HBC Reports Fourth Quarter and Fiscal 2018 Financial Results

April 3, 2019

- ***Returned to positive operating cash flow in 2018***
- ***Sales totaled $9.4 billion for the year; Comparable salesdown 0.2% consistent with previous year***
- ***Saks Fifth Avenue fourth quarter comparable salesup 3.9%, delivering an industry-leading two-year stacked comp of 7.0% while achieving the next step in the NYC flagship renovation***
- ***2018 Net loss totaled $631 million***
- ***Delivered a 30% increase to $338 million in 2018 Adjusted EBITDA, with every business unit improving profitability year-over-year***

TORONTO & NEW YORK--(BUSINESS WIRE)--Apr. 3, 2019-- HBC (TSX: HBC) today announced its financial results for the thirteen and fifty-two week periods ended February 2, 2019, as compared to the fourteen and fifty-three week periods ended February 3, 2018. 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.

Sales totaled $9.4 billion for the year and $2.9 billion in the fourth quarter. For the year, HBC’s comparable sales declined 0.2% consistent with Fiscal 2017. The company’s fourth quarter comparable sales decreased 1.4%, with comparable digital sales up 8.7%.

“We are a far stronger company today than a year ago, despite some of the top-line challenges this quarter,” said Helena Foulkes, HBC CEO. “We’ve returned to positive operating cash flow, improved the bottom line across all of our businesses, increased profitability by 30 percent and strengthened our balance sheet. We also made great strides in simplifying the business, strengthening operations, and deepening understanding of our customers. While there is still more work to be done, these results further demonstrate that HBC is benefiting from the bold strategic actions taken throughout 2018.”

Foulkes continued, “The strength of Saks Fifth Avenue continued thanks to our stores outside of New York City as the Fifth Avenue flagship remained under renovation. In early February, we opened the new main floor, a modern and expansive experience that redefines luxury retail and showcases one of the largest luxury handbag assortments in the world. At Hudson’s Bay, we are capable of better results from what is a solid business. Merchandise choices sparked the top-line momentum shift at Hudson’s Bay and we believe those are fixable with time. Saks Fifth Avenue and Hudson’s Bay offer HBC our greatest long-term growth opportunities and we are encouraged about what lies ahead."

Richard Baker, HBC’s Governor and Executive Chairman said, “Our ability to identify undervalued real estate with great potential is a key long-term differentiator for HBC. We recently completed two significant transactions that showcase the inherent value of the company. In the fourth quarter, we sold a portion of our 59 properties in Germany receiving $634 million, which resulted in a gain of $348 million over our book value. After the quarter closed, the Lord & Taylor flagship building was sold for a transaction value of $1.1 billion, with HBC retaining a preferred equity interest in the building, which is expected to be transformed into a higher use by our partners. Our gain on the Lord & Taylor flagship sale is approximately $800 million, which will be recognized in the first quarter.”

Mr. Baker concluded, “Our sharpened financial discipline and streamlined focus creates a solid foundation to build upon in 2019.”

Fourth Quarter and Full Year Summary

All comparative sales figures below are for the thirteen week period ended February 2, 2019 compared to the thirteen week period ended February 3, 2018.All references to “comparable sales” are made on a constant currency basis. See “Non-IFRS Measures”.

Fourth quarter revenue was $2.9 billion, a decrease of $167 million from the same quarter a year ago. In 2017, the company’s results included a 53rd week, which generated $120 million of revenue. Excluding the extra week, fourth quarter revenue declined $47 million or 1.6% in 2018.

- **Saks Fifth Avenue’s** fourth quarter comparable sales grew 3.9%, its seventh consecutive quarter of comparable sales growth despite being hampered by construction on the main floor during the holiday season at the New York flagship. Saks is benefiting from its unwavering focus on the luxury customer, with notably strong performance at its personal shopping service, the Fifth Avenue Club, during the fourth quarter. On a two-year stack, Saks Fifth Avenue comp was 7.0%.
- **DSG** (Hudson's Bay, Lord & Taylor and Home Outfitters) comparable sales decreased 5.2%. After the quarter closed, the company announced the closure of Home Outfitters, and a leadership transition at Hudson’s Bay. This business unit is being led by key executives from the HBC team, under the direction of Helena Foulkes, until a permanent successor is found. Lord & Taylor sales continued to decline year-over-year.

- **Saks OFF 5TH** comparable sales declined 2.1%. The rate of decline at Saks OFF 5TH continues to moderate, in part due to a substantial year-over-year increase in digital sales.

For HBC, gross profit[1] as a percentage of sales was 36.7% in the fourth quarter, as compared to 38.7% in the same quarter a year ago. The 200 basis point decline was driven by closing eight stores, including the Lord & Taylor New York City flagship during the quarter, and an inventory provision for the pending closure of Home Outfitters.

In Fiscal 2018, gross profit margin[1] was 38.9%, a slight increase over the prior year. Excluding the impact from closed stores, gross profit margin was 39.9%, up 110 bps from the prior year, with each business unit contributing to the improvement.

Fourth quarter selling, general and administrative expenses (SG&A) were $1.1 billion compared to $1.0 billion in the same quarter a year ago. Fourth quarter Adjusted SG&A[1], which exclude certain non-cash items and normalizing adjustments primarily related to the company's strategic actions to streamline operations, was $922 million or 31.9% of sales, compared to $978 million or 32.0% in the prior year.

For the full year, Adjusted SG&A[1] expenses, as percentage of sales, improved slightly versus the prior year. Adjusted SG&A[1] leverage reflected the benefit of better management of variable store expenses and benefits from the company's organizational restructuring.

In November 2018, HBC Europe's retail operations and SIGNA's Karstadt Warenhaus GmbH combined to create Germany's leading retailer in a joint venture, known as the European department store group (EDS Group). HBC's share of net loss from the joint venture was $147 million during the fourth quarter, which included a $194 million restructuring charge to combine the two businesses. On an Adjusted EBITDA[1] basis, the EDS Group joint venture contributed $88 million to fourth quarter and full year results, which represents the combined entity's December results.

2018 Combined Adjusted EBITDA[1] increased 63% to $426 million, including $275 million from the fourth quarter. Excluding the impact from the European retail joint venture, Adjusted EBITDA[1] from continuing operations increased 30% year-over-year to $338 million in 2018.

Fourth quarter Adjusted EBITDAR[1] increased $81 million to $384 million, primarily due to the inclusion of the European retail joint venture in 2018 financial results including $26 million of third-party rent. For Fiscal 2018, Adjusted EBITDAR[1] rose 30% to $784 million, as compared to $603 million in 2017.

Continuing operations posted a Net loss of $226 million in the fourth quarter, as compared to Net earnings of $180 million in the same quarter a year ago. There were two primary components to the year-over-year change - an $194 million restructuring charge which unfavorably impacted the contribution from our European retail joint venture and lower income tax benefits after a favorable $181 million impact in the fourth quarter of 2017 as a result of U.S. tax reform. Net loss for the full year was $631 million.

Operating cash flow increased 63% from the prior year to $460 million in the fourth quarter. That strong performance, primarily due to improved working capital, propelled the company's return to positive operating cash flow of $57 million in 2018.

Inventory

Inventory as reported on HBC's balance sheet at the end of the fourth quarter declined by $854 million compared to the prior year. This reduced balance at the end of the year includes a 5% reduction in comparable inventory at the company's North American business units, as well as the divestments of Gilt and HBC Europe.

Store Network (Continuing Operations)

During the fourth quarter, HBC's store count declined to 342 from 350.

On February 21, 2018, the company announced the closure of its Home Outfitters business and is performing a fleet review of Saks OFF 5TH, with an estimate of closing up to 20 locations in the U.S. Once completed, the closures are expected to be slightly favorable to Adjusted EBITDA[1].

Store information as at February 2, 2019	Store Count(1)	Gross Leasable Area (1) / Square Footage (000s)
Hudson's Bay	**89**	**15,771**
Lord & Taylor	**45**	**5,768**
Saks Fifth Avenue	**42**	**5,216**
Saks OFF 5TH	**129**	**3,868**
Home Outfitters	**37**	**1,280**
Total	**342**	**31,903**

(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, were $126 million during the fourth quarter and $194 million for Fiscal 2018. The full year included $152 million of lease amendment proceeds from the landlord at the company's Oakridge Centre Hudson's Bay location in Vancouver. Excluding those significant proceeds, net cap-ex totaled $346 million in 2018, well below total company expenditures of $599 million in 2017 and within the company's plan.

HBC expects total capital investments in Fiscal 2019, net of landlord incentives, to be between $300 million and $325 million.

The above capital investment expectations reflect exchange rate assumptions of USD:CAD = 1:1.31 for the year. Any variation in the 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 February 2, 2019, HBC had the following outstanding loans and borrowings on its balance sheet (refer to note 17 of the consolidated financial statements for Fiscal 2018):

(millions of Canadian dollars)	Feb 2, 2019	Feb 3, 2018
Global ABL	**472**	375
U.S. Term Loan B	**426**	619
Lord & Taylor Mortgage	**510**	488
Saks Mortgage	**1,638**	1,548
Other loans	**28**	36
Total Outstanding Loans and Borrowings	**3,074**	3,066

Subsequent to the quarter end, the company eliminated the $510 million Lord & Taylor mortgage, and reduced its borrowings under its asset-based revolving facility by $252 million with proceeds from the Lord & Taylor flagship building sale.

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.

Conference Call to Discuss Results

Management will discuss the fourth quarter financial results and other matters during a conference call on April 3, 2019 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 consolidated financial statements for the 52-weeks ended February 2, 2019 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 February 2, 2019 and February 3, 2018 has been prepared on a basis consistent with our audited annual consolidated financial statements for Fiscal 2018 and 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 audited annual consolidated financial statements for the year ended February 2, 2019.

CONSOLIDATED STATEMENTS OF LOSS
(millions of Canadian dollars, except per share amounts)

	Fiscal Quarter Ended		Fiscal Year	
		restated (1)		*restated* (1)
	Feb 2, 2019	Feb 3, 2018	**Feb 2, 2019**	Feb 3, 2018
Retail sales	**2,885**	3,052	**9,376**	9,490
Cost of sales	**(1,827)**	(1,871)	**(5,727)**	(5,805)
Selling, general and administrative expenses	**(1,077)**	(1,019)	**(3,677)**	(3,619)
Depreciation and amortization	**(135)**	(122)	**(505)**	(463)
Gain on sale of investments in joint ventures	**113**	—	**113**	—
Operating (loss) income	**(41)**	40	**(420)**	(397)
Finance costs, net	**(57)**	(46)	**(211)**	(189)
Share of net (loss) earnings in joint ventures	**(26)**	23	**(63)**	78
Share of loss in the EDS Group	**(147)**	—	**(147)**	—
Dilution gains from investments in joint ventures	**1**	—	**4**	10
(Loss) income before income tax	**(270)**	17	**(837)**	(498)
Income tax benefit	**44**	163	**206**	359

Net (loss) earnings for the period – continuing operations	**(226)**	180	**(631)**	(139)
Net earnings (loss) for the period – discontinued operations, net of taxes	**512**	(96)	**89**	(442)
Net earnings (loss) for the period	**286**	84	**(542)**	(581)
Earnings (loss) per share - basic and diluted				
Continuing operations	**(0.95)**	0.84	**(2.67)**	(0.73)
Discontinued operations	**2.15**	(0.45)	**0.38**	(2.31)
Total operations	**1.20**	0.39	**(2.29)**	(3.04)

The following table shows additional summary supplemental information for continuing operations for the periods indicated:

	Fiscal Quarter Ended		**Fiscal Year**	
		restated (1)		*restated* (1)
	Feb 2, 2019	Feb 3, 2018	**Feb 2, 2019**	Feb 3, 2018
Adjusted EBITDA (2)	**187**	216	**338**	261
Combined Adjusted EBITDA (2)	**275**	216	**426**	261
Adjusted EBITDAR (2)	**384**	303	**784**	603
Adjusted SG&A (2)	**922**	978	**3,416**	3,472
Normalized net income (loss) for the period (2)	**98**	13	**(238)**	(300)
Normalized net income (loss) per share — basic and diluted (2)	**0.41**	0.06	**(1.00)**	(1.57)
Declared dividend per Common Share	**0.01**	0.01	**0.05**	0.08

(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 earnings (loss) – continuing operations to EBITDA, Combined Adjusted EBITDA, Adjusted EBITDA and Adjusted EBITDAR, SG&A to Adjusted SG&A and net loss to Normalized net earnings (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.

CONSOLIDATED BALANCE SHEETS
(millions of Canadian dollars)

	Feb 2, 2019	Feb 3, 2018
Assets		
Cash	**21**	70
Trade and other receivables	**157**	388
Inventories	**2,513**	3,367
Asset held for sale	**279**	263
Other current assets	**171**	214
Total current assets	**3,141**	4,302
Property, plant and equipment	**3,872**	5,155
Intangible assets and goodwill	**1,097**	1,629
Pensions and employee benefits	**171**	171
Deferred tax assets	**322**	339
Investments in real estate joint ventures	**816**	602
Investment in the EDS Group	**284**	—
Other assets	**73**	36
Total assets	**9,776**	12,234
Liabilities		
Loans and borrowings	**471**	363
Finance leases	**29**	35
Trade payables	**988**	1,422

Other payables and accrued liabilities	**655**	1,031
Deferred revenue	**112**	139
Provisions	**143**	220
Other current liabilities	**246**	290
Total current liabilities	**2,644**	3,500
Loans and borrowings	**2,527**	2,616
Finance leases	**318**	526
Provisions	**78**	85
Pensions and employee benefits	**177**	714
Deferred tax liabilities	**161**	308
Investment in real estate joint venture	**230**	227
Other liabilities	**1,655**	1,851
Total liabilities	**7,790**	9,827
Shareholders' equity		
Share capital	**2,052**	2,045
Deficit	**(691)**	(120)
Contributed surplus	**186**	144
Accumulated other comprehensive income	**439**	338
Total shareholders' equity	**1,986**	2,407
Total liabilities and shareholders' equity	**9,776**	12,234

CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions of Canadian dollars)

	Fiscal Year	
		restated (1)
	Feb 2, 2019	Feb 3, 2018
Operating activities		
Net loss from continuing operations	**(631)**	(139)
Income tax benefit	**(206)**	(359)
Dilution gains from investments in real estate joint ventures	**(4)**	(10)
Share of net loss in the EDS Group	**147**	—
Share of net loss (earnings) in real estate joint ventures	**63**	(78)
Finance costs, net	**211**	189
Operating loss	**(420)**	(397)
Net cash income taxes paid	**(5)**	(2)
Interest paid in cash	**(189)**	(171)
Distributions of earnings from real estate joint ventures	**204**	216
Depreciation and amortization	**505**	463
Impairment	**81**	11
Net defined benefit pension and employee benefits expense	**17**	15
Other operating activities	**(11)**	(37)
Share of rent expense to real estate joint ventures	**(193)**	(192)
Gain on sale of investments in real estate joint ventures	**(113)**	—
Share based compensation	**51**	31
Settlement of share based compensation grants	**(5)**	(4)
Changes in operating working capital	**135**	28
Cash inflow (outflow) for operating activities from continuing operations	**57**	(39)
Cash outflow for operating activities from discontinued operations	**(532)**	(289)
Net cash outflow for operating activities	**(475)**	(328)
Investing activities		
Capital investments	**(465)**	(478)
Proceeds from capital and non-capital landlord incentives	**271**	178
Capital investments less proceeds from landlord incentives	**(194)**	(300)
Proceeds from lease terminations	**7**	31
Deposits for sale of Lord & Taylor Fifth Avenue building	**66**	96
Proceeds on disposal of assets	**10**	3

Proceeds from sale of investments in real estate joint ventures	**259**	—
Proceeds on sale of HBC Europe	**375**	—
Transaction costs paid	**(34)**	—
Proceeds on sale of Gilt operations	**41**	—
Return of capital from real estate joint venture	**—**	213
Other investing activities	**(13)**	(15)
Cash inflow for investing activities from continuing operations	**517**	28
Cash outflow for investing activities from discontinued operations	**(166)**	(297)
Net cash inflow (outflow) for investing activities	**351**	(269)
Financing activities		
Issuance	**—**	24
Repayments	**(240)**	(7)
Long-term loans and borrowings	**(240)**	17
Net borrowings from asset-based credit facilities	**55**	(39)
Borrowing costs	**(1)**	(3)
Short-term loans and borrowings	**54**	(42)
Issuance of preferred shares, net of transaction costs paid	**—**	615
Payments on finance leases	**(35)**	(24)
Dividends paid	**(9)**	(16)
Cash inflow from financing activities from continuing operations	**(230)**	550
Cash inflow from financing activities from discontinued operations	**302**	(14)
Net cash inflow from financing activities	**72**	536
Foreign exchange gain on cash	**3**	9
Increase (decrease) in cash	**(49)**	(52)
Cash at beginning of year	**70**	122
Cash at end of year	**21**	70

(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) earnings – continuing operations to EBITDA, Adjusted EBITDA, Combined Adjusted EBITDA and to Adjusted EBITDAR:

	Fiscal Quarter Ended		Fiscal Year	
		restated (1)		*restated* (1)
(millions of Canadian dollars)	**Feb 2, 2019**	Feb 3, 2018	**2018**	2017
	$	$	$	$
Net (loss) earnings – continuing operations	**(226)**	180	**(631)**	(139)
Finance costs, net	57	46	211	189
Income tax benefit	(44)	(163)	(206)	(359)
Depreciation and amortization	135	122	505	463
EBITDA (2)	**(78)**	185	**(121)**	154
Gain on sale of investment in real estate joint venture	(113)	—	(113)	—
Share of net loss (earnings) in real estate joint ventures	26	(23)	63	(78)
Share of net loss in the EDS Group (3)	147	—	147	—
Dilution gains from investments in joint ventures (4)	(1)	—	(4)	(10)
Normalization adjustments (5)	191	41	320	147
Net rent expense to joint ventures (6)	28	21	85	75
Cash rent to joint ventures	(62)	(59)	(243)	(237)
Cash distributions from joint ventures	49	51	204	210
Total adjustments	265	31	459	107
Adjusted EBITDA (2)	**187**	216	**338**	261
Adjusted EBITDA of the EDS Group (2) (7)	88	—	88	—
Combined Adjusted EBITDA (2)	**275**	216	**426**	261

Rent adjustments

Third party rent expense [8]	96	79	319	315
Cash rent to joint ventures	62	59	243	237
Cash distributions from joint ventures	(49)	(51)	(204)	(210)
Adjusted EBITDAR [2]	**384**	303	**784**	603
Adjusted EBITDAR [2] as a percentage of revenue	**13.3 %**	9.9 %	**8.4%**	6.4 %

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) Includes the Company's 49.99% share in loss of the EDS Group for the month of December adjusted for the cost of restructuring initiatives undertaken by the EDS Group in January 2019 - See also 'Investment in European Department Store Group' section of the MD&A.

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

(5) Normalization adjustments consist of:

Non-cash pension expense	—	—	16	16
Impairment and other non-cash items	49	3	56	14
Non-cash share based compensation	7	3	40	30
Restructuring [i]	23	6	52	95
Acquisition and integration related expenses [ii]	10	1	24	17
Lord & Taylor optimization [iii]	42	—	67	—
Home Outfitters closure initiative [iv]	42	—	42	—
Foreign exchange adjustment [v]	3	(12)	17	(36)
Net gain on store closures [vi]	—	—	(28)	—
Data security issue [vii]	—	—	3	—
White Flint settlement [viii]	—	—	—	(42)
Lease guarantee provision [ix]	—	31	—	31
Other	15	9	31	22
	191	41	320	147

(i) 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.

(ii) Includes costs associated with acquisition and integration related activities.

(iii) Lord & Taylor optimization includes expected costs associated with the planned closures of certain Lord & Taylor stores beginning in the fourth quarter of Fiscal 2018. For the thirteen week period ended February 2, 2019 costs included a $27 million reduction in gross margin and $15 million of additional SG&A expenses. For the fifty-two week period ended February 2, 2019 costs included a $46 million reduction in gross margin and $21 million of additional SG&A expenses.

(iv) Home Outfitters closure initiative includes expected costs associated with the planned closure of the Home Outfitter's business in Fiscal 2019. For the thirteen and fifty-two week periods ended February 2, 2019 costs included a $9 million reduction in gross margin and $33 million of additional SG&A expenses.

(v) 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.

(vi) Net gain on store closures represents lease termination fee income of $32 million received with respect to two Lord & Taylor stores that closed during Fiscal 2018 net of a $4 million reduction in gross margin

(vii) 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.

(viii) 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.

(ix) Represents the Company's expected share of costs associated with default on subleases guaranteed by the Company. See "Contractual Obligations - Lease Guarantees".

(6) Rent expense to the joint ventures net of reclassification of rental income related to the Company's ownership interest in the real estate joint ventures (see note 10 to the Company's audited consolidated financial statements for the fifty-two week period ended February 2, 2019).

(7) The following table presents the reconciliation of share of net loss in the EDS Group to Adjusted EBITDA of the EDS Group:

	Fiscal Quarter Ended		Fiscal Year	
	Feb 2, 2019	Feb 3, 2018	**2018**	2017
Share of net loss in the EDS Group	**(147)**	—	**(147)**	—
Income tax benefit	(9)	—	(9)	—
Finance costs	3	—	3	—
Depreciation and amortization	9	—	9	—
Inventory purchase price adjustment included in cost of sales	31	—	31	—
Restructuring	194	—	194	—
Other	7	—	7	—
Total adjustments	235	—	235	—
Adjusted EBITDA of the EDS Group	**88**	—	**88**	—

(8) Includes third party rent expense related to the EDS Group of $26 million.

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

	Fiscal Quarter Ended		Fiscal Year	
		restated (1)		*restated (1)*
(millions of Canadian dollars)	**Feb 2, 2019**	Feb 3, 2018	**2018**	2017
	$	$	$	$
SG&A – continuing operations	**1,077**	1,019	**3,677**	3,619
Normalization adjustments [2]	(155)	(41)	(261)	(147)
Adjusted SG&A [3]	**922**	978	**3,416**	3,472
Adjusted SG&A [3] as a percentage of revenue	**31.9%**	32.0%	**36.4%**	36.6%

Notes:

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

(2) Normalization adjustments consist of:

Non-cash pension expense	—	—	(16)	(16)
Impairment and other non-cash items	(49)	(3)	(56)	(14)
Non-cash share based compensation	(7)	(3)	(40)	(30)
Acquisition and integration related expenses [i]	(10)	(1)	(24)	(17)
Lord & Taylor optimization [i]	(15)	—	(21)	—
Home Outfitters store closure cost [i]	(33)	—	(33)	—
Foreign exchange adjustment [i]	(3)	12	(17)	36
Restructuring [i]	(23)	(6)	(52)	(95)
Gain on store closures [i]	—	—	32	—
Data security issue [i]	—	—	(3)	—
White Flint settlement [i]	—	—	—	42
Lease guarantee provision [i]	—	(31)	—	(31)
Other	(15)	(9)	(31)	(22)
	(155)	(41)	(261)	(147)

(i) For details, refer to footnote 5 to the reconciliation of net loss – continuing operations to EBITDA, Adjusted EBITDA, Combined Adjusted EBITDA

and to Adjusted EBITDAR table above.

(3) 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) earnings – continuing operations to Normalized net earnings (loss):

	Fiscal Quarter Ended		Fiscal Year	
		restated [1]		*restated* [1]
(millions of Canadian dollars)	**Feb 2, 2019**	**Feb 3, 2018**	**2018**	**2017**
	$	$	$	$
Net (loss) earnings – continuing operations	**(226)**	180	**(631)**	(139)
Gain on sale of investment in real estate joint venture	(89)	—	(89)	—
Dilution gains from investments in joint ventures	(1)	—	(4)	(6)
Normalization adjustments [2]	163	29	213	66
Financing related adjustments	4	—	4	—
Adjustments to share of net earnings (loss) in joint ventures [3]	24	(15)	46	(40)
Adjustments to share of net loss in the EDS Group	223	—	223	—
Tax related adjustments [4]	—	(181)	—	(181)
Total adjustments [5]	324	(167)	393	(161)
Normalized net earnings (loss) [6]	**98**	13	**(238)**	(300)

Notes:

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

(2) Normalization adjustments consist of:

Impairment and other non-cash items	56	—	56	—
Restructuring [i]	18	6	39	65
Acquisition and integration related expenses [ii]	7	2	16	7
Lord & Taylor optimization [iii]	34	—	52	—
Home Outfitters closure initiative [iv]	33	—	33	—
Foreign exchange adjustment [v]	4	(4)	13	(17)
Net gain on store closures [vi]	—	—	(20)	—
Data security issue [vii]	—	—	2	—
White Flint settlement [viii]	—	—	—	(25)
Lease guarantee provision [ix]	—	23	—	23
Other	11	2	22	13
	163	29	213	66

(i) Restructuring includes expected costs associated with the Company's Transformation Plan and the $75 million initiative announced in February of 2017.

(ii) Includes costs associated with acquisition and integration related activities.

(iii) Lord & Taylor optimization includes expected costs associated with the planned closures of certain Lord & Taylor stores beginning in the fourth quarter of Fiscal 2018.

(iv) Home Outfitters closure initiative includes expected costs associated with the planned closure of the Home Outfitter's business in Fiscal 2019.

(v) 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.

(vi) Net gain on store closures represents lease termination fee income received with respect to two Lord & Taylor stores that closed during Fiscal 2018, net of associated costs.

(vii) 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.

(viii) 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.

(ix) Represents the Company's expected share of costs associated with default on subleases guaranteed by the Company.

(3) 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.
(4) To adjust for the one-time impacts associated with the U.S. tax reform changes in Fiscal 2017. As a result of this change, HBC's effective US tax rate has been reduced from approximately 39% to approximately 26%, effective January 1, 2018.
(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 EBITDA of the EDS Group, Combined 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 real estate joint ventures.

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

Adjusted EBITDA of the EDS Group is defined as EBITDA of the EDS Group adjusted for normalization adjustments which include: (i) restructuring charges and (ii) adjustments related to purchase accounting.

Combined Adjusted EBITDA equals Adjusted EBITDA plus Adjusted EBITDA of the EDS Group.

Adjusted EBITDAR is defined as Adjusted EBITDA before rent expense to third parties, cash rent to joint ventures and cash distributions from joint ventures.

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

For further clarity, please refer to the detailed tables reconciling net earnings (loss) to EBITDA, Adjusted EBITDA, Combined 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. 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 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. All comparative sales figures are for the thirteen week and fifty-two week periods ended February 2, 2019, compared to the thirteen week and fifty-two week period ended February 3, 2018.

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 Fiscal 2018.

About HBC

HBC is a diversified retailer focused on driving the performance of high quality stores and their omnichannel platforms 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 over 300 stores and about 40,000 employees. 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 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. HBC has partnered with SIGNA Retail Holdings for real estate and retail joint ventures in Europe.

Forward-Looking Statements

Certain statements made in this news release, including, but not limited to, the expected transformation of the Lord & Taylor Fifth Avenue building into a higher use, the amount of gain on the Lord & Taylor Fifth Avenue building recognized in the first quarter of Fiscal 2019, the expected closures of Lord & Taylor stores and the closing of Home Outfitters stores, including the timing of the closure of Home Outfitters business and the expectation that, once completed, the closures will be slightly favorable to Adjusted EBITDA, 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 2019 total North American capital investments, net of landlord incentives, to be between $300 million and $325 million, are certain assumptions regarding, among others, the overall retail environment and currency exchange rates for Fiscal 2019. Specifically, the company has assumed the following exchange rates for Fiscal 2019: USD:CAD = 1:1.31. 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.

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, 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, 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, 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 and HBC's Management's Discussion and Analysis of Financial Condition and Results of Operations for the Thirteen and Fifty-two Weeks Ended February 2, 2019 dated April 3, 2019, 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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