HBC Reports Second Quarter 2019 Financial Results

September 12, 2019

- ***Revenues totaled $1.9 billion, with comparable sales down 0.4% including a 19% year-over-year increase in digital sales***
- ***Saks Fifth Avenue's comparable sales up 7.3% on a two-year stacked basis, which includes 0.6% comp in the second quarter***
- ***Saks OFF 5TH's comp sales up 3.4% driven by new customer growth***
- ***Continued inventory and expense discipline with comparable inventory down 5% year-over-year and a $34 million decrease in SG&A resulting in 170 basis points of SG&A leverage***
- ***Net loss from continuing operations of $462 million, includes $150 million to write-down the value of deferred tax assets***
- ***Adjusted EBITDA was $52 million in the second quarter***

TORONTO & NEW YORK--(BUSINESS WIRE)--Sep. 12, 2019-- HBC's (TSX: HBC) second quarter sales were driven by accelerated growth in digital, continued positive comp at Saks Fifth Avenue, sequential progress at Hudson's Bay and the second consecutive quarter of increased comparable sales at Saks OFF 5TH. Gross margin declined year-over-year. Approximately two-thirds of the gross margin decrease was due to changes in store footprint, vendor relationships and merchandise, the impact of which is expected to lessen slightly during the second half of the year. The remaining one-third was due to a hyper-promotional market environment.

"We continue to concentrate on controlling the 'controllables' - serving our customers and lowering expenses and inventory while making strategic investments for our future. While we've progressed in simplifying the business and strengthening operations, the second quarter demonstrates that we are still in the early stages of what HBC can become," said Helena Foulkes HBC's CEO. "This quarter we responded as the market moved early to discount merchandise in both luxury and Canadian retail. Our digital performance was a standout with a sharp increase in growth as our changes in strategy, people and infrastructure are paying off. With the Lord + Taylor sale agreement, our focus is now squarely on Saks Fifth Avenue and Hudson's Bay - businesses that have the greatest potential for HBC amid the consolidating industry."

Operating Results

HBC's financial results and comparable sales are for the thirteen week period ended August 3, 2019, as compared to the thirteen weeks ended August 4, 2018. Certain metrics, including those expressed on an adjusted, normalized, comparable and/or constant currency basis, are non-GAAP financial measures. For more information please refer to the "Supplemental Information" section of this press release and the reconciliation tables provided.

Following the company's agreement to sell Lord + Taylor to Le Tote, Lord + Taylor has been classified and presented as discontinued operations and its financial results are not included in the following discussion, including any impacts related to Lord + Taylor's comp inventory or lease obligations.

Second quarter revenues totaled $1.9 billion, which includes a 19 percent increase in digital sales, driven by data-driven marketing, assortment balance and technology improvements. HBC's second quarter comparable sales decreased 0.4 percent.

- **Saks Fifth Avenue's** comparable sales grew for the ninth consecutive quarter by 0.6 percent. Significant categories with above trend growth included men's, women's ready-to-wear, handbags and beauty.
- **Hudson's Bay's** comparable sales decreased 3.4 percent in the second quarter, a sequential improvement from the 4.3 percent decline in the first quarter. While the team continues to correct its previous merchandise choices, Hudson's Bay modernized its marketing mix, which increased omni-channel customers and nearly doubled the digital growth rate from a year ago.
- **Saks OFF 5TH** is in the early stages of its new strategy, which included shifts to its buying, marketing and service model. In the second quarter, Saks OFF 5TH's comp increased 3.4 percent with notable gains in jewelry, women's modern clothing and men's classic apparel.

Foulkes continued, "Saks Fifth Avenue has been posting quarter-after-quarter of industry-leading sales growth by focusing on its 'New Luxury' strategy, which includes merchandise and experiences that can only be found through Saks. The second quarter was bolstered by strong sales through the Fifth Avenue Club, our personal shopping service available in every store, and an acceleration in digital growth. The promotional activity in luxury was exceptionally intense in the second quarter and a notable change from the first quarter. For Hudson's Bay, we are working to fix this business to recapture market share over time. Our merchants are modernizing our merchandise mix by exiting more than 300 unproductive brands, and adding 100 new and emerging brands to reset the fall assortment. We expect these changes may take time to resonate in the market. Finally, the positive change in Saks OFF 5TH's performance demonstrates the power of a strategic shift in how we appeal to customers."

Gross margin declined 530 basis points year-over-year to 34 percent. The decline was driven by:

- The strategic decision to sunset Home Outfitters and close Saks OFF 5TH locations was approximately 110 basis points of the decline. In the second quarter, the SG&A savings, which resulted from store closures, offsets $20 million decline in

gross profit. The vast majority of the 15 Saks OFF 5TH locations will be closed in the third quarter.
- Transitions in vendor relationships accounted for nearly 110 basis points of the decline. In the fall season, the company anticipates the impact to gross margin will lessen and in the long-term the change will positively impact our gross margin.
- The company's inventory discipline continued, with end of quarter comparable inventory down 5 percent year-over-year and down 10 percent in aged inventory. The company strategically utilized the closing of Home Outfitters to clear aged Hudson's Bay inventory. Approximately 110 basis points of the gross margin decline can be attributed to inventory.
- Finally, the company aligned with the hyper-promotional environment which accounted for about 180 basis points of the decline.

SG&A margin improved by 170 basis points year-over-year to 36.7 percent. Expense reductions were widespread with improvements from closed stores, corporate and store operations.

Second quarter net loss from continuing operations was $462 million, including a $150 million non-cash write down of the value of Canadian deferred income tax assets as a result of the company's assessment that full utilization may not be likely. Net loss from continuing operations was $104 million in the second quarter of 2018.

The loss from the European retail operations totaled $69 million in the second quarter. HBC expects the $1.5 billion sale of the company's remaining stake in its European real estate and retail joint ventures to close in the fall, subject to customary closing conditions. As part of the overall transaction, HBC will assume full ownership of the Netherlands retail business and its lease liabilities.

Excluding one-time items, HBC's normalized net loss [1] was $171 million, as compared to a normalized net loss of $85 million in the second quarter a year ago.

Adjusted EBITDA[1] totaled $52 million for the second quarter, down from $106 million a year ago. Second quarter Adjusted EBITDA[1] from real estate joint ventures declined $7 million to $57 million due to a partial sale of European real estate assets in fiscal 2018. North American department stores posted an Adjusted EBITDA[1] loss of $5 million, as compared to $42 million in the same quarter a year ago. The decrease in North American department store Adjusted EBITDA[1] is primarily due to the decline in gross margin.

Adjusted EBITDAR[1] was $120 million in the second quarter, as compared to $183 million in the same period a year ago.

Balance Sheet & Capital Spending

The company ended the quarter with approximately $3 billion of debt, which declined more than $800 million from the end of the second quarter in 2018. The company retired the Lord + Taylor mortgage, permanently reduced its term loan and had lower outstanding borrowings on its Global ABL.

HBC anticipates it will retire the $429 million term loan with a portion of the European transactions' net proceeds.

At August 3, 2019, HBC had the following outstanding loans and borrowings on its balance sheet, including ABL borrowings for Lord + Taylor:

(in millions of Canadian dollars at respective quarterly foreign exchange rates)	Aug 3, 2019	Aug 4, 2018
Global ABL	865	972
U.S. Term Loan B	429	650
Saks Mortgage	1,651	1,624
Lord + Taylor Mortgage	—	509
Other loans	27	28
Total Outstanding Loans and Borrowings	**2,972**	**3,783**

Capital investments were $138 million during the second quarter of 2019, a decline from $188 million from the same quarter a year ago. In fiscal 2019, the company expects its capital expenditures, net of landlord incentives, to moderate year-over-year, spending between $300 and $325 million.[2]

Subsequent Event

In August, the company agreed to sell Lord + Taylor to Le Tote, pending Le Tote securing financing commitments for the full purchase price. The company will receive approximately $100 million in cash upon the transaction's closing, a secured promissory note for approximately $33 million payable in cash after two years, and a 25 percent equity stake in the combined entity. Le Tote will receive approximately $284 million worth of inventory, and for the initial three years HBC has agreed to maintain economic responsibility for the rent payments owed by Lord + Taylor at the 38 locations operated by Le Tote. Net of HBC's distributions from HBS Global Properties, HBC expects to continue to be liable for approximately $77 million in Lord + Taylor total cash rent on an annual basis.

Starting in 2021, HBC and Le Tote will have options to reassess the Lord + Taylor store network. This may include HBC recapturing select locations to determine their highest and best use, including possible redevelopment into mixed-use properties with a variety of services, experiences and retail offerings. HBC has hired a team of seasoned professionals to lead the planning and execution of any redevelopment, which is an inherently complex, capital intensive, long-term project. For any recaptured or returned stores, HBC retains long-term rent responsibility, risk and costs for redevelopment.

The company expects the transaction to close prior to the 2019 holiday season, subject to satisfaction (or waiver) of closing conditions.

Dividend

The Board of Directors of HBC declared the company's regular quarterly dividend to be paid on October 15, 2019, to shareholders of record at the close of business on September 30, 2019. 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.

Consolidated Financial Statements and Management's Discussion and Analysis

The company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 3, 2019 and Management's Discussion and Analysis ("MD&A") thereon are available under the company's profile on SEDAR at www.sedar.com and on the company's website at www.hbc.com. HBC encourages investors to review the MD&A.

Conference Call to Discuss Results

Management will discuss the second quarter financial results and other matters during a conference call on September 12, 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.

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 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.

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 August 3, 2019 and August 4, 2018 has been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") as issued by the Financial Accounting Standards Board ("FASB") on a retrospective basis beginning with the company's published first quarter 2019 results. In the opinion of the company's management, this 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 GAAP for consolidated financial statements and should be read in conjunction with the company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 3, 2019.

INTERIM CONSOLIDATED STATEMENTS OF LOSS

(millions of Canadian dollars, except per share amounts)

	Thirteen week period ended		**Twenty-six week period ended**	
	Aug 3, 2019	Aug 4, 2018	**Aug 3, 2019**	Aug 4, 2018
Retail sales	**1,825**	1,830	**3,656**	3,650
Credit revenue and other, net	**25**	29	**50**	55
Total revenue	**1,850**	1,859	**3,706**	3,705
Cost of goods sold (exclusive of depreciation shown separately below)	**(1,221)**	(1,129)	**(2,353)**	(2,225)
Gross profit	**629**	730	**1,353**	1,480
Selling, general and administrative expenses ("SG&A")	**(679)**	(713)	**(1,378)**	(1,433)
Depreciation and amortization	**(108)**	(108)	**(207)**	(210)
Transaction, restructuring and other costs	**(89)**	(6)	**(121)**	(18)
Gain on sale of property, net	**—**	—	**817**	—
Gain on sale of equity-method investment - real estate	**3**	—	**3**	—
Impairment	**(17)**	—	**(17)**	(7)
Operating (loss) income	**(261)**	(97)	**450**	(188)
Interest expense, net	**(44)**	(45)	**(87)**	(87)
Income from equity-method investments - real estate	**7**	5	**20**	3
Loss from investment in the EDS Group	**(69)**	—	**(202)**	—
Dilution gain from equity method investments - real estate	**—**	—	**—**	1
(Loss) income before income tax	**(367)**	(137)	**181**	(271)
Income tax (expense) benefit	**(95)**	33	**(327)**	65
Net loss - continuing operations	**(462)**	(104)	**(146)**	(206)
Net loss - discontinued operations, net of taxes	**(522)**	(160)	**(563)**	(456)
Net loss for the period	**(984)**	(264)	**(709)**	(662)
Loss per share - basic and diluted				
Continuing operations	**(2.51)**	(0.58)	**(0.79)**	(1.13)

Discontinued operations	**(2.84)**	(0.87)	**(3.06)**	(2.49)
Total operations	**(5.35)**	(1.45)	**(3.85)**	(3.62)

INTERIM CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)

	Aug 3, 2019	Feb 2, 2019
Assets		
Cash and cash equivalents	**21**	19
Restricted cash	**147**	—
Trade and other receivables	**179**	157
Inventories	**2,103**	2,162
Asset held for sale	**—**	279
Assets of discontinued operations held for sale	**898**	658
Other current assets	**137**	171
Total current assets	**3,485**	3,446
Property, plant and equipment	**3,455**	3,885
Operating lease assets	**2,422**	—
Finance lease assets	**401**	—
Goodwill	**209**	207
Other intangible assets	**498**	580
Pensions and employee benefits	**170**	170
Deferred tax assets	**203**	318
Equity-method investments - real estate	**755**	554
Investment in the EDS Group	**81**	284
Other assets	**68**	73
Total assets	**11,747**	9,517
Liabilities		
Current portion of loans and borrowings	**860**	471
Current portion of operating lease liabilities	**191**	—
Current portion of finance lease liabilities	**27**	29
Trade payables	**791**	949
Other payables and accrued liabilities	**796**	743
Deferred revenue	**99**	112
Liabilities of discontinued operations held for sale	**1,123**	271
Other current liabilities	**231**	246
Total current liabilities	**4,118**	2,821
Loans and borrowings	**2,059**	2,538
Operating lease liabilities	**3,163**	—
Finance lease liabilities	**315**	318
Pensions and employee benefits	**171**	177
Deferred tax liabilities	**156**	143
Equity-method investment - real estate	**231**	239
Other liabilities	**537**	1,597
Total liabilities	**10,750**	7,833
Shareholders’ equity		
Common shares - 184 and 183 million shares issued and outstanding	**1,438**	1,434
Convertible preferred shares	**618**	618
Accumulated deficit	**(1,625)**	(931)
Additional paid-in capital	**183**	170
Accumulated other comprehensive income	**383**	393
Total shareholders’ equity	**997**	1,684
Total liabilities and shareholders’ equity	**11,747**	9,517

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)

	Twenty-six week period ended	
	Aug 3, 2019	Aug 4, 2018
Operating activities		
Net loss	**(709)**	(662)
Net loss - discontinued operations, net of taxes	**563**	456
Net loss - continuing operations	**(146)**	(206)
Adjustments to reconcile net loss to cash used in operating activities:		
Loss from investment in the EDS Group	**202**	—
Depreciation and amortization	**207**	210
Impairment	**17**	7
Loss on disposal of assets	**13**	—
Net defined benefit pension and employee benefits expense	**9**	11
Distributions of earnings from equity-method investments - real estate	**52**	100
Dilution gains from equity method investment - real estate	**—**	(1)
Income from equity-method investments - real estate	**(20)**	(3)
Gain on sale of property, net	**(817)**	—
Gain on sale of equity-method investment - real estate	**(3)**	—
Share of rent expense to equity-method investments - real estate	**(61)**	(61)
Share based compensation	**20**	26
Other operating activities	**6**	35
Changes in operating assets and liabilities	**246**	(139)
Cash used in operating activities from continuing operations	**(275)**	(21)
Cash used in operating activities from discontinued operations	**(148)**	(394)
Net cash used in operating activities	**(423)**	(415)
Investing activities		
Capital investments	**(138)**	(188)
Proceeds on sale of property, net of transaction costs	**770**	33
Deposit on sale of the investments in the European Real Estate JV and the EDS Group	**150**	—
Loans to the EDS group	**(19)**	—
Proceeds on sale of equity-method investments - real estate	**3**	—
Investment in equity-method investments - real estate	**(13)**	—
Proceeds on disposal of assets	**—**	1
Proceeds on sale of Gilt operations	**—**	41
Other investing activities	**(14)**	—
Cash provide by (used in) investing activities from continuing operations	**739**	(113)
Cash used in investing activities from discontinued operations	**(3)**	(105)
Net cash provided by (used in) investing activities	**736**	(218)
Financing activities		
Repayments	**(515)**	(4)
Borrowing costs	**(10)**	—
Long-term loans and borrowings	**(525)**	(4)
Net borrowings from asset-based credit facilities	**392**	576
Borrowing costs	**—**	(1)
Short-term loans and borrowings	**392**	575
Settlement of share based compensation	**(3)**	(3)
Payments on finance leases	**(19)**	(19)
Dividends paid	**(5)**	(4)
Cash (used in) provided by financing activities - continuing operations	**(160)**	545
Cash provided by financing activities - discontinued operations	**—**	80
Net cash (used in) provided by financing activities	**(160)**	625
Foreign exchange (loss) gain on cash	**(4)**	2
Increase (decrease) in cash and cash equivalents	**149**	(6)

Cash and cash equivalents at beginning of year	**21**	70
Cash, cash equivalents and restricted cash at end of period	**170**	64
Deduct: cash reclassified to assets of discontinued operations held for sale	**(2)**	(40)
Deduct: restricted cash	**(147)**	—
Cash and cash equivalents at end of period - continuing operations	**21**	24

Supplemental Information

On the pages that follow, the company has provided certain supplemental information that we believe will assist the reader in assessing our business operations and performance, including certain non-GAAP financial information and required reconciliations to the most comparable GAAP measure.

Supplemental schedules provided include:

Quarterly Adjusted EBITDA & Adjusted EBITDAR Reconciliations

A reconciliation of Adjusted EBITDA and Adjusted EBITDAR are provided. The information provides the reader with information we believe is necessary to analyze the company.

Quarterly Combined Adjusted EBITDA & Adjusted EBITDAR Reconciliations

A reconciliation of Combined Adjusted EBITDA and Combined Adjusted EBITDAR are provided.

Normalized Net Earnings (Loss)

A reconciliation of Normalized Net Earnings (Loss) is provided. The information provides the reader with information we believe is necessary to analyze the company.

Non-GAAP and Quarterly Supplemental Data

On this schedule, the company provides certain non-GAAP business unit information that we believe is useful to understanding the business operations of the company.

HBC QUARTERLY ADJUSTED EBITDA AND ADJUSTED EBITDAR RECONCILIATIONS

	Thirteen week period ended		Twenty-six week period ended	
(millions of Canadian dollars)	**Aug 3, 2019**	Aug 4, 2018	**Aug 3, 2019**	Aug 4, 2018
	$	$	$	$
Net loss – continuing operations	**(462)**	(104)	**(146)**	**(206)**
Interest expense, net	44	45	87	87
Income tax expense (benefit)	95	(33)	327	(65)
Depreciation and amortization	108	108	207	210
EBITDA [1]	**(215)**	16	**475**	**26**
Transaction, restructuring and other costs	89	6	121	18
Impairment	17	—	17	7
Income from equity-method investments - real estate	(7)	(5)	(20)	(3)
Loss from investment in the EDS Group [3]	69	—	202	—
Dilution gains from equity-method investments - real estate[4]	—	—	—	(1)
Gain on sale of property, net	—	—	(817)	—
Gain on sale of equity-method investment - real estate	(3)	—	(3)	—
Non-cash share based compensation	10	8	14	21
Non-cash pension expense	3	6	8	11
Adjustment for store closures	10	—	—	—
Other	22	11	22	19
Adjusted EBITDA [1] - North American Department Stores	**(5)**	42	**19**	**98**
Share of income from equity-method investments - real estate	7	5	20	3
Interest expense, net	25	24	49	46
Income tax expense	5	4	9	8
Depreciation and amortization	23	17	37	34
Foreign exchange adjustment	—	14	—	32
Other	(3)	—	(2)	—
Adjusted EBITDA [1] - Real estate equity method investments	**57**	64	**113**	123
Adjusted EBITDA [1]	**52**	106	**132**	**221**

Rent adjustments	68	77	135	159
Adjusted EBITDAR [1]	**120**	**183**	**267**	**380**
Share of net loss in the EDS Group	(69)	—	(202)	—
Interest expense, net	13	—	19	—
Income tax benefit	9	—	(22)	—
Depreciation and amortization	20	—	53	—
Inventory purchase price adjustment included in cost of sales	(1)	—	30	—
Restructuring	18	—	30	—
Adjusted EBITDA [1] - EDS Group	**(10)**	—	**(92)**	—
Third party rent expense - EDS Group	99	—	190	—
Adjusted EBITDAR [1] - EDS Group	**89**	—	**98**	—
Combined Adjusted EBITDA [1]	**42**	106	**40**	**221**
Combined Adjusted EBITDAR [1]	**209**	183	**365**	**380**

NORMALIZED NET EARNINGS (LOSS) RECONCILIATION

	Thirteen week period ended		Twenty-six week period ended	
(millions of Canadian dollars)	**Aug 3, 2019**	**Aug 4, 2018**	**Aug 3, 2019**	**Aug 4, 2018**
	$	$	$	$
Net loss – continuing operations	**(462)**	(104)	**(146)**	(206)
Gain on sale of property, net	—	—	(533)	—
Gain on sale of investment in equity method investment - real estate	(2)	—	(2)	—
Dilution gains from equity-method investment - real estate	—	—	—	(1)
Impairment	12	—	12	7
Transaction, restructuring and other costs	90	4	111	13
Adjustments to (income) loss on equity method investments - real estate[5]	(2)	7	(1)	20
Adjustments to loss from investment in the EDS Group	12	—	42	—
Adjustment for store closure	8	—	—	—
Tax related adjustments	150	—	125	—
Other	23	8	21	14
Total adjustments[6]	291	19	(225)	53
Normalized net loss [1]	**(171)**	(85)	**(371)**	(153)

HBC QUARTERLY SUPPLEMENTAL DATA

	Aug 3, 2019	**May 4, 2019**	**Feb 2, 2019**	**Nov 3, 2018**	**Aug 4, 2018**	**May 5, 2018**	**Feb 3, 2018**	**Oct 28, 2017**
Retail sales (in millions)								
Hudson's Bay	$620	$599	$938	$683	$642	$631	$1,028	$658
Saks Fifth Avenue	$827	$879	$1,087	$832	$855	$862	$1,083	$739
Saks OFF 5TH	$315	$311	$388	$312	$297	$292	$403	$304
Home Outfitters	$63	$42	$35	$31	$36	$35	$56	$45
Total retail sales	**$1,825**	**$1,831**	**$2,448**	**$1,858**	**$1,830**	**$1,820**	**$2,570**	**$1,746**
Comparable sales								
Hudson's Bay	(3.4%)	(4.3%)	(2.9%)	4.3%	(0.6%)	3.2%	1.4%	0.1%
Saks Fifth Avenue	0.6%	2.4%	3.9%	7.3%	6.7%	6.0%	3.1%	1.0%
Saks OFF 5TH	3.4%	4.4%	(2.1)%	(2.3)%	(7.6)%	(3.5)%	(2.0)%	(4.1)%
Total HBC	**(0.4)%**	**0.3%**	**0.2%**	**4.6%**	**1.5%**	**3.4%**	**1.3%**	**(0.3)%**

Change in comparable digital sales	19.3%	13.9%	9.0%	8.3%	10.4%	6.8%	9.0%	11.0%
Store count(7)								
Hudson's Bay	89	89	89	89	89	89	89	89
Saks Fifth Avenue	42	42	42	42	42	42	41	41
Saks OFF 5TH	128	129	129	133	132	132	129	129
	259	260	260	264	263	263	259	259
Gross leasable area/square footage(7) (in thousands)								
Hudson's Bay	15,771	15,771	15,739	15,720	15,720	15,731	15,731	15,837
Saks Fifth Avenue	5,217	5,216	5,303	5,303	5,303	5,187	5,188	5,188
Saks OFF 5TH	3,845	3,868	3,998	3,966	3,966	3,879	3,879	3,727
	24,833	24,855	25,040	24,989	24,989	24,797	24,798	24,752
Cash rent to joint ventures (in millions)	$35	$34	$34	$34	$34	$33	$33	$33

End Notes

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

2 The 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.

3 Includes the company’s 49.99 percent share of net loss of the EDS Group for the period ended April 1, 2019 to June 30, 2019 - See also ‘Investment in the European Department Store Group’ in the company’s Management Discussion and Analysis.

4 Represents gains realized as a result of the changes in ownership related to the company’s equity method investments in real estate.

5 Relates to the Company’s share of net non-recurring items incurred by the equity-method, real estate investment entities, which primarily includes unrealized foreign exchange losses (gains) of the HBS Joint Venture arising from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the joint venture.

6 All adjustments are tax-effected as appropriate.

7 The company operates one Hudson’s Bay outlet and two Zellers clearance centres that are excluded from the store count and gross leasable area. Also excluded from the store count and gross leasable area are all stores and outlets of Lord + Taylor as part of discontinued operations.

Non-GAAP Measures

”EBITDA” is defined as net income (loss) before net interest expense, income tax expense (benefit) and depreciation and amortization expense.

“Adjusted EBITDA - North American Department Stores” is defined as EBITDA adjusted to exclude: (A) transaction, restructuring and other costs, (B) impairment, (C) loss from equity method investments - real estate, (D) loss from investment in the EDS Group, (E) dilution gains from equity method investments - real estate, (F) gain or loss on sale of property, net, (G) non-cash share based compensation expense, (H) non-cash pension expense (I) adjustments for store closures and (J) other adjustments not associated with day to day operations.

“Adjusted EBITDA - Real estate equity method investments” is defined as share of net income or loss in real estate equity method investments adjusted for interest expenses, net, income tax expense (benefit), depreciation and amortization and foreign exchange adjustment.

“Adjusted EBITDA” is defined as Adjusted EBITDA - North American Department Stores plus Adjusted EBITDA - Real estate equity method investments.

“Adjusted EBITDAR” is defined as Adjusted EBITDA before rent expense.

“Adjusted EBITDA of the EDS Group” is defined as share of net loss in EDS Group adjusted for interest expense, net, income tax (expense) benefit, depreciation and amortization, inventory purchase price adjustment included in cost of sales and restructuring charges.

“Adjusted EBITDAR of the EDS Group” is defined as Adjusted EBITDA of the EDS Group before third party rent expense.

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

“Combined Adjusted EBITDAR” equals Adjusted EBITDAR plus Adjusted EBITDAR of the EDS Group.

“Normalized net loss” is defined as net income (loss) adjusted to exclude: (A) gain on sale of property, net, (B) dilution gains from equity method investments - real estate, (C) transaction, restructuring and other costs, (D) adjustment to share of income or loss from equity method investments - real estate, (E) adjustment to share of loss from investment in the EDS Group, (F) adjustment for store closures costs, (G) other adjustments not associated with day to day operations, and (H) tax related adjustments.

The company uses these non-GAAP measures to provide investors and others with supplemental measures of its operating performance. The company believes these non-GAAP 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 GAAP financial measures. The company also believes that securities analysts, investors, rating agencies and other interested parties frequently use these non-GAAP 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-GAAP 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. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations. The company calculates comparable inventory levels on a year-over-year constant currency basis and does not include 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. All comparative sales figures are for the thirteen week period ended August 3, 2019, compared to the thirteen week period ended August 4, 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 thirteen and twenty-six week periods ended August 3, 2019.

Forward-Looking Statements

Certain statements made in this news release, including, but not limited to, the impact of changes in store footprint, vendor relationships and merchandise on gross margin lessening slightly during the second half of the year, the anticipated long-term positive impact to gross margin due to transitions in vendor relationships, the anticipated impact of the merchandising strategic shift for Hudson's Bay, the anticipated closing of European transaction and the use of proceeds therefrom, the anticipated completion of the proposed Lord + Taylor sale and timing thereof, the receipt by Le Tote of commitments for financing, the expectation that the Lord + Taylor sale will allow HBC to focus on other opportunities, HBC's expectation with respect to its continued liability for Lord + Taylor cash rent on an annual basis, HBC's anticipated plans with respect to the redevelopment of any recaptured or returned stores, including the cost and timing thereof, the company's expected 2019 capital expenditure, the company's prospects for fixing the fundamentals, strengthening operations and 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: EUR:CAD = 1:1.5 and USD:CAD = 1:1.3272. 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 our retail strategies, changing consumer preferences, demand and fashion trends, marketing and advertising program success, damage to brands and dependence on vendors, ability to make successful acquisitions, investments, expansions and divestitures, ability to successfully manage inventory levels, loss of or disruption in centralized distribution centers, ability to upgrade, maintain and secure the company's information systems to support the needs of the company and protect against cyber security threats, risks related to privacy issues and cyber and other security breaches, ability to attract and retain quality employees, risks related to labor costs and other challenges from a large workforce, deterioration in labor relations, 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 whom 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, ability to realize the expected benefits from the real estate joint ventures or to effect a future monetization transaction with each of the real estate joint ventures, exposure to potential environmental liabilities relating to owned and leased real property, liabilities associated with lease guarantees and with third parties who have assumed leases from the company, ability to successfully complete the European transaction, the risks related to not running day-to-day management and operations of the European retail business, the ability to successfully complete the European transaction, ability to realize the expected benefits from the European transaction or benefit from the review of strategic options related to the Netherlands retail business, risks related to accounting for the combined European retail business using the equity method of accounting, the failure to obtain or satisfy, in a timely manner or otherwise, required approvals and other conditions of closing necessary to complete the Lord + Taylor sale, the possibility that the anticipated benefits from the Lord + Taylor sale cannot be realized in a timely manner or otherwise, the risk that the company terminates Lord + Taylor sale agreement as a result of Le Tote's failure to obtain commitments for the financing of the funding of all financing at closing, increased or new competition, change in spending of consumers and lower demand, extreme or unseasonable 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 to increasing indebtedness, restrictions of existing credit facilities reducing flexibility, loss of flexibility due to restrictive debt covenants, future availability of financing, limitations related to changes in the company's credit ratings, ability to maintain adequate financial and management processes and controls, ability to maintain dividends, ability of a small number of shareholders to influence the business, future sales of the company's Common Shares by significant shareholders could affect share price, constating documents could delay and discourage favorable takeover attempts, effect of existence and creation of Convertible Preferred Shares on holders of Common Shares, effect of actions by activist shareholders, risks related to regulatory liability, risks of product liability claims and product recalls, 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, risks related to tax matters, changes in accounting standards and other risks inherent to the company's business and/or factors beyond the company's control which could have a material adverse effect on us. Additional risks and uncertainties are discussed in the company's materials filed with the Canadian regulatory authorities from time to time. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

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 3, 2019 and HBC's Management's Discussion and Analysis of Financial Condition and Results of Operations for the Thirteen and Twenty-Six Weeks Ended August 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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