200 outlets in Canada over the next decade, said Gregg Steinhafel, chairman and chief executive officer of Target.

Nevertheless, Target still faces some hurdles in its Zellers deal. It has to negotiate terms of each lease with an array of Canadian mall owners. "We have a lot of work ahead of us, property by property," Mr. Steinhafel acknowledged.

However, landlords generally are keen about getting Target, or another new retailer, into its



Target CEO Gregg Steinhafel says the chain plans 100 to 150 stores in Canada, starting in early 2013. CHRIS YOUNG/CP

sites.

RioCan Real Estate Investment Trust, the largest Zellers landlord, hasn't ruled out allowing current leases to stand - at \$6 a square foot they are all below the market average of \$14, said CEO Edward Sonshine. But he said he's not willing to rubber stamp the deal without more research. "I think it's going to be a question of the individual properties," said Mr. Sonshine. "We're helpless here - and at the same time they have a lot of power too. It's a pretty level playing field. In some places we'll say if they leave, we're screwed so let's give them what they want. But at another location, we may say they can like it or lump it."

Meanwhile, Target may have a fight on its hands. Toronto fashion merchant Isaac Benitah has owned the rights to the Target name in Canada for almost a decade but now the U.S. discounter has challenged his right to use the name before federal trademark authorities. Mr. Benitah is pressing on with plans to expand his Target Apparel chain by adding at least a dozen of the super-stores in the next couple of years, a source has said.

Mr. Baker said he'll use the proceeds of the Zellers sale to reduce debt and invest \$500-million over the next three to four years in his other chains, including the Bay and U.S. department store retailer Lord & Taylor. Later this year, he plans to take the company public.

"I really wanted to fix Zellers and turn it into its own version of Target," he said. "We were just offered too much money to pass this opportunity up."

**Target (TGT)**

Close: \$55.42, down 3¢

With files from reporter Steve Laurantaye