HBC Reports Third Quarter 2018 Financial Results

December 5, 2018

- ***Sales increased 5.6% to $2.2 billion, with comparable sales up 2.9%***
- ***Saks Fifth Avenue comparable sales up 7.3%, solidifying its leading position in luxury***
- ***Net loss of $124 million compared to $116 million in the prior year***
- ***Adjusted EBITDA of $63 million, up from $40 million in the prior year, driven by sales growth and improved gross margin and expense rates***
- ***Closing of European transaction creates Germany's leading retailer***
- ***Proceeds from expected transactions to be used to pay down debt; total company debt at year end expected to be more than $1 billion lower than 2017***

TORONTO & NEW YORK--(BUSINESS WIRE)--Dec. 5, 2018-- HBC (TSX: HBC) today announced its financial results for the thirteen and thirty-nine week periods ended November 3, 2018. Unless otherwise indicated, all amounts are expressed in Canadian dollars. Certain metrics, including those expressed on an adjusted, normalized, comparable and/or constant currency basis, are non-IFRS financial measures. For more information please refer to the "Supplemental Information" section of this press release and the reconciliation tables below. As of the second quarter, HBC Europe has been classified as a discontinued operation, and, accordingly, the results from this business are excluded from the highlights and summary results discussed in this press release.

"We are encouraged by the ongoing improvement of our business, with year to date Adjusted EBITDA of $151 million, up $106 million from the prior year. The bold strategic actions we are taking are beginning to pay off, and the recent closing of the European transaction will now allow us to concentrate on the North American business," said Helena Foulkes, HBC's Chief Executive Officer. "While we are optimistic about the progress and opportunities that lie ahead for HBC, we recognize there is more work to be done to further generate growth and greater profitability. We are driving our retail performance with a firm emphasis on fixing the fundamentals and improving our omnichannel customer experience."

Overall comparable sales increased 2.9%. Adjusting for the impact of the shift of Hudson Bay's "Bay Days" promotional event into the third quarter from the fourth quarter, total comparable sales increased 1.2%.

Foulkes added, "While each of our businesses offers a unique value proposition, we are making strategic decisions to focus our efforts on the areas with the greatest opportunities for growth. Saks Fifth Avenue's exceptional performance further solidifies its leading position within the luxury segment and we are continuing to drive the upside in the business. Performance at Hudson's Bay has been solid, and we believe that there is a tremendous opportunity to build on our strength in the market as Canada's preeminent multi-category retailer. Improved sales trends and better profitability at our smallest businesses, Lord & Taylor and Saks OFF 5TH, are also encouraging as we start to reposition those businesses for the future."

"We are focused on unlocking value for shareholders," said Richard Baker, HBC's Governor and Executive Chairman. "In the last year alone HBC has brought in new effective leadership, sold Gilt, rightsized the Lord & Taylor business and generated significant proceeds from the European transaction and the value creation from certain of our leaseholds. These actions have led to the improved financial results that the Company has reported so far this year. We continue to be focused on executing our strategy to increase the profitability of our retail business while unlocking the value of our extraordinary real estate portfolio."

Baker added, "With the initial proceeds from the European transaction, we have permanently repaid U.S. $175 million of U.S. term loan debt, and expect to fully repay the $U.S.400 million mortgage on our Lord & Taylor flagship when we close the sale of this building at the end of January. These transactions, combined with the ABL reduction from the European transaction, including proceeds from the sale of a 50% interest in 18 wholly-owned German properties, and cash inflow from our operations, are expected to reduce debt by more than $2 billion during the fourth quarter. This will reduce year-end debt by more than $1 billion compared to last year."

Third Quarter Summary

All comparative figures below are for the thirteen week period ended November 3, 2018 compared to the thirteen week period ended October 28, 2017. All references to "comparable sales" are made on a constant currency basis. See "Non-IFRS Measures".

During the second quarter, the Company entered into an agreement to sell its controlling interest in HBC Europe and to form a strategic partnership for its European businesses. This transaction closed subsequent to the end of the third quarter. HBC Europe has been classified as a discontinued operation as of the second quarter, and, accordingly, the results from this business are excluded from the discussion below.

Revenue was $2,187 million, an increase of $115 million, or 5.6%, from the prior year. Overall comparable sales increased 2.9%, with total comparable digital sales increasing 8.0%. Adjusting for the impact of the shift of Hudson Bay's "Bay Days" promotional event into the third quarter from the fourth quarter, total comparable sales increased 1.2%. Comparable sales performance at the Company's businesses are highlighted below:

- Saks Fifth Avenue comparable sales increase of 7.3%
- DSG (Hudson's Bay, Lord & Taylor and Home Outfitters) comparable sales increase of 0.9%; adjusting for the "Bay Days" promotional shift, comparable sales declined 2.4%
- Saks OFF 5TH comparable sales decrease of 2.3%

Saks Fifth Avenue recorded its sixth consecutive quarter of comparable sales growth, benefiting from its positioning as the go-to destination for must have luxury fashion. Contributing to this growth has been the ongoing expansion of omnichannel capabilities that has allowed sales associates to sell across multiple platforms and better serve customers both in-store and online. The Company has also continued work on its major renovation of the New York Saks Fifth Avenue flagship store, and began renovations on the main floor during the third quarter. Comparable sales results at this location were negatively impacted during the quarter, and this impact is expected to continue during the fourth quarter. Work on the main floor is expected to be completed by February 2019, at which time it will re-open to offer one of the largest luxury leather goods floor in the United States.

For HBC overall, gross profit[1] as a percentage of revenue was 39.4%, an improvement of 10 basis points, predominantly by improved full price and clearance margin rates.

SG&A expenses were $868 million compared to $837 million in the prior year. The increase was primarily driven by $24 million in foreign exchange impact, one-time costs related to the planned store closures at Lord & Taylor, and additional investments in digital resources combined with an increase in fulfillment expenses related to the sales growth in this channel. Partially offsetting this was an $8 million reduction in one-time restructuring charges and other smaller items.

Adjusted SG&A[1] expenses, which exclude certain non-cash items and normalizing adjustments consistent with the Company's other non-IFRS metrics, were $815 million or 37.3% of revenue, compared to $786 million or 37.9% in the prior year. The dollar increase was primarily driven by foreign exchange impact and higher variable sales costs and increased investment in digital resources as discussed above. The increase in sales combined with marginally higher Adjusted SG&A[1] dollars resulted in a lower 60 basis point reduction in the Adjusted SG&A[1] expense rate.

Adjusted EBITDA[1] was $63 million, an increase of $23 million, while Adjusted EBITDAR increased $20 million to $141 million. The increase in Adjusted EBITDA and EBITDAR can primarily be attributed to an increase in gross profit dollars, partially offset by nominally higher Adjusted SG&A[1] expenses.

Net loss from continuing operations was $124 million compared to a net loss $116 million in the prior year. The increase was primarily driven by higher depreciation and amortization expenses and a higher reported loss from the Company's share in the joint ventures, largely driven by the impact of non-cash foreign exchange. Normalized net loss[1] was $96 million compared to $95 million in the prior year.

Note:

1 These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions and reconciliations, please refer to the "Non-IFRS Measures" and "Supplemental Information" sections, respectively, of this release.

European Operations

HBC Europe generated total sales of $974 million in the third quarter, an increase of 0.4% compared to the prior year. Comparable sales declined 2.1%, a sequential improvement from the first and second quarters of Fiscal 2018. Adjusted EBITDA was negative $39 million, compared to negative $6 million in the prior year, driven by lower comparable sales and gross profit dollars and higher rent expenses, largely driven by new store openings over the last 12 months. Net loss was $41 million, compared to $107 million in the prior year.

Inventory

Inventory as reported on the balance sheet at the end of the third quarter declined by $907 million compared to the prior year. This reduced balance at the end of the quarter was driven primarily by the divestment of Gilt and the reclassification of inventory related to HBC Europe to *assets of discontinued operations held for sale,* as well as an 0.8% reduction in comparable inventory at the Company's North American banners. These impacts were partially offset by translation effects from the depreciation of the Canadian dollar.

Store Network (Continuing Operations)

During the third quarter, HBC opened one Hudson's Bay store in Montreal, Quebec and one Saks OFF 5TH store in Calgary, Alberta. The Company closed one Hudson's Bay store in Montreal, Quebec and one Home Outfitters store in Halifax, Nova Scotia.

Store information as at November 3, 2018	Store Count[(1)]	Gross Leasable Area [(1)] / Square Footage (000s)
Hudson's Bay	**89**	**15,739**
Lord & Taylor	**48**	**6,705**
Saks Fifth Avenue	**42**	**5,303**
Saks OFF 5TH	**133**	**3,998**
Home Outfitters	**38**	**1,328**
Total	**350**	**33,073**

(1) HBC operates one Hudson's Bay outlet, two Zellers clearance centres and three Lord & Taylor outlets that are excluded from the store count and gross leasable area.

Capital Investments (Continuing Operations)

Capital investments, net of landlord incentives, resulted in a net inflow of $71 million during the third quarter, driven by the receipt of $152 million related to the amendments granted to the landlord at the Company's Oakridge Centre Hudson's Bay location in Vancouver. Excluding this amount, net capital investments were $80 million, $7 million less than the prior year. HBC continued work on its major renovation at the Saks Fifth Avenue flagship store on Fifth Avenue in New York, and performed smaller renovations at various Hudson's Bay, Saks Fifth Avenue and Lord & Taylor stores. Technology investments included the migration of the Hudson's Bay website to the common platform, as well as other digital related initiatives.

Following the agreement to combine its European operations with SIGNA's Karstadt, management expects total North American capital investments in Fiscal 2018, net of landlord incentives, to be between $175 million and $200 million, or between $325 million and $350 million excluding the $152 million received with regards to the Oakridge amendment. This reflects a reduction of approximately $50 million in net capital expenditures compared to the prior guidance issued in the second quarter. These capital investment expectations reflect exchange rate assumptions of USD:CAD = 1:1.27 for the remainder of the year. Any variation in these foreign exchange rate assumptions and/or other material assumptions and factors described in the "Forward-Looking Statements" section of this press release could impact the above outlook.

Debt Summary

As at November 3, 2018, HBC had the following outstanding loans and borrowings on its balance sheet (refer to note 12 of the unaudited interim condensed consolidated financial statements for thirteen and thirty-nine week periods ended November 3, 2018):

(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017
Global ABL	**1,149**	1,741
U.S. Term Loan B	**656**	644
Lord & Taylor Mortgage	**512**	508
Saks Mortgage	**1,639**	1,609
Other loans	**28**	13
Total Outstanding Loans and Borrowings	**3,984**	4,515

Including $312 million of additional ABL borrowings at HBC Europe, HBC had $1.1 billion in availability under its Global ABL facility at the end of the third quarter, an increase of $292 million in availability compared to the prior year. Subsequent to the quarter end, the Company used initial proceeds from the European transaction to re-pay US$175 million in Term Loan borrowings, and expects to generate total additional proceeds of approximately $1.1 billion by the end of the fiscal year from the partial sale of HBC's 18 German real estate assets and the close of the Lord & Taylor flagship building sale. These proceeds will be used to dramatically reduce HBC's outstanding borrowings, significantly enhancing the Company's financial flexibility and increasing overall liquidity. Management currently expects to fully repay the Lord & Taylor mortgage and end the fiscal year with no outstanding borrowings on HBC's ABL facility.

Dividend

HBC also announced today that its board of directors has approved HBC's regular quarterly dividend to be paid on January 15, 2019, to shareholders of record at the close of business on December 31, 2018. The dividend is in the amount of $0.0125 per HBC common share and is designated as an "eligible dividend" for Canadian tax purposes. The declaration of dividends is at the discretion of HBC's board.

Conference Call to Discuss Results

Management will discuss the third quarter financial results and other matters during a conference call on December 5, 2018 at 8:30 am EST.

The conference call will be accessible by calling the participant operator assisted toll-free dial-in number (800) 535-7056 or international dial-in number (253) 237-1145. A live webcast of the conference call will be accessible on HBC's website at: http://investor.hbc.com/events.cfm. The audio replay also will be available via this link.

Consolidated Financial Statements and Management's Discussion and Analysis

The Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 3, 2018 and Management's Discussion and Analysis ("MD&A") thereon are available under the Company's profile on SEDAR at www.sedar.com.

Consolidated Financial Information

The following tables set out summary consolidated financial information and supplemental information for the periods indicated. The summary financial information set out below for the quarters ended November 3, 2018 and October 28, 2017 has been prepared on a basis consistent with our audited annual consolidated financial statements for Fiscal 2017, respectively. In the opinion of the Company's management, such unaudited financial data reflects all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year or any future period. The information presented herein does not contain disclosures required by IFRS for consolidated financial statements and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 3, 2018.

CONDENSED CONSOLIDATED STATEMENTS OF LOSS

(millions of Canadian dollars, except per share amounts)

	Thirteen week period ended		**Thirty-nine week period ended**	
		restated (1)		*restated* (1)
	Nov 3, 2018	Oct 28, 2017	**Nov 3, 2018**	Oct 28, 2017
Revenue	**2,187**	2,072	**6,491**	6,438
Cost of sales	**(1,326)**	(1,258)	**(3,900)**	(3,934)
Selling, general and administrative expenses ("SG&A")	**(868)**	(837)	**(2,600)**	(2,600)
Depreciation and amortization	**(128)**	(111)	**(370)**	(341)
Operating loss	**(135)**	(134)	**(379)**	(437)
Finance costs, net	**(53)**	(53)	**(154)**	(143)
Share of net (loss) earnings in joint ventures	**(6)**	(2)	**(37)**	55
Dilution gains from investments in joint ventures	**2**	7	**3**	10

Loss before income tax	**(192)**	(182)	**(567)**	(515)
Income tax benefit	**68**	66	**162**	196
Net loss for the period - continuing operations	**(124)**	(116)	**(405)**	(319)
Net loss for the period - discontinued operations, net of taxes	**(40)**	(127)	**(423)**	(346)
Net loss for the period	**(164)**	(243)	**(828)**	(665)
Loss per share - basic and diluted				
Continuing operations	**(0.52)**	(0.64)	**(1.72)**	(1.75)
Discontinued operations	**(0.17)**	(0.69)	**(1.79)**	(1.90)
Total operations	**(0.69)**	(1.33)	**(3.51)**	(3.65)

The following table shows additional summary supplemental information – continuing operations for the periods indicated (1):

	Thirteen week period ended		**Thirty-nine week period ended**	
		restated (1)		*restated (1)*
	Nov 3, 2018	Oct 28, 2017	**Nov 3, 2018**	Oct 28, 2017
Adjusted EBITDA (2)	**63**	40	**151**	45
Adjusted EBITDAR (2)	**141**	121	**400**	300
Adjusted SG&A (2)	**815**	786	**2,494**	2,494
Normalized net loss for the period (2)	**(96)**	(95)	**(336)**	(313)
Normalized net loss per share — basic and diluted(2)	**(0.41)**	(0.52)	**(1.42)**	(1.72)
Declared dividend per Common Share	**0.01**	0.01	**0.04**	0.04

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations.

(2) See below for relevant definitions and tables for reconciliations of net loss – continuing operations to EBITDA, Adjusted EBITDA and Adjusted EBITDAR, SG&A to Adjusted SG&A and net loss to Normalized net loss. These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this release and for the relevant reconciliations of the nearest IFRS measures, please refer to the "Supplemental Information" section of this release.

CONDENSED CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)

	Nov 3, 2018	Oct 28, 2017
Assets		
Cash	**27**	97
Trade and other receivables	**163**	345
Inventories	**3,163**	4,070
Assets held for sale	**359**	275
Assets of discontinued operations held for sale	**2,963**	—
Other current assets	**221**	175
Total current assets	**6,896**	4,962
Property, plant and equipment	**3,941**	5,228
Intangible assets and goodwill	**1,111**	1,749
Pensions and employee benefits	**163**	167
Deferred tax assets	**314**	354
Investments in joint ventures	**500**	606
Other assets	**54**	22
Total assets	**12,979**	13,088
Liabilities		
Loans and borrowings	**1,147**	1,727
Finance leases	**29**	30
Trade payables	**1,186**	1,744
Other payables and accrued liabilities	**725**	1,083
Deferred revenue	**108**	114
Provisions	**122**	192
Liabilities of discontinued operations held for sale	**2,324**	—
Other current liabilities	**236**	145
Total current liabilities	**5,877**	5,035
Loans and borrowings	**2,751**	2,696

Finance leases	**322**	505
Provisions	**68**	52
Pensions and employee benefits	**180**	705
Deferred tax liabilities	**169**	535
Investment in joint venture	**221**	44
Other liabilities	**1,678**	1,792
Total liabilities	**11,266**	11,364
Shareholders' equity		
Share capital	**2,050**	1,426
Deficit	**(940)**	(201)
Contributed surplus	**182**	139
Accumulated other comprehensive income	**421**	360
Total shareholders' equity	**1,713**	1,724
Total liabilities and shareholders' equity	**12,979**	13,088

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)

	Thirty-nine week period ended	
		restated (1)
	Nov 3, 2018	Oct 28, 2017
Operating activities		
Net loss from continuing operations	**(405)**	(319)
Income tax benefit	**(162)**	(196)
Dilution gains from investments in joint ventures	**(3)**	(10)
Share of net loss (earnings) in joint ventures	**37**	(55)
Finance costs, net	**154**	143
Operating loss	**(379)**	(437)
Net cash income taxes paid	**(4)**	(1)
Interest paid in cash	**(142)**	(126)
Distributions of earnings from joint ventures	**155**	159
Depreciation and amortization	**370**	341
Net defined benefit pension and employee benefits expense	**17**	16
Other operating activities	**2**	(11)
Share of rent expense to joint ventures	**(145)**	(145)
Share based compensation	**44**	26
Settlement of share based compensation grants	**(4)**	(3)
Changes in operating working capital	**(317)**	(141)
Cash outflow for operating activities from continuing operations	**(403)**	(322)
Cash outflow for operating activities from discontinued operations	**(566)**	(516)
Net cash outflow for operating activities	**(969)**	(838)
Investing activities		
Capital investments	**(327)**	(409)
Proceeds from capital and non-capital landlord incentives	**259**	141
Capital investments less proceeds from landlord incentives	**(68)**	(268)
Proceeds from lease terminations	**26**	1
Deposit for sale of Lord & Taylor Fifth Avenue building	**33**	—
Proceeds on disposal of assets	**9**	3
Proceeds on sale of Gilt operations	**41**	—
Return of capital from joint venture	**—**	39
Other investing activities	**(12)**	(13)
Cash inflow (outflow) for investing activities from continuing operations	**29**	(238)
Cash outflow for investing activities from discontinued operations	**(68)**	(219)
Net cash outflow for investing activities	**(39)**	(457)
Financing activities		
Repayments	**(6)**	(5)
Long-term loans and borrowings	**(6)**	(5)
Net borrowings from asset-based credit facilities	**745**	1,102
Borrowing costs	**(1)**	(2)
Short-term loans and borrowings	**744**	1,100

Payments on finance leases	**(26)**	(18)
Dividends paid	**(7)**	(13)
Cash inflow from financing activities from continuing operations	**705**	1,064
Cash inflow from financing activities from discontinued operations	**321**	202
Net cash inflow from financing activities	**1,026**	1,266
Foreign exchange gain on cash	**1**	4
Increase (decrease) in cash	**19**	(25)
Cash at beginning of year	**70**	122
Cash at end of period	**89**	97
Deduct: cash reclassified to assets of discontinued operations held for sale	**(62)**	—
Cash at end of period - continuing operations	**27**	97

Note:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations.

Supplemental Information

The following table presents the reconciliation of net loss – continuing operations to EBITDA, Adjusted EBITDA and to Adjusted EBITDAR:

	Thirteen week period ended		**Thirty-nine week period ended**	
		restated (1)		*restated (1)*
(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017	**Nov 3, 2018**	Oct 28, 2017
	$	$	$	$
Net loss – continuing operations	**(124)**	(116)	**(405)**	(319)
Finance costs, net	53	53	154	143
Income tax benefit	(68)	(66)	(162)	(196)
Depreciation and amortization	128	111	370	341
EBITDA (2)	**(11)**	(18)	**(43)**	(31)
Certain non-cash items (3)	22	12	90	(11)
Normalization adjustments (4)	38	34	73	52
Net rent expense to joint ventures (5) (6)	20	16	57	54
Cash rent to joint ventures	(61)	(58)	(181)	(178)
Cash distributions from joint ventures	55	54	155	159
Total adjustments	74	58	194	76
Adjusted EBITDA (2)	**63**	40	**151**	45
Rent adjustments				
Third party rent expense	72	77	223	236
Cash rent to joint ventures	61	58	181	178
Cash distributions from joint ventures	(55)	(54)	(155)	(159)
Adjusted EBITDAR (2)	**141**	121	**400**	300
Adjusted EBITDAR as a percentage of revenue	**6.4 %**	5.8 %	**6.2 %**	4.7 %

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations.
(2) These performance metrics have been identified by the Company as non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this release.
(3) Certain non-cash items consist of:

Share of net loss (earnings) in joint ventures	6	2	37	(55)
Dilution gains from investments in joint ventures (i)	(2)	(7)	(3)	(10)
Non-cash pension expense	5	5	16	16
Impairment and other non-cash items	—	2	7	11
Non-cash share based compensation	13	10	33	27
	22	12	90	(11)

(i) Represents gains realized as a result of the changes in ownership related to the Company's investments in the joint ventures.

(4) Normalization adjustments consist of:

Acquisition and integration related expenses (i)	5	9	14	16
Lord & Taylor optimization (ii)	9	—	25	—
Foreign exchange adjustment (iii)	7	5	14	(24)
Restructuring (iv)	14	22	29	89
Net gain on store closures (v)	—	—	(28)	—
Data security issue (vi)	—	—	3	—
White Flint settlement (vii)	—	—	—	(42)
Other	3	(2)	16	13
	38	34	73	52

(i) Includes costs associated with acquisition and integration related activities.
(ii) Lord & Taylor optimization includes expected costs associated with the planned closures of certain Lord & Taylor stores beginning in the fourth quarter of Fiscal 2018.
(iii) Represents the net impact of unrealized (gains) losses resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the Company.
(iv) Restructuring includes expected costs associated with HBC's transformation plan, announced in June 2017 (the "Transformation Plan") and the $75 million initiative announced in February of 2017.
(v) Net gain on store closures represents lease termination fee income received with respect to two Lord & Taylor stores that closed during the first quarter of Fiscal 2018, net of associated costs.
(vi) This represents costs related to the data security issue which occurred during the first quarter of Fiscal 2018 that will not be recoverable under the Company's insurance policies.
(vii) This represents a $42 million payment received for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall.

(5) Rent expense to the joint ventures net of reclassification of rental income related to the Company's ownership interest in the joint ventures (see note 11 to the Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine week periods ended November 3, 2018).
(6) As a result of the presentation of HBC Europe as a discontinued operation, the reclassification of rental income to SG&A related to the Company's ownership in the HBS Joint Venture has been restated to exclude amounts related to rental income from HBC Europe.

The following table presents the reconciliation of SG&A – continuing operations to Adjusted SG&A:

	Thirteen week period ended		**Thirty-nine week period ended**	
		restated (1)		*restated (1)*
(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017	**Nov 3, 2018**	Oct 28, 2017
	$	$	$	$
SG&A – continuing operations	**868**	837	**2,600**	2,600
Certain non-cash items (2)	(18)	(17)	(56)	(54)
Normalization adjustments (3)	(35)	(34)	(50)	(52)
Total adjustments	(53)	(51)	(106)	(106)
Adjusted SG&A (4)	**815**	786	**2,494**	2,494
Adjusted SG&A (4) as a percentage of revenue	**37.3 %**	37.9 %	**38.4 %**	38.7 %

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations.
(2) Certain non-cash items consist of:

Non-cash pension expense	(5)	(5)	(16)	(16)
Impairment and other non-cash items	—	(2)	(7)	(11)
Non-cash share based compensation	(13)	(10)	(33)	(27)
	(18)	(17)	(56)	(54)

(3) Normalization adjustments consist of:

Acquisition and integration related expenses (i)	(5)	(9)	(14)	(16)
Lord & Taylor optimization (i)	(6)	—	(6)	—
Foreign exchange adjustment (i)	(7)	(5)	(14)	24
Restructuring (i)	(14)	(22)	(29)	(89)
Gain on store closures (ii)	—	—	32	—
Data security issue (i)	—	—	(3)	—
White Flint settlement (i)	—	—	—	42

Other	(3)	2	(16)	(13)
	(35)	(34)	(50)	(52)

(i) For details, refer to footnote 4 to the reconciliation of net loss – continuing operations to EBITDA, Adjusted EBITDA and to Adjusted EBITDAR table above.
(ii) Gain on store closures represents lease termination fee income received with respect to two Lord & Taylor stores that closed during the first quarter of Fiscal 2018.

(4) This performance metric has been identified by the Company as a non-IFRS measure. For the relevant definition, please refer to the "Non-IFRS Measures" section of this release.

The following table presents the reconciliation of net loss – continuing operations to Normalized net loss:

	Thirteen week period ended		**Thirty-nine week period ended**	
		restated (1)		*restated* (1)
(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017	**Nov 3, 2018**	Oct 28, 2017
	$	$	$	$
Net loss – continuing operations	**(124)**	(116)	**(405)**	(319)
Certain non-cash items (2)	(3)	(4)	(3)	(6)
Normalization adjustments (3)	29	21	50	37
Adjustments to share of net (loss) earnings in joint ventures (4) (5)	2	4	22	(25)
Total adjustments (6)	28	21	69	6
Normalized net loss (7)	**(96)**	(95)	**(336)**	(313)

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations.
(2) Certain non-cash items consist of:

Dilution gains from investments in joint ventures	(3)	(4)	(3)	(6)

(3) Normalization adjustments consist of:

Acquisition and integration related expenses (i)	5	7	9	10
Lord & Taylor optimization (ii)	6	—	18	—
Foreign exchange adjustment (iii)	7	1	9	(14)
Restructuring (iv)	9	16	21	59
Net gain on store closures (v)	—	—	(20)	—
Data security issue (vi)	—	—	2	—
White Flint settlement (vii)	—	—	—	(25)
Other	2	(3)	11	7
	29	21	50	37

(i) Includes costs associated with acquisition and integration related activities.
(ii) Lord & Taylor optimization includes expected costs associated with the planned closures of certain Lord & Taylor stores beginning in the fourth quarter of Fiscal 2018.
(iii) Represents the net impact of unrealized (gains) losses resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the Company.
(iv) Restructuring includes expected costs associated with the Transformation Plan and the $75 million initiative announced in February of 2017.
(v) Net gain on store closures represents lease termination fee income received with respect to two Lord & Taylor stores that closed during the thirteen week period ended May 5, 2018, net of associated costs.
(vi) This represents costs related to the data security issue which occurred during the first quarter of Fiscal 2018 that will not be recoverable under the Company's insurance policies.
(vii) This represents a $42 million ($25 million net of tax) payment received for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall.

(3) As a result of the presentation of HBC Europe as a discontinued operation, the reclassification of rental income to SG&A related to the Company's ownership in the HBS Joint Venture has been restated to exclude amounts related to rental income from HBC Europe.
(4) Relates to the Company's share of net non-recurring items incurred which primarily includes the impact of unrealized losses (gains) of the HBS Joint Venture which result from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the joint venture.
(5) All adjustments are tax-effected as appropriate.
(6) This performance metric has been identified by the Company as a non-IFRS measure. For the relevant definition, please refer to the "Non-IFRS Measures" section of this release.

Non-IFRS Measures

Gross profit, EBITDA, Adjusted EBITDA, Adjusted EBITDAR, Normalized net earnings (loss) and Adjusted SG&A are non-IFRS measures that the

Company uses to assess its operating performance. Gross profit is defined as revenue less cost of sales. EBITDA is defined as net earnings (loss) before net finance costs, income tax expense (benefit) and depreciation and amortization expense.

EBITDAR is defined as EBITDA before rent expense to third parties and net rent expense to joint ventures.

Adjusted EBITDA is defined as EBITDA adjusted to exclude: (A) certain non-cash items which include: (i) share of net (earnings) loss in joint ventures, (ii) gain on sale of investments in joint ventures, (iii) dilution gains from investments in the joint ventures, (iv) non-cash pension expense, (v) impairment and other non-cash items and (vi) non-cash share based compensation expense; (B) normalization adjustments which include: (i) business and organization restructuring/realignment charges, (ii) merger/acquisition costs and expenses and (iii) adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations; and (C) joint venture adjustments which include, cash rent to joint ventures and cash distributions from joint ventures. Cash rent to joint ventures includes cash rent paid to the joint ventures for full calendar months that end in the respective reporting periods. Cash distributions from joint ventures includes cash distributions received from the joint ventures for full calendar months that end in the respective reporting periods. Adjusted EBITDAR is defined as Adjusted EBITDA before rent expense to third parties and net rent to joint ventures.

Adjusted SG&A is defined as selling, general & administrative expenses ("SG&A") adjusted to exclude: (A) certain non-cash items which include: (i) non-cash pension expense, (ii) impairment and other non-cash items and (iii) non-cash share based compensation expense, and (B) normalization adjustments which include: (i) business and organization restructuring/realignment charges and (ii) merger/acquisition costs and expenses and (iii) adjustments, if any, related to transactions that are not associated with day-to-day operations. Normalized net earnings (loss) is defined as net earnings (loss) adjusted to exclude: (A) certain non-cash items which include: (i) impairment of intangible assets and goodwill, (ii) gain on sale of investments in joint ventures and (iii) dilution gains from investments in joint ventures; (B) normalization adjustments which include: (i) business and organization restructuring/realignment charges; (ii) merger/acquisition costs and expenses and (iii) adjustments, including those related to purchase accounting, if any, related to transactions that are not associated with day-to-day operations and tax related adjustments; (C) financing related adjustments and (D) adjustments to share of net earnings (loss) in joint ventures.

For further clarity, please refer to the detailed tables reconciling net earnings (loss) to EBITDA, Adjusted EBITDA and to Adjusted EBITDAR, reported SG&A to Adjusted SG&A and net earnings (loss) to Normalized net earnings (loss).

The Company uses these non-IFRS measures to provide investors and others with supplemental measures of its operating performance. The Company believes these non-IFRS measures are important supplemental measures of operating performance because they eliminate items that have less bearing on the Company's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors, rating agencies and other interested parties frequently use these non-IFRS measures in the evaluation of issuers, many of which present similar metrics when reporting their results. The Company's management also uses Adjusted EBITDAR in order to facilitate retail business operating performance comparisons from period to period, prepare annual operating budgets and assess the Company's ability to meet its future debt service, capital expenditure and working capital requirements and the Company's ability to pay dividends on its Common Shares. As other companies may calculate these non-IFRS measures differently than the Company, these metrics may not be comparable to similarly titled measures reported by other companies.

This press release makes reference to certain comparable financial results expressed on a constant currency basis, including comparable sales, comparable digital sales and comparable inventory. The Company calculates comparable sales on a year-over-year basis from stores operating for at least thirteen months and includes digital sales and clearance store sales. In calculating the sales change, including digital sales, on a constant currency basis where applicable, prior year foreign exchange rates are applied to both current year and prior year comparable sales. Additionally, where an acquisition closed in the previous twelve months, comparable sales change on a constant currency basis incorporate results from the pre-acquisition period. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations as well as by reflecting new acquisitions. The Company calculates comparable inventory levels on a year-over-year constant currency basis and does not include (i) acquisitions not closed prior to the end of the same comparable quarter of the prior Fiscal year and (ii) new store openings after the end of the same comparable quarter of the prior Fiscal year. Definitions and calculations of comparable sales and comparable inventory financial results differ among companies in the retail industry. The Company notes that results from acquisitions are only incorporated in the Company's reported consolidated financial results from and after the respective acquisition date.

For further discussion of the Company's financial and operating results, please refer to the MD&A of Financial Condition and Results of Operations for thirteen and thirty-nine week periods ended November 3, 2018.

About HBC

HBC is a diversified retailer focused on driving the performance of high quality stores and their omnichannel offerings and unlocking the value of real estate holdings. Founded in 1670, HBC is the oldest company in North America. HBC's portfolio today includes formats ranging from luxury to premium department stores to off price fashion shopping destinations, with 350 stores and more than 45,000 employees around the world. HBC's leading businesses across North America include Saks Fifth Avenue, Hudson's Bay, Lord & Taylor, and Saks OFF 5TH.

HBC also has significant investments in real estate joint ventures. It has partnered with Simon Property Group Inc. in the HBS Global Properties Joint Venture, which owns properties in the United States. In Canada, it has partnered with RioCan Real Estate Investment Trust in the RioCan-HBC Joint Venture.

Forward-Looking Statements

Certain statements made in this news release, including, but not limited to, ability to grow sales, increase margins, and improve profitability, the anticipated closing of the sale of a 50% interest in 18 wholly-owned German properties and the anticipated closing of the sale of the Company's Lord & Taylor flagship building, the proceeds therefrom, resulting reduction in debt and improvement to cash flow, the Company's balance sheet and overall liquidity, the strategic partnership with SIGNA, including the combination of HBC Europe's retail operations with SIGNA's retail operations, the proposed real estate joint venture, the expectation that the transactions will further strengthen HBC's European retail and real estate operations, unlock real estate value, create value for shareholders, improve balance sheet, liquidity and overall leverage and improve performance, strengthen HBC's North American business, the anticipated performance of the combined retail operating company, the anticipated completion of the follow-on transactions, the expectation that changes at Saks OFF 5TH and Lord & Taylor will improve results over time, the timing and expected impact of the major renovations of the New York Saks Fifth Avenue flagship store, the Company's prospects for future growth opportunities and other statements that are not historical facts, are forward-looking. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “believe”, “estimate”, “plan”, “could”, “should”, “would”, “outlook”, “forecast”, “anticipate”, “foresee”, “continue” or the negative of these terms or variations of them or similar terminology.

Implicit in forward-looking statements in respect of capital investments, including, among others, the Company’s anticipated Fiscal 2018 total North American capital investments, net of landlord incentives, to be between $175 million and $200 million or between $325 million and $350 million excluding the $152 million received with regards to the Oakridge amendment, are certain assumptions regarding, among others, the overall retail environment and currency exchange rates for Fiscal 2018. Specifically, the Company has assumed the following exchange rates for the remainder of Fiscal 2018: USD:CAD = 1:1.27. These current assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual capital investments could differ materially from what is currently expected and are subject to a number of risks and uncertainties, including, among others described below, general economic, geo-political, market and business conditions, changes in foreign currency rates from those assumed, the risk of unseasonal weather patterns and the risk that the Company may not achieve overall anticipated financial performance. Additionally, in respect of the amounts related to the strategic partnerships with SIGNA, the Company has assumed an exchange rate of EUR:CAD = 1.50.

Although HBC believes that the forward-looking statements in this news release are based on information and assumptions that are current, reasonable and complete, these statements are by their nature subject to a number of factors that could cause the Company’s actual results, level of activity, performance, achievements, future events or developments to differ materially from management’s expectations and plans as set forth in such forward-looking statements, including, without limitation, the following factors, many of which are beyond HBC’s control and the effects of which can be difficult to predict: ability to execute retailing growth strategies, ability to continue comparable store sales growth, changing consumer preferences, demands and fashion trends, marketing and advertising program success, damage to brands and dependence on vendors, ability to realize synergies and growth from strategic acquisitions, ability to make successful acquisitions. investments, expansions and divestitures, ability to realize savings from the implementation of the Transformation Plan and ability to further reduce overhead, effect of actions of activities shareholders, ability to successfully manage inventory levels, loss or disruption in centralized distribution centers, ability to upgrade and maintain the Company’s information systems to support the needs of the Company and protect against cyber-security threats, risks related to privacy breaches, risks relating to the Company’s size and scale, loss of key personnel, ability to attract and retain qualified employees, deterioration in labor relations, risks related to labor costs and other challenges from a large workforce, ability to maintain pension plan surplus, funding requirements of Saks’ pension plan, funding requirements of HBC Europe’s pension plan, limits on insurance policies, loss of intellectual property rights, insolvency risk of parties with which we do business or their unwillingness to perform their obligations, exposure to changes in the real estate market, loss of flexibility with respect to properties in the real estate joint ventures, successful operation of the real estate joint ventures to allow us to realize the anticipated benefits or the ability to effect a future monetization transaction with each of the real estate joint ventures, exposure to environmental liabilities, liabilities associated with third parties who have assumed leases from the Company, changes in demand for current real estate assets, failure to close the sale of the Lord & Taylor Fifth Avenue building, increased competition, change in spending of consumers, extreme weather conditions or natural disasters, international operational risks, fluctuations in the U.S. dollar, Canadian dollar, Euro and other foreign currencies, increase in raw material costs, seasonality of business, ability to manage indebtedness and cash flow, risks related with increasing indebtedness, restrictions of existing credit facilities reducing flexibility, loss of flexibility due to restrictive debt covenants, future availability of financing, limitations related to a decrease in credit rating, ability to maintain adequate financial processes and controls, ability to maintain dividends, ability of a small number of shareholders to influence the business, uncontrollable sale of the Company’s common shares by significant shareholders could affect share price, constating documents discouraging favorable takeover attempts, effect of existence and creation of preferred shares on holders of common shares (as defined herein), increase in regulatory liability, increase in product liability or recalls, increase in litigation, inability to comply with laws and regulations that impact the Company’s business could lead to litigation or regulatory actions against the Company, non-compliance with changing privacy regulatory environment, exposure to significant additional costs and expenses relating to losing foreign private issuer status in the future, changes in accounting standards, other risks inherent to the Company’s business and/or factors beyond the Company’s control which could have a material adverse effect on it. Additional risks and uncertainties are discussed in the Company’s materials filed with the Canadian securities regulatory authorities from time to time.

HBC cautions that the foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect its results. For more information on the risks, uncertainties and assumptions that could cause HBC’s actual results to differ from current expectations, please refer to the “Risk Factors” section of HBC’s Annual Information Form dated May 4, 2018, as well as HBC’s other public filings, available at www.sedar.com and at www.hbc.com.

The forward-looking statements contained in this news release describe HBC’s expectations at the date of this news release and, accordingly, are subject to change after such date. Except as may be required by applicable Canadian securities laws, HBC does not undertake any obligation to update or revise any forward-looking statements contained in this news release, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on these forward-looking statements.

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