HBC Reports Third Quarter 2019 Financial Results

Dec 10, 2019

- ***Revenues totaled $1.8 billion, with comparable sales down 1.7% including a 15% year-over-year increase in digital sales***
- ***Gross profit margin was 38.3%, down 120 basis points year-over-year; Adjusted for liquidating stores, gross margin rate was unchanged year-over-year***
- ***Fourth consecutive quarter of year-over-year decrease in selling, general and administrative expenses, resulting in 70 basis points of SG&A leverage***
- ***Net loss from continuing operations of $175 million***
- ***Adjusted EBITDA declined $40 million year-over-year to $84 million, due to the sale of our interest in the European real estate joint venture and lower profitability in North American retail***
- ***Net debt declined $2.2 billion or 56% year-over-year to $1.7 billion; Strong liquidity of $2.1 billion at quarter end***

TORONTO & NEW YORK--(BUSINESS WIRE)--Dec. 10, 2019-- HBC's (TSX: HBC) third quarter comparable sales declined 1.7 percent, as the company lapped its top-performing quarter in 2018. The sale of the company's interest in the European real estate joint venture and strategic changes in vendor relationships also weighed on the company's profitability, with Adjusted EBITDA down 32 percent year-over-year to $84 million.

"In the third quarter, we faced our toughest comp, soft industry-wide luxury sales and the challenge of winning back market share in Canada. Strong digital growth, continued cost containment and inventory control were not enough to deliver the financial performance we wanted," said Helena Foulkes, HBC's CEO. "We must quicken the pace of improvement while bearing the ongoing costs of our strategic portfolio reset and the headwinds impacting our industry. I'm confident that we are on the right journey with each of our businesses as we sharpen our focus to deliver on the potential of HBC."

In the third quarter, HBC sold its remaining stakes in the European real estate and retail joint ventures for $1.5 billion. As part of the transaction, HBC acquired 100 percent ownership of HBC Netherlands.

Operating Results

HBC's financial results and comparable sales are for the thirteen week period ended November 2, 2019, as compared to the thirteen weeks ended November 3, 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.

As of the close of the European transactions on October 1, 2019, the company's Netherlands financial results are included in retail sales, gross profit, and selling general and administrative expenses. As a result of the sale 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 inventory or lease obligations.

Third quarter revenues totaled $1.8 billion, including $55 million from liquidating stores at Saks OFF 5TH, Hudson's Bay clearance centers, and HBC Netherlands. Digital sales increased 15 percent year-over year due to continued improvements in our data-driven marketing strategy.

HBC's third quarter comparable sales decreased 1.7 percent. On a two-year stacked basis, Saks Fifth Avenue, Hudson's Bay, and Saks OFF 5TH each posted positive comparable sales.

- **Saks Fifth Avenue's** comparable sales decreased 2.3 percent in the third quarter, as compared to a 7.3 percent increase a year ago, resulting in a two-year stacked comp of 5.0 percent. Men's and jewelry were fast growing categories, and the Fifth Avenue Club, Saks' personal shopping service available in every store, grew 15 percent year-over-year.
- **Hudson's Bay** comparable sales decreased 3.9 percent in the third quarter, and increased 0.4 percent on a two-year stacked basis. As the quarter progressed and the weather changed, sales improved and were boosted throughout the quarter by increased traffic and conversion in The Bay's digital channels.
- Exceptional growth in digital at **Saks OFF 5TH** resulted in a positive 4.9 percent comparable sales and an increase of 2.6 percent on a two-year stacked basis. The team is focused on fixing the fundamentals, including delivering more merchandise newness, marketing modernization, and improving our service model.

Foulkes continued, "With last year's historically high comparable sales growth for Saks, we knew the third quarter would be challenging. Across the industry, there was a pullback among luxury consumers, allowing shoppers to more frequently take advantage of markdowns, which ultimately reduced full-price sales. As expected, reigniting sales at Hudson's Bay is taking time as we replace unproductive brands and improve service. Our better, more modern merchandise had good performance, reinforcing confidence in our strategy, which we are accelerating for the upcoming spring season. Across HBC, we will continue to make the necessary investments to capitalize on our greatest opportunities - Hudson's Bay and Saks Fifth Avenue - as we drive the upside in our digital business and deliver the kind of excitement and experiences shoppers expect from our iconic brands."

Third quarter gross profit declined by $38 million year-over-year to $706 million, primarily driven by lower sales volume, and the strategic changes in our vendor relationships.

Gross profit margin was 38.3 percent, down 120 basis points year-over-year. Adjusting for the sales and gross profit impact from liquidating stores, gross profit margin rate was 39.5 percent in the third quarter, consistent with the prior year's performance.

The company continues to exercise financial discipline, while making necessary investments in marketing and digital capabilities. The expected benefits from strategic choices in our store footprint, and further optimization of our in-store scheduling to best meet customer demand contributed to a decline of $29 million in SG&A expenses to $679 million. SG&A as a percentage of sales improved by 70 basis points year-over-year to 36.9 percent.

Third quarter net loss from continuing operations was $175 million, a $105 million decrease from the same period a year ago. Excluding one-time items, HBC's normalized net loss [1] was $128 million, as compared to a normalized net loss of $56 million a year ago.

Adjusted EBITDA[1] declined $40 million to $84 million for the third quarter. The sale of our interest in the European real estate joint venture contributed $16 million to the decline, while less than expected performance in our retail business was $24 million of the decline.

Given the company's financial performance through the first three quarters of fiscal 2019, the company expects North American Department Stores Adjusted EBITDA[1] to be lower, as compared to the equivalent measure in Fiscal 2018.

Adjusted EBITDAR[1] was $146 million in the third quarter, as compared to $202 million in the same period a year ago.

Balance Sheet & Capital Spending

Net debt,[1] defined as total debt less cash and cash equivalents, was $1.7 billion at November 2, 2019 down 56 percent year-over-year. During the third quarter, the company repaid the $429 million balance of the term loan and additional proceeds from the European transaction were added to the company's cash balances.

At November 2, 2019, HBC had the following outstanding loans and borrowings on its balance sheet:

(in millions of Canadian dollars at respective quarterly foreign exchange rates)	Nov 2, 2019	Nov 3, 2018
Global ABL	1,170	1,149
U.S. Term Loan B	—	656
Saks Mortgage	1,643	1,639
Lord + Taylor Mortgage	—	512
Other loans	26	28
Total Outstanding Loans and Borrowings	**2,839**	**3,984**
Cash and cash equivalents	1,094	19
Net debt[1]	**1,745**	**3,965**

Capital expenditures were $85 million during the third quarter of 2019. In fiscal 2019, the company expects its capital expenditures to moderate year-over-year to approximately $350 million or, net of landlord incentives, $300 million.[2]

Portfolio Changes and Associated Liabilities

The company's efforts to streamline the business have resulted in an estimated $825 million of cash obligations from closing the HBC Netherlands operations, rent for the initial three years of Le Tote's ownership of Lord + Taylor, dark rent from the closure of Home Outfitters and the 15 Saks OFF 5TH locations, as well as other restructuring and non-recurring expenses.

After the quarter closed, HBC Netherlands filed for protection from creditors under Dutch law. This does not change the company's overall outlook for resolution of the guaranteed lease liability in the Netherlands. HBC has reached a settlement with one landlord to eliminate one lease guarantee for an upfront payment.

After the quarter closed, the company completed the sale of Lord + Taylor to Le Tote. 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.

Dividend

The Board of Directors of HBC declared the company's regular quarterly dividend to be paid on January 15, 2020, to shareholders of record at the close of business on December 31, 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 thirty-nine weeks ended November 2, 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 third quarter financial results and other matters during a conference call on December 10, 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 omni-channel 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 nearly 250 stores and approximately 30,000 employees around the world. HBC's leading businesses across North America include Saks Fifth Avenue, Hudson's Bay, 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 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.

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 2, 2019 and November 3, 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 thirty-nine weeks ended November 2, 2019.

INTERIM CONSOLIDATED STATEMENTS OF LOSS

(millions of Canadian dollars, except per share amounts)

	Thirteen week period ended		Thirty-nine week period ended	
	Nov 2, 2019	Nov 3, 2018	**Nov 2, 2019**	Nov 3, 2018
Retail sales	**1,818**	1,858	**5,474**	5,508
Credit revenue and other, net	**23**	27	**73**	82
Total revenue	**1,841**	1,885	**5,547**	5,590
Cost of goods sold (exclusive of depreciation shown separately below)	**(1,135)**	(1,141)	**(3,488)**	(3,366)
Gross profit	**706**	744	**2,059**	2,224
Selling, general and administrative expenses ("SG&A")	**(679)**	(708)	**(2,057)**	(2,141)
Depreciation and amortization	**(116)**	(110)	**(323)**	(320)
Transaction, restructuring and other costs	**(29)**	(13)	**(150)**	(31)
Net gain on sale of European investments	**220**	—	**220**	—
Gain on sale of property, net	**—**	—	**817**	—
Gain on settlement of lease obligations of HBC Netherlands	**36**	—	**36**	—
Gain on sale of equity-method investment - real estate	**—**	—	**3**	—
Impairment	**(32)**	—	**(49)**	(7)
Operating (loss) income	**106**	(87)	**556**	(275)
Interest expense, net	**(50)**	(46)	**(137)**	(133)
Income from equity-method investments - real estate	**(1)**	11	**19**	14
Loss from investment in the EDS Group	**(80)**	—	**(282)**	—
Dilution gain from equity method investments - real estate	**—**	5	**—**	6
(Loss) income before income tax	**(25)**	(117)	**156**	(388)
Income tax (expense) benefit	**(150)**	47	**(477)**	112
Net loss - continuing operations	**(175)**	(70)	**(321)**	(276)
Net loss - discontinued operations, net of taxes	**(51)**	(91)	**(614)**	(547)
Net loss for the period	**(226)**	(161)	**(935)**	(823)
Loss per share - basic and diluted				
Continuing operations	**(0.95)**	(0.38)	**(1.74)**	(1.51)
Discontinued operations	**(0.28)**	(0.50)	**(3.34)**	(2.99)
Total operations	**(1.23)**	(0.88)	**(5.08)**	(4.50)

INTERIM CONSOLIDATED BALANCE SHEETS

(millions of Canadian dollars)

	Nov 2, 2019	Feb 2, 2019
Assets		

Cash and cash equivalents	**1,094**	19
Trade and other receivables	**147**	148
Inventories	**2,542**	2,162
Asset held for sale	**—**	279
Assets of discontinued operations held for sale	**972**	676
Other current assets	**104**	162
Total current assets	**4,859**	3,446
Property, plant and equipment	**3,376**	3,885
Operating lease assets	**2,396**	—
Finance lease assets	**391**	—
Goodwill	**208**	207
Other intangible assets	**489**	580
Pensions and employee benefits	**172**	170
Deferred tax assets	**167**	318
Equity-method investments - real estate	**202**	554
Investment in the EDS Group	**—**	284
Other assets	**76**	73
Total assets	**12,336**	9,517
Liabilities		
Current portion of loans and borrowings	**1,157**	471
Current portion of operating lease liabilities	**172**	—
Current portion of finance lease liabilities	**26**	29
Trade payables	**1,106**	949
Other payables and accrued liabilities	**854**	742
Deferred revenue	**107**	112
Liabilities of discontinued operations held for sale	**1,164**	272
Other current liabilities	**86**	246
Total current liabilities	**4,672**	2,821
Loans and borrowings	**1,630**	2,538
Operating lease liabilities	**3,769**	—
Finance lease liabilities	**310**	318
Pensions and employee benefits	**172**	177
Deferred tax liabilities	**250**	143
Equity-method investment - real estate	**233**	239
Other liabilities	**527**	1,597
Total liabilities	**11,563**	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	**(1,853)**	(931)
Additional paid-in capital	**197**	170
Accumulated other comprehensive income	**373**	393
Total shareholders' equity	**773**	1,684
Total liabilities and shareholders' equity	**12,336**	9,517

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)

	Thirty-nine week period ended	
	Nov 2, 2019	Nov 3, 2018
Operating activities		
Net loss	**(935)**	(823)
Net loss - discontinued operations, net of tax	**614**	547
Net loss - continuing operations	**(321)**	(276)
Loss from investment in the EDS Group	**282**	—
Depreciation and amortization	**323**	320
Impairment	**49**	7

Loss on disposal of assets	**13**	—
Net defined benefit pension and employee benefits expense	**13**	17
Distributions of earnings from equity-method investments - real estate	**77**	155
Dilution gains from equity method investment - real estate	**—**	(6)
Income from equity-method investments - real estate	**(19)**	(14)
Net gain on sale of European investments	**(220)**	—
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	**(91)**	(94)
Gain on settlement of lease obligations in HBC Netherlands	**(36)**	—
Share based compensation	**35**	43
Other operating activities	**8**	26
Changes in operating assets and liabilities	**364**	(119)
Cash (used in) provided by operating activities from continuing operations	**(343)**	59
Cash used in operating activities from discontinued operations	**(239)**	(691)
Net cash used in operating activities	**(582)**	(632)
Investing activities		
Capital investments	**(223)**	(298)
Proceeds on sale of property, net of transaction costs	**770**	33
Proceeds on sale of European investments	**1,463**	—
Proceeds on sale of equity-method investments - real estate	**3**	—
Investment in equity-method investments - real estate	**(13)**	—
Transaction costs paid	**(21)**	—
Proceeds on disposal of assets	**2**	10
Proceeds on sale of Gilt operations	**—**	41
Other investing activities	**(10)**	(12)
Cash provided by (used in) investing activities from continuing operations	**1,971**	(226)
Cash used in investing activities from discontinued operations	**(3)**	(146)
Net cash provided by (used in) investing activities	**1,968**	(372)
Financing activities		
Repayments	**(948)**	(6)
Borrowing costs	**(10)**	—
Long-term loans and borrowings	**(958)**	(6)
Net borrowings from asset-based credit facilities	**702**	745
Borrowing costs	**(10)**	(1)
Short-term loans and borrowings	**692**	744
Settlement of share based compensation	**(4)**	(4)
Payments on finance leases	**(25)**	(26)
Dividends paid	**(7)**	(7)
Cash (used in) provided by financing activities - continuing operations	**(302)**	701
Cash provided by financing activities - discontinued operations	**—**	321
Net cash (used in) provided by financing activities	**(302)**	1,022
Foreign exchange (loss) gain on cash	**(9)**	1
Increase in cash and cash equivalents	**1,075**	19
Cash and cash equivalents at beginning of year	**21**	70
Cash and cash equivalents at end of period	**1,096**	89
Deduct: cash reclassified to assets of discontinued operations held for sale	**(2)**	(64)
Cash and cash equivalents at end of period - continuing operations	**1,094**	25

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 Loss

A reconciliation of Normalized Net 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		**Thirty-nine week period ended**	
(millions of Canadian dollars)	**Nov 2, 2019**	Nov 3, 2018	**Nov 2, 2019**	Nov 3, 2018
	$	$	$	$
Net loss – continuing operations	**(175)**	(70)	**(321)**	**(276)**
Interest expense, net	50	46	137	133
Income tax expense (benefit)	150	(47)	477	(112)
Depreciation and amortization	116	110	323	320
EBITDA (1)	**141**	39	**616**	**65**
Transaction, restructuring and other costs	29	13	150	31
Impairment	32	—	49	7
Loss (income) from equity-method investments - real estate	1	(11)	(19)	(14)
Loss from investment in the EDS Group (3)	80	—	282	—
Dilution gains from equity-method investments - real estate(4)	—	(5)	—	(6)
Net gain on sale of European investments	(220)	—	(220)	—
Gain on settlement of lease obligations in HBC Netherlands	(36)	—	(36)	—
Gain on sale of property, net	—	—	(817)	—
Gain on sale of equity-method investment - real estate	—	—	(3)	—
Non-cash share based compensation	11	12	25	33
Non-cash pension expense	4	6	12	17
Adjustment for store closures	(1)	(1)	(1)	(1)
Other	(1)	11	21	30
Adjusted EBITDA (1) - North American Department Stores	**40**	64	**59**	**162**
Share of (income) loss from equity-method investments - real estate	(1)	11	19	14
Interest expense, net	23	24	72	70
Income tax expense	2	5	11	13
Depreciation and amortization	15	14	52	48
Foreign exchange adjustment	—	6	—	38
Other	5	—	3	—
Adjusted EBITDA (1) - Real estate equity method investments	**44**	60	**157**	183
Adjusted EBITDA (1)	**84**	124	**216**	**345**
Rent adjustments	62	78	197	237
Adjusted EBITDAR (1)	**146**	**202**	**413**	**582**
Share of net loss in the EDS Group	(80)	—	(282)	—
Share of net loss in excess of the investment balance(3)	(156)	—	(156)	—
Interest expense, net	11	—	30	—
Income tax benefit	109	—	87	—
Depreciation and amortization	34	—	87	—
Impairment	37	—	37	—
Inventory purchase price adjustment included in cost of sales	—	—	30	—
Restructuring	61	—	91	—
Adjusted EBITDA (1) - EDS Group	**16**	—	**(76)**	—
Third party rent expense - EDS Group	102	—	292	—
Adjusted EBITDAR (1) - EDS Group	**118**	—	**216**	—
Combined Adjusted EBITDA (1)	**100**	124	**140**	**345**

Combined Adjusted EBITDAR [1]	**264**	202	**629**	**582**

NORMALIZED NET LOSS RECONCILIATION

	Thirteen week period ended		Thirty-nine week period ended	
(millions of Canadian dollars)	**Nov 2, 2019**	**Nov 3, 2018**	**Nov 2, 2019**	**Nov 3, 2018**
	$	$	$	$
Net loss – continuing operations	**(175)**	(70)	**(321)**	(276)
Gain on sale of property, net	—	—	(533)	—
Pre-tax, net gain on sale of European investments	(220)	—	(220)	—
Tax related to net gain on sale of European investments	153	—	153	—
Gain on settlement of lease obligations in HBC Netherlands	(36)	—	(36)	—
Gain on sale of investment in equity method investment - real estate	—	—	(2)	—
Dilution gains from equity-method investment - real estate	—	(5)	—	(6)
Impairment	26	—	38	7
Transaction, restructuring and other costs	21	10	132	23
Adjustments to (income) loss on equity method investments - real estate[5]	3	2	2	22
Adjustments to loss from investment in the EDS Group	69	—	111	—
Adjustment for store closure	(1)	(1)	(1)	(1)
Tax related adjustments	37	—	162	—
Other	(5)	8	16	22
Total adjustments[6]	47	14	(178)	67
Normalized net loss [1]	**(128)**	(56)	**(499)**	(209)

HBC QUARTERLY SUPPLEMENTAL DATA

	Nov 2, 2019	**Aug 3, 2019**	**May 4, 2019**	**Feb 2, 2019**	**Nov 3, 2018**	**Aug 4, 2018**	**May 5, 2018**	**Feb 3, 2018**
Retail sales (in millions)								
Hudson's Bay	$657	$620	$599	$938	$683	$642	$631	$1,028
Saks Fifth Avenue	$799	$827	$879	$1,087	$832	$855	$862	$1,083
Saks OFF 5TH	$327	$315	$311	$388	$312	$297	$292	$403
Home Outfitters	$0	$63	$42	$35	$31	$36	$35	$56
HBC Netherlands	$35	$0	$0	$0	$0	$0	$0	$0
Total retail sales	**$1,818**	**$1,825**	**$1,831**	**$2,448**	**$1,858**	**$1,830**	**$1,820**	**$2,570**
Comparable sales								
Hudson's Bay	(3.9%)	(3.4%)	(4.3%)	(2.9%)	4.3%	(0.6%)	3.2%	1.4%
Saks Fifth Avenue	(2.3%)	0.6%	2.4%	3.9%	7.3%	6.7%	6.0%	3.1%
Saks OFF 5TH	4.9%	3.4%	4.4%	(2.1%)	(2.3%)	(7.6%)	(3.5%)	(2.0%)
Total HBC	**(1.7%)**	**(0.4%)**	**0.3%**	**0.2%**	**4.5%**	**1.5%**	**3.4%**	**1.3%**
Change in comparable digital sales	14.6%	19.3%	13.9%	9.0%	8.3%	10.4%	6.8%	9.0%
Store count[7]								
Hudson's Bay	89	89	89	89	89	89	89	89
Saks Fifth Avenue	42	42	42	42	42	42	42	41
Saks OFF 5TH	115	128	129	129	133	132	132	129
	246	259	260	260	264	263	263	259
Gross leasable area/square footage[7] (in thousands)								
Hudson's Bay	15,771	15,771	15,771	15,771	15,739	15,720	15,720	15,731
Saks Fifth Avenue	5,217	5,217	5,217	5,216	5,303	5,303	5,303	5,187
Saks OFF 5TH	3,467	3,845	3,871	3,868	3,998	3,966	3,939	3,879
	24,455	24,833	24,859	24,855	25,040	24,989	24,962	24,797
Cash rent to joint ventures (in millions)	$35	$35	$34	$34	$34	$34	$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 During the thirteen and thirty-nine week periods ended November 2, 2019, the Company stopped recording its 49.99% share of the net loss of the EDS Group when the value of its investment in the EDS Group was reduced to nil. The Company sold its interest in the EDS Group on October 1, 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, and HBC Netherlands locations which are expected to close at the end of the year.

Non-GAAP Measures

“EBITDA” is defined as net income or loss before net interest expense, income tax expense or 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) net gain on sale of European investments, (C) gain on settlement of lease obligations in HBC Netherlands, (D) gain on sale of investment in equity method investment - real estate, (E) dilution gains from equity method investments - real estate, (F) impairment, (G) transaction, restructuring and other costs, (H) adjustment to share of income or loss from equity method investments - real estate, (I) adjustment to share of loss from investment in the EDS Group, (J) adjustment for store closures costs, (K) other adjustments not associated with day to day operations, and (L) tax related adjustments.

“Net debt” is defined as total debt less cash and cash equivalents.

Comparable store sales growth on a “two-year stacked basis” is computed by adding comparable sales growth of the period referenced and that of the same fiscal period ended twelve months prior.

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 November 2, 2019, compared to the thirteen week period ended November 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 thirteen and thirty-nine week periods ended November 2, 2019.

Forward-Looking Statements

Certain statements made in this news release, including, but not limited to, expectation with respect to North American Department Stores Adjusted EBITDA in Fiscal 2019 relative to Fiscal 2018, closing of operations of HBC Netherlands, HBC's expectation with respect to its continued liability for guaranteed lease liabilities in the Netherlands and 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, HBC's expected Fiscal 2019 capital expenditure, HBC's prospects for making necessary investments, 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 the company's expectations about North American Department Store Adjusted EBTIDA will be lower in Fiscal 2019 as compared to Fiscal 2018 and HBC's anticipated Fiscal 2019 total North American capital investments of $350 million or, net of landlord incentives, $300 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 = 1:1.31. These current assumptions, although considered reasonable by the company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual North American Department Store Adjusted EBITDA and capital investments for Fiscal 2019 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, retail environment, 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 (including in the Netherlands) and with third parties who have assumed leases from the company, ability to realize the expected benefits from the European transaction or the Lord + Taylor sale transaction, 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 Thirty-Nine Week Periods Ended November 2, 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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