



Towers Department Stores

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Zellers, Woolworth face off for control of Towers - Zellers Inc. and Woolworth Corp. bid for Towers Department Stores Inc

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by Mary Ellen Kelly

MISSISSAUGA, Ontario - Towers Department Stores, the 51-unit discounter based here, is caught in a tug of war for between two of Canada's largest discount store chains, Zellers and Woolworth.

The outcome has the potential to upset the balance of power among the handful of dominant retailers in Canada.

Separately, K mart Canada reported it has signed a letter of intent to sell its 154-unit Bargain Harold's chain to an undisclosed group of individuals who have a retail background.

Zeller parent, The Hudson's Bay Co. and Towers' parent, The Oshawa Group, signed a letter of intent Oct. 3, with expectations of sealing the deal by the end of the month. Towers president, William Atkinson, said he was "totally surprised" by the unsolicited offer.

The tug of war broke out when F.W. Woolworth Co., Canada caught wind of the proposed deal. Executives issued a letter expressing, "surprise" and "disappointment" that they had not been invited to participate in the bidding, and asked The Oshawa Group to provide them with an equal opportunity to make an offer for the Towers chain.

Similarly, at K mart there was surprise. James A. Ingram, general counsel and secretary of K mart, Canada said, "Bargain Harold's was not on the market to be sold. We were approached." K mart was approached "several months" ago, said Ingram, and signed the letter of intent Oct. 4. The Bargain Harold's deal is unrelated to the Towers negotiations said Ingram, adding, "We're certainly not interested in acquiring Towers."

While none of the firms involved in the negotiations would disclose information about possible acquisition terms, Canadian analysts estimated the price range for Towers is between \$75 million and \$100 million, according to several Canadian newspapers, including The Financial Post. However, one analyst told DSN she considers these estimates to be very low, and perhaps responsible, in part, for Woolworth's interest in Towers.

Nancy Self, analyst with Toronto-based Burns Fry, said she believes the selling price will be "considerably higher than the speculated price range," being circulated in the Canadian press. Self said the report in area newspapers that the prices might be as low as \$75 million could have piqued Woolworth's interest.

David Currie, senior vp, property and development at Woolworth, Canada, said it was not

price that caught their interest since the company did not know what bids were being offered for Towers. Currie would not comment on whether he thought the speculated price range was low for the Towers chain. At presstime, Currie said Woolworth had received no response to its letter to Tower's parent.

"There is a pretty good fit between our company and Towers," Currie said. When asked whether Woolworth would convert Towers to Woolco stores if an acquisition were made, he said, "it would be premature to speculate on any change in name." The 146 Woolco stores average 125,000 square feet while Towers prototype sizes are 70,000 square feet and 50,000 square feet.

Currie believes the company's U.S. parent would come to the aid of Woolworth, Canada, if necessary. "Woolworth internationally has shown a willingness to make acquisitions," he said.

Woolworth's sales in 1989 - including Woolco, and 196 Woolworth and Robinson general merchandise stores - were \$2.2 billion (Canadian). Zellers' sales last year were also \$2.2 billion. Towers annual volume was \$553 million in 1989.

If Zellers were to acquire the chain, the retailer would come close to Sears Canada's 20% share of the roughly \$14 billion department store and junior department store business in Canada. Zellers would also make into a chasm the current sales and market share gap between itself and competitors such as K mart Canada, Metropolitan Stores and Giant Tiger.

K mart stores (K mart, Bargain Harold's and Kresge) generated sales of \$1.3 billion; Metropolitan Stores were estimated to be under \$100 million, and Giant Tiger's volume was \$163 million last year.

Paul Walters, president of 218-unit Zellers, told DSN that Towers falls into the chain's overall growth scheme. "We are very interested in expanding our business in areas where we've seen voids, either by working with developers or pursuing other avenues." Towers presents an opportunity to quickly expand into Toronto, a market where Zellers operates only a handful of stores, but where Towers has 12.

Walters went on to say that if Zellers' parent Hudson Bay were to succeed in acquiring Towers, the stores would be converted to the Zellers format. There are about 10 Towers stores that are in competition with Zellers. Walters said it would be premature to discuss which - if any - Towers units would be closed.

The Towers acquisition would bring Zellers closer to its goal of operating a total of nearly 350 stores nationwide. "As it stands, we're about half-way toward our optimal market penetration," Walters noted. "Presuming the purchase of Towers, we would still want to expand by another 70 to 80 units."

Walters compares Zellers to Wal-Mart in terms of its productivity, and suggests that Zellers' return on assets could even be superior to WalMart's. Towers is likened to Target due to its fashion orientation.