



ISSUE IN FOCUS

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Target buys Zellers:

CORE ISSUE: TARGET TO REPLACE ZELLERS STORES IN CANADA.

Deal Overview

- Target will assume control of up to 220 Zeller 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.
- Kohl's Corp. are believed to be interested in Canadian expansion and are now expected to examine some of the Zellers locations that Target doesn't want.
- Target stores – on average about 125,000 square feet – are larger than Zellers stores, which are closer to 100,000 square feet or less.
- 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. 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.

- 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.
- 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 superstores in the next couple of years, a source has said.
- Zellers is not gone, at least not yet – but it will be a shell of its former self once Target Corp. completes its conversion of up to 150 Zeller stores into Targets within the next two years. The deal actually includes leases on 200 properties, but some may be sold to other

retailers or shuttered. The remaining Zellers stores could continue on or take a different banner, such as Fields, which is also owned by parent Hudson's Bay Co.

- For Zellers, everything changed in 1994, when Wal-Mart Stores Inc. Purchased about 100 Woolco locations. Canadians had been exposed to the American retail giant in the press and on cross-border shopping trips, and embraced Wal-Mart almost immediately.
- Analysts said that company managed to stay viable for as long as it did because of the low costs of its long-term leases with land-lords, who were happy to have the stores as a major anchor tenant. RioCan charged the company an average of \$6 a square foot for space – far below the industry average of about \$14.

History of Target

- 1902 – In Minneapolis, George Draper Dayton Forms the Dayton Dry Goods Company – now called Target. Mr. Dayton's six grandsons would all go on to hold leadership positions in the company.
- 1918 – Mr. Dayton creates an organization called the Dayton Foundations, renamed the Target Foundation in 2000. In 1946, the company begins to donate 5 per cent of pretax profits.

Target – General Information

- Over the past 10 years, Target has roughly doubled both its sales and profits. Revenue for the 12 months ended Jan. 30, 2010, totalled \$65.36-billion (U.S.), while net income was \$2.49-billion, according to S&P/Capital IQ.
- Target already generates 50 to 200-per-cent more sales in each of its stores, compared with a Zellers outlet. Mr. Steinhafel is betting that he can run better stores than Zellers by putting more staff into them. Each Target store has between 50 and 100-per-cent more employees than a Zellers, he said. More staff help, for example, keep the store tidier and easier to shop. Approximate # of employees – 360,000.
- Target employees travel the world, scouring for the latest trends in fashion, accessories and housewares. With a lower price point in mind, the company then “Targetizes” a potential product for mass consumption. The quality may be less but the cool factor is conserved.

Number of Stores – U.S. vs. Canada

U.S. – 1,683

Canada – 220 planned

The typical Target shopper

42 – Median age of Target shoppers

33 – The percentage of Target shoppers who have children

\$60,000 – Approximate median household income (U.S.) of Target shoppers

51 – The percentage who have completed college

2009 Sales

\$63.4-billion (U.S.)

16%	Food/pet supplies
19%	Home furnishings
20%	Apparel/accessories
22%	Hardlines
23%	Household