Discount store chains in demand: At least three buyers on the lookout for Canadian deals
Staff
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Canadian Press and staff

At least three buyers are looking to pick up Canadian discount department-store chains.

K mart Canada Ltd. is negotiating the sale of its chain of 154 Bargain Harold's stores with an unidentified suitor, the company confirmed yesterday.

This follows Wednesday's announcement of a proposed sale of 51 Towers-Bonimart department stores to Zellers, and the possibility of bidding war with Woolworth Corp.

"We were approached by a group interested in acquiring Bargain Harold's," said James Ingram, counsel for K mart, of Brampton, Ont. Bargain Harold's is a wholly owned subsidiary of K mart Canada, which in turn is a wholly owned subsidiary of K mart Corp. of Troy, Mich.

Zellers and Towers are regarded as discount or junior department stores. Like Bi-Way stores, Bargain Harold's stores are described as deep-discount stores that operate in smaller stores and deal heavily in clothing.

Mr. Ingram said K mart has signed a letter of intent with a Canadian buyer and talks were continuing.

Meanwhile, Hudson's Bay Co. and Oshawa Group Ltd. are steaming ahead with negotiations that will see the Zellers unit of Hudson's Bay take over the Towers chain run by Oshawa Group - despite Woolworth's push to join the bidding.

"We're still going ahead with the documentation and completing the things we have to, to complete the agreement," said Gary Lukassen, executive vice-president and chief financial officer at Toronto-based Hudson's Bay.

Executives from both companies met again yesterday afternoon at the Hudson's Bay offices to work on the proposed transaction. Ultimately, Hudson's Bay wants to fold Towers into its 208-store Zellers Inc. chain.

Mr. Lukassen said he still expects a deal to close next month.

But New York-based Woolworth, whose empire includes 146 Woolco stores in Canada, also wants want a chance to bid on the 51 Towers outlets. Subsidiary F. W. Woolworth Co. Ltd. of Toronto sent a letter to Oshawa Group on Wednesday, asking to see the Towers books and be allowed to make an offer.

Sam Crystal, a spokesman for Toronto-based Oshawa Group, would only confirm that the Woolworth letter had been received. He would not discuss what sort of response Oshawa Group would make. A Woolworth spokesman said no reply had been received by yesterday afternoon.

The big question, and possibly a legal one, is whether a letter of intent signed earlier by Hudson's Bay and Oshawa Group in any way restricts the latter from entertaining other offers.

"Both Oshawa and ourselves understand the terms of the letter of intent, and we're abiding by them," Mr. Lukassen said. He would not comment further.

Before Woolworth entered the scene, Mr. Lukassen had insisted that his company's purchase of Towers was "not a done deal."

Given that, analysts said yesterday they are still working on the assumption that a Woolworth bid can't be ruled out.

In its letter to Oshawa Group, Woolworth hints at the fiduciary obligation of Oshawa Group directors to act in the best interests of shareholders.

"Certainly the duty of the board of directors is to get the best deal" for Towers, agreed William Allen, president of Allenvest Ltd., an institutional stockbrokerage with a history of fighting for shareholders' rights.

If Woolworth's interest is legitimate, Mr. Allen said, "let them come forward and make a bid."

"It's a natural fit for them," said Barry Gruman, analyst at First Marathon Securities Ltd. in Montreal.

Ross Cowan, analyst at Lévesque Beaubien Geoffrion Inc., said the price tag on Towers could run to $130-million, based on the chain's net assets and goodwill, up from original industry estimates of $100-million.

The only other logical bidder would be K mart Canada. However, Mr. Ingram said: "It is our intention at this time not to join the fray" for Towers.

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