HUDSON'S BAY COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED NOVEMBER 3, 2018

Dated December 5, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis ("MD&A") is intended to assist readers in understanding the business environment, strategies and performance and risk factors of Hudson's Bay Company and its direct and indirect subsidiaries and predecessors or other entities controlled or jointly controlled by them, referred to herein as "HBC", the "Company", or "our". It should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company and notes thereto for the thirteen and thirty-nine week periods ended November 3, 2018. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The Company's audit committee approved the contents of this MD&A. This MD&A reflects information as of December 4, 2018, unless otherwise indicated.

Basis of Presentation

Our unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

General Information

Hudson's Bay Company is a Canadian corporation amalgamated under the *Canada Business Corporations Act*. In January 2012, through an internal reorganization, Lord & Taylor LLC ("Lord & Taylor") became a wholly owned subsidiary of HBC.

On November 4, 2013, the Company completed its acquisition of all of the outstanding shares of Saks Incorporated ("Saks"), for U.S.$16 per share, in an all-cash transaction valued at U.S.$2,973 million, including assumed debt (the "Saks Acquisition").

On July 9, 2015, the Company and RioCan Real Estate Investment Trust ("RioCan") closed the first tranche of their joint venture, RioCan-HBC Limited Partnership (the "RioCan-HBC JV"), which focuses on real estate growth opportunities in Canada. The second tranche of the RioCan-HBC JV closed on November 25, 2015. As of November 3, 2018, HBC had an 87.5% ownership interest in the RioCan-HBC JV. Also see the "Real Estate Joint Ventures" section of this MD&A.

On July 22, 2015, the Company and Simon Property Group Inc. ("Simon") closed their joint venture, Simon HBC Opportunities LLC (the "HBC-Simon JV"). On September 30, 2015, prior to the Kaufhof Acquisition (defined and discussed below), the HBC-Simon JV became a wholly-owned subsidiary of HBS Global Properties LLC (the "HBS Joint Venture"), which focuses on credit tenant, net-leased and multi-tenant retail buildings in the United States and internationally. As of November 3, 2018, HBC had a 62.4% ownership interest in the HBS Joint Venture. Also see the "Real Estate Joint Ventures" section of this MD&A.

On September 30, 2015 (the "Kaufhof Acquisition Date"), the Company completed the acquisition of GALERIA Holding GmbH ("Kaufhof"), the parent company of Germany's leading department store Galeria Kaufhof and Belgium's only department store Galeria INNO, with an enterprise value of €2.5 billion and a cash purchase price of €2.3 billion (the "Kaufhof Acquisition"). In conjunction with the Kaufhof Acquisition, the HBS Joint Venture acquired 41 properties from Kaufhof. On October 7, 2018, the HBS Joint Venture distributed to its partners the net assets of the 41 German properties to form a new real estate joint venture (the "European Real Estate JV"). Also see the "Real Estate Joint Ventures" section of this MD&A.

On September 11, 2018, the Company announced the entry into definitive agreements with companies that form part of SIGNA group ("SIGNA"), a leading European retail and real estate operator, to form a strategic partnership encompassing certain of HBC's European retail assets, HBC's German real estate assets and SIGNA's retail assets. On November 30, 2018, the Company completed of the combination of the retail operations of HBC Europe and SIGNA's Karstadt Warenhaus GmbH ("Karstadt") and the formation of the companies' real estate joint venture resulting in HBC and SIGNA each owning a 50% interest in the European Real Estate JV. As of November 3, 2018, HBC had a 62.4% ownership in the European Real Estate JV. See the "Subsequent Events" section of this MD&A.

On February 1, 2016, the Company completed the acquisition of Gilt Groupe Holdings Inc. and its subsidiaries ("Gilt"). On July 27, 2018, the Company completed the divestment of the Gilt business.

As a result of the Company's decision to divest its controlling interest of HBC Europe, the operations of HBC Europe, together with the operations of the Gilt business, have been presented as discontinued operations and the Company's operational results have been retroactively restated, as required. See the "Supplemental Information – Discontinued Operations" section of this MD&A.

On October 23, 2017, HBC announced the sale of the Lord & Taylor Fifth Avenue building to an affiliate of WeWork Property Advisors ("WPA") in a transaction valued at U.S.$850 million (approximately $1.1 billion), subject to customary adjustments. See the "Subsequent Events" section of this MD&A.

On December 6, 2017, the Company issued series "A" 8-year mandatory convertible preferred shares ("Convertible Preferred Shares") to an affiliate of Rhône Capital LLC ("Rhône") for an aggregate purchase price of U.S.$500 million ($638 million). The Convertible Preferred Shares are convertible into the Company's common shares (the "Common Shares").

References in this MD&A to Department Store Group ("DSG") refer, collectively to, the Hudson's Bay, Lord & Taylor and Home Outfitters businesses.

References in this MD&A to HBC Europe refer, collectively to, the Galeria Kaufhof, Galeria INNO, Saks Fifth Avenue OFF 5TH Europe ("Saks OFF 5TH Europe") and Hudson's Bay Netherlands businesses.

Accounting Periods

This MD&A is based on information in the unaudited interim condensed consolidated financial statements and accompanying notes thereto for the thirteen and thirty-nine week periods ended November 3, 2018. This MD&A also references the fifty-two week period ending February 1, 2020 ("Fiscal 2019"), the fifty-two week period ending February 2, 2019 ("Fiscal 2018") and the fifty-three week period ending February 3, 2018 ("Fiscal 2017").

Forward-Looking Statements

Certain statements made in this MD&A, including, but not limited to, the Company's ability to grow sales, including digital sales, increase margins, and improve profitability, the anticipated completion of the follow on real estate transactions with SIGNA, including the transfer of a 50% interest in 18 wholly-owned German properties and the sale of two German properties, the proceeds therefrom, resulting reduction in debt and improvement to cash flow, the Company's balance sheet and overall liquidity, the strategic partnership with SIGNA, including the combination of HBC Europe's retail operations with SIGNA's retail operations, the proposed real estate joint venture, the expectation that the transactions will further strengthen HBC's European retail and real estate operations, unlock real estate value, create value for shareholders, improve balance sheet, liquidity and overall leverage and improve performance, strengthen HBC's North American business, the anticipated performance of the combined retail operating company; the anticipated completion of the follow-on transactions, the expected closures of Lord & Taylor stores and expected improvement in overall performance of Lord & Taylor, the expected closing of the sale of the Lord & Taylor Fifth Avenue building in the fourth quarter of Fiscal 2018 and the expected gross proceeds from the sale, the closing of additional Lord & Taylor stores, potential sale of the Company's Hudson's Bay flagship in Vancouver, the timing and expected impact of the major renovations of the New York Saks Fifth Avenue flagship store, the Company's ability to increase productivity of HBC's real estate, pursue and achieve accretive asset sales, diversify the assets in HBC's real estate joint ventures, the ability to enhance margins, leverage selling, general & administrative expenses and improve cash flow through improved inventory management and an improved cost structure, significant improvement of cash flow in Fiscal 2018 compared to Fiscal 2017, the anticipated benefits and annualized savings from HBC's Transformation Plan (as defined herein), including the anticipated timing of realizing such savings, the Company's plan to reduce total inventory, the Company's anticipated North American capital investments, net of landlord incentives, for Fiscal 2018, continued investment in digital capabilities, potential future obligations with respect to the Bon-Ton Lease Guarantees (as defined herein), the Company's prospects for future growth opportunities, including targeting acquisitions, ongoing store openings and other statements that are not historical facts, are forward-looking. Often, but not always, forward looking statements can be identified by the forward-looking terminology such as the words "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "anticipate", "foresee", "continue", "intends", "trends", "indications", "anticipates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward- looking statements.

Forward-looking statements are based on current estimates and assumptions made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that it believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct.

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

Many factors could cause the Company's actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors" section of this MD&A and the Company's Annual Information Form ("AIF"): ability to be successfully complete the remaining components of the strategic partnership with SIGNA, the ability to realize the benefits from the strategic partnership with SIGNA, the risks related to not running day-to-day management and operations of the combined European retail business, the ability of the combined European retail business to successfully maintain certain key relationships following the closing of the strategic partnership transaction with SIGNA, the risks related to accounting for the combined European retail business using the equity method of accounting, 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, failure to close the sale of the Lord & Taylor Fifth Avenue building, increased competition, change in spending of consumers, extreme weather conditions or natural disasters, international operational risks, fluctuations in the U.S. dollar, Canadian dollar, Euro and other foreign currencies, increase in raw material costs, seasonality of business, ability to manage indebtedness and cash flow, risks related with increasing indebtedness, restrictions of existing credit facilities reducing flexibility, loss of flexibility due to restrictive debt covenants, future availability of financing, limitations related to a decrease in credit rating, ability to maintain adequate financial processes and controls, ability to maintain dividends, ability of a small number of shareholders to influence the business, uncontrollable sale of the Company's Common Shares (as defined herein) by significant shareholders could affect share price, constating documents discouraging favorable takeover attempts, effect of existence and creation of Preferred Shares (as defined herein) on holders of Common Shares (as defined herein), increase in regulatory liability, increase in product liability or recalls, increase in litigation, inability to comply with laws and regulations that impact the Company's business could lead to litigation or regulatory actions against the Company, non-compliance with changing privacy regulatory environment, exposure to significant additional costs and expenses relating to losing foreign private issuer status in the future, changes in accounting standards, other risks inherent to the Company's business and/or factors beyond the Company's control which could have a material adverse effect on us. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities 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.

The purpose of the forward-looking statements is to provide the reader with a description of management's current expectations regarding the Company's financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlook, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. Future-oriented financial information and financial outlook, as with forward-looking information generally, are based on current assumptions and subject to risks, uncertainties and other factors. Furthermore, unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and the Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of the Company's financial information reported under IFRS. The Company uses non-IFRS measures including gross profit, EBITDA, Adjusted EBITDA, Adjusted EBITDAR, Adjusted selling, general & administrative expenses ("Adjusted SG&A") and Normalized net earnings (loss) to provide investors with supplemental measures of its operating performance and thus highlight trends in the Company's 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 non-IFRS measures in the evaluation of issuers. The Company's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet its future debt service, capital expenditure, working capital requirements and its ability to pay dividends on its Common Shares. As other companies may calculate these non-IFRS measures differently than the Company does, these metrics may not be comparable to similarly titled measures reported by other companies.

The non-IFRS measures identified below and in applicable tables exclude the effect of discontinued operations related to the divestment of Gilt and the planned divestment of HBC Europe. Also see the "Supplemental Information – Discontinued Operations" section of this MD&A.

Gross profit is defined as revenue less cost of sales.

EBITDA is defined as net earnings (loss) before net finance costs, income tax expense (benefit) and depreciation and amortization expense. EBITDAR is defined as EBITDA before rent expense to third parties and net rent expense to joint ventures.

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

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

Adjusted SG&A is defined as selling, general & administrative expenses ("SG&A") adjusted to exclude: (A) certain non-cash items which include: (i) non-cash pension expense, (ii) impairment and other non-cash items and (iii) non-cash share based compensation expense, and (B) normalization adjustments which include: (i) business and organization restructuring/realignment charges and (ii) merger/acquisition costs and expenses and (iii) adjustments, if any, related to transactions that are not associated with day-to-day operations.

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

For additional detail on specific normalization adjustments, refer to the Company's tables outlining reconciliations of net earnings (loss) to EBITDA, Adjusted EBITDA and Adjusted EBITDAR, SG&A to Adjusted SG&A, and net earnings (loss) to Normalized net earnings (loss) in the "Selected Consolidated Financial Information – Reconciliation Tables" section of this MD&A.

This MD&A also makes reference to certain comparable financial results expressed on a constant currency basis, including comparable sales, comparable digital sales and comparable inventory levels. In calculating the sales change including digital sales on a constant currency basis, 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. See also "Factors Affecting Our Performance – Comparable Sales" section.

Third Quarter Events

- On August 8, 2018, the Company announced that Denise Pickett resigned as a director of the Company to focus on her responsibilities at American Express. The Company continues its search process for a new director to replace Ms. Pickett.
- On September 11, 2018, the Company announced the entry into definitive agreements with SIGNA, a leading European retail and real estate operator, to form a strategic partnership encompassing certain of HBC's European retail assets, HBC's German real estate assets and SIGNA's retail assets.
- On October 9, 2018, the Company announced that it had entered into an amendment to its lease for the Hudson's Bay location at Oakridge Centre in Vancouver, BC ("Oakridge Amendment"). In exchange for certain concessions and approvals related to the redevelopment of Oakridge Centre, HBC received approximately $152 million, which has been used to repay borrowings under the Company's revolving credit facility. As part of the amendment, HBC agreed to relocate the Hudson's Bay store to a new location within the redeveloped Oakridge Centre, where it will remain a retail anchor and pay similar rent as its existing lease. Construction of the new location is expected to be completed in 2022, at which time HBC will receive additional proceeds of $21 million with the new location expected to open in 2023. The current location is expected to remain open and serve customers throughout the redevelopment.

- The Company opened one Hudson’s Bay store in Montreal, Quebec and one Saks OFF 5TH store in Calgary, Alberta. The Company closed one Hudson’s Bay store in Montreal, Quebec and one Home Outfitters store in Halifax, Nova Scotia.

Subsequent Events

- On November 7, 2018, the Company received a third deposit of U.S.$25 million ($33 million) from WPA upon the exercise of their option to extend the closing of the sale of the Lord & Taylor Fifth Avenue building to January 31, 2019. The Company has now received an aggregate of U.S.$125 million ($162 million) in non-refundable deposits from WPA (subject to certain limited exceptions).
- On November 30, 2018, the Company announced the completion of the combination of the retail operations of HBC Europe and Karstadt and the formation of the companies’ real estate joint venture. HBC Europe’s retail operations were combined with Karstadt’s retail operations under a newly formed retail operating company, in which SIGNA has a 50.01% interest and HBC has a 49.99% interest. HBC and SIGNA each holds 50% of the European Real Estate JV to own and manage HBC’s European real estate assets, including 41 German properties previously held within the HBS Joint Venture. As previously announced, the follow on real estate transactions of the acquisition by SIGNA of a 50% interest in 18 additional properties is expected to close in the fourth quarter of Fiscal 2018 and the acquisition by SIGNA of the Kaufhof location in Cologne and the Carsch-Haus in Duesseldorf, are expected to occur in early Fiscal 2019, subject to customary closing conditions.

  Under the terms of the transaction, HBC has received net proceeds of €171 million (exclusive of transaction fees and related expenses), which was used to permanently repay a portion of HBC’s U.S. term loan. Further, HBC is expected to receive an additional net proceeds of €250 million, following the sale of 18 additional properties. The European Real Estate JV will receive gross proceeds of €430 million for the subsequent sale to SIGNA of the two German properties listed above.
- In connection with the merger of HBC’s European retail operations with Karstadt’s retail operations on November 30, 2018, the German and Dutch subfacilities of the Global ABL were terminated, which resulted in a reduction of the borrowing line from U.S.$2.25 billion to U.S.$1.94 billion. The Global ABL's borrowing line of U.S.$1.94 billion now consists of a U.S. subfacility and a Canadian subfacility.
- On November 30, 2018, the Company entered into an agreement with a counterparty of the European Real Estate JV pursuant to which the Company, together with SIGNA, provides a guarantee of certain related party lease obligations of the newly formed retail operating company. Under the terms of the agreement, the Company guarantees 49.99% of these lease obligations to the European Real Estate JV, in the event that the retail operating company defaults on its lease commitments.

Overview

Our Business

HBC is a diversified global retailer focused on driving the performance of high quality stores and their omnichannel offerings and unlocking the value of real estate holdings. Founded in 1670, HBC is the oldest company in North America. HBC’s portfolio today includes formats ranging from luxury to premium department stores to off price fashion shopping destinations. It is a leader in the omnichannel retail experience with a combination of physical store locations and e-commerce capabilities that enable customers to shop whenever, wherever and however they choose. HBC has a top tier management team comprised of seasoned leaders in the retail sector committed to driving growth and long-term profitability across all its businesses. The Company has a track record of completing accretive mergers and acquisitions of retail businesses and undervalued retail real estate assets. The Company is supported by a solid foundation of valuable real estate which enhances its financial flexibility.

Real Estate Strategy

HBC owns a valuable portfolio of real estate assets and management has a demonstrated track record of success in realizing the underlying value through sale, sale-leaseback, and other value enhancing transactions.

The Company’s valuable real estate portfolio also serves to strengthen both the Company’s balance sheet and operating businesses, in addition to providing the Company with increased financial flexibility. On November 30, 2018, the Company announced the completion of the combination of the retail operations of HBC Europe and Karstadt and the formation of the companies' real estate joint venture with HBC and SIGNA each owning a 50% interest in the European Real Estate JV. During the third quarter of Fiscal 2017, HBC entered into an agreement to sell its Lord & Taylor Fifth Avenue building in New York in a transaction valued at U.S.$850 million (approximately $1.1 billion). On October 30, 2017, the RioCan-HBC JV announced it had engaged CBRE and Brookfield Financial Real Estate Group to explore a possible sale of its Vancouver property located at 674 Granville Street, which is currently occupied by Hudson's Bay under a long term lease.

While stores are a critical part of HBC's long-term omnichannel strategy, management continues to evaluate all opportunities to generate value from HBC's extensive real estate portfolio, including:

- *Increasing the productivity of HBC's real estate.* Management is actively re-purposing existing floor space for use by partners such as WeWork, Topshop, Sephora and Pusateri's to maximize productivity and drive additional traffic in key customer segments to HBC's stores. These efforts provide opportunities to better utilize existing space and improve the credit profile of a given building. Management will continue to explore opportunities with other partners for similar arrangements.
- *Pursuing accretive asset sales.* HBC's strategy includes exiting owned and leased stores when the economic incentives are accretive to its shareholders and it makes sense for the business. This could include the sale of existing leases or the sale or leasing of owned real estate. The announced sale of the Lord & Taylor Fifth Avenue building is the most recent example of this strategy.
- *Diversifying the assets in HBC's Real Estate Joint Ventures.* Management continues to seek accretive real estate acquisition and sublease opportunities for its real estate joint ventures, HBS Joint Venture, European Real Estate JV and the RioCan-HBC JV, to diversify the asset base and overall credit of each joint venture portfolio. HBC has deliberately structured its real estate joint ventures to facilitate the future public listing of these entities and management believes that further diversification would improve the opportunity to undertake an initial public offering, subject to favourable market conditions.

Retail Strategy

HBC is a global retailer operating Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, and Saks OFF 5TH. HBC is committed to evaluating all opportunities while focusing its resources on the retail businesses that provide the most opportunity for profitable growth. Aligned with this focus, HBC has taken action to strengthen its European portfolio and stabilize its North American operations. The Company's strategic partnership in Europe creates an improved operating platform and provides additional liquidity and enhanced flexibility to execute in North America. This partnership follows the divestment of Gilt in the second quarter of Fiscal 2018.

Management remains focused on growing top line results and managing expenses to improve overall profitability and drive free cash flow. Sales initiatives include growing the Company's profitable digital business by better leveraging its recently upgraded digital platforms and online selling tools. Further, the Company continues to support each business in leveraging data-driven insights to tailor marketing and digital strategies, delivering a better customer experience in our stores. HBC is committed to running the business as efficiently as possible, and is exploring additional opportunities to reduce expenses. A heightened focus on prudent inventory management as well as an improved cost structure are also expected to enhance margins, leverage SG&A and improve cash flow significantly in Fiscal 2018 compared to Fiscal 2017.

Mergers, Acquisitions and Strategic Partnerships

The Company has a successful track record of completing accretive mergers and acquisitions of retail businesses and undervalued retail real estate assets. Pursuing mergers, acquisitions and strategic partnerships continues to be a core component of HBC's overall strategy and future opportunities could include retail businesses, retail businesses that include a real estate component, or stand-alone retail real estate assets. Our activities have included the acquisitions of Saks Incorporated and Galeria Kaufhof. In addition, the Company announced a series of strategic transactions with WeWork, Rhône and WPA, a joint venture between WeWork and Rhône, including the sale of the Lord & Taylor Fifth Avenue building to WPA in a transaction valued at U.S.$850 million (approximately $1.1 billion), subject to customary adjustments. Further, the Company has formed a strategic partnership with SIGNA encompassing certain of SIGNA's retail assets, HBC's European retail assets and HBC's German real estate assets.

Highlights of the Results of Operations

(millions of Canadian dollars)	Thirteen week period ended					Thirty-nine week period ended				
			restated [1]					*restated* [1]		
	Nov 3, 2018		Oct 28, 2017		*Change*	Nov 3, 2018		Oct 28, 2017		*Change*
	$	% [2]	$	% [2]		$	% [2]	$	% [2]	
Revenue	2,187	100%	2,072	100%	*115*	6,491	100%	6,438	100%	*53*
Gross profit [3]	861	39.4%	814	39.3%	*10 bps*	2,591	39.9%	2,504	38.9%	*100 bps*
Adjusted EBITDA [3]	63	2.9%	40	1.9%	*23*	151	2.3%	45	0.7%	*106*
Adjusted EBITDAR [3]	141	6.4%	121	5.8%	*20*	400	6.2%	300	4.7%	*100*
Net loss – continuing operations	(124)	(5.7%)	(116)	(5.6%)	*(8)*	(405)	(6.2%)	(319)	(5.0%)	*(86)*

	Thirteen week period ended		Thirty-nine week period ended	
		restated [1]		*restated* [1]
	Nov 3, 2018	Oct 28, 2017	Nov 3, 2018	Oct 28, 2017
Comparable sales percentage change [4]				
Consolidated [5]	2.9%	(2.0%)	1.3%	(1.9%)
DSG	0.9%	(3.7%)	(1.2%)	(2.6%)
Saks Fifth Avenue [6]	7.3%	1.0%	6.7%	(0.9%)
Saks OFF 5TH [6]	(2.3%)	(4.1%)	(4.5%)	(2.4%)
Comparable digital sales percentage change [4]				
Consolidated	8.0%	10.7%	8.7%	14.8%

Please refer to the "Selected Consolidated Financial Information" and "Results of Operations" sections of this MD&A for details and commentary on the highlights.

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) As a percentage of revenue.

(3) 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 MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the "Selected Consolidated Financial Information – Reconciliation Tables" section of this MD&A.

(4) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months, includes digital sales and clearance store sales and excludes sales related accounting adjustments. Consolidated comparable sales include results for continuing operations. See "Factors Affecting Our Performance – Comparable Sales".

(5) Previously reported comparable sales for Consolidated have been restated to exclude sales related accounting adjustments and the results for discontinued operations.

(6) Previously reported comparable sales for Saks Fifth Avenue and Saks OFF 5TH have been restated to exclude promotional sales related accounting adjustments which were previously included in reported results.

Factors Affecting Our Performance

Revenue

The majority of the Company's sales are from branded merchandise purchased directly from the brand owners or their licensees. The Company focuses on offering a broad selection of branded and private-label merchandise appealing to the fashion taste of its customers. The quality and breadth of its selection allows the Company to change the mix of its merchandise based on fashion trends and individual store locations and enables it to address a broad customer base. See also "Overview – Retail Strategy" section of this MD&A.

Comparable Sales

The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months on a constant currency basis and includes digital sales and clearance store sales. Stores undergoing liquidation and sales related accounting adjustments are excluded from comparable sales. Stores undergoing remodeling remain in the comparable sales calculation base unless the store is closed for a significant period of time. Consolidated comparable sales include results for continuing operations. In calculating the comparable sales change including digital sales on a constant currency basis, 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. 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. Digital sales include sales and returns based on where the sale was originated. Definitions and calculations of comparable sales differ among companies in the retail industry.

Gross Profit

Our cost of sales consists mainly of merchandise purchases, including transportation and distribution costs. Purchases are variable and proportional to the Company's sales volume. The Company records vendor rebates as either a reduction of inventory cost or a reduction in cost of sales. All costs directly associated with transportation and distribution, excluding central storage costs and any idle capacity, are capitalized as merchandise inventories.

The Company manages its businesses to improve gross margin in a number of different ways. The Company manages the level of promotional activity relative to regular price activity and endeavors to manage inventory levels so as to minimize the need for substantial clearance activity. The Company sources private label products and directly imports certain branded products from overseas markets including, among others, China, India, Indonesia, Bangladesh, Vietnam, Cambodia and Europe. As a result, the Company's cost of sales for its operations is impacted by the fluctuation of foreign currencies. In particular, the Company purchases a significant amount of its imported merchandise from suppliers in Asia using U.S. dollars. Therefore, the Company's cost of sales is also impacted by the fluctuation of the U.S. dollar against the Canadian dollar.

The Company enters into forward contracts to hedge some of its exposure to fluctuations in the value of the U.S. dollar against the Canadian dollar against the U.S. dollar. Increases in the price of merchandise, raw materials, fuel and labour, or their reduced availability could increase the Company's cost of goods and negatively impact its financial results. Generally, the Company offsets these cost increases with pricing adjustments in order to maintain a consistent gross profit on the merchandise, which may cause changes in the Company's unit volume but typically has a minimal impact on its gross profit rates.

Foreign Exchange

The Company's net investments in Lord & Taylor Acquisition Inc. ("L&T Acquisition", the indirect parent of Lord & Taylor and Saks) and HBC Europe, whose functional currencies are not Canadian dollars, present foreign exchange risks to HBC. The Company is using a net investment hedge to mitigate a portion of the U.S. dollar foreign exchange risk by designating U.S.$245 million of U.S. Term Loan B as a hedge of the first U.S.$245 million of net assets of L&T Acquisition. Foreign currency translation of the net earnings (loss) of L&T Acquisition impacts consolidated net earnings (loss). Foreign currency translation of the net assets of L&T Acquisition impacts other comprehensive income (loss).

Foreign currency gains and losses on certain intra-group monetary assets and liabilities between group entities with different functional currencies impact the Company's consolidated net earnings (loss).

Selling, General & Administrative Expenses

Our SG&A consists of store labour and maintenance costs, store occupancy costs, advertising and marketing costs, salaries and related benefits of corporate and field management associates, administrative office expenses, services purchased and other related expenses. SG&A includes buying and occupancy costs and excludes transportation and distribution costs included in inventory and cost of sales. It also includes pension, restructuring and other non-recurring items and excludes depreciation and amortization expenses. Although the Company's average hourly wage rate is generally higher than the minimum wage, an increase in the mandated minimum wage could significantly increase the Company's payroll costs unless the Company realizes offsetting productivity gains and cost reductions.

Our occupancy costs are driven primarily by rent expense, which may include escalation clauses over existing lease terms, including option periods. The Company believes that its existing leases are generally consistent with current market rates. When entering into new leases, the Company is generally able to negotiate leases at attractive market rates due to the increased consumer traffic that its stores generate in strip malls and shopping centres.

Under the Company's credit card program, HBC shares in the income and losses of the credit card programs related to private label and co-branded credit cards at Hudson's Bay, Lord & Taylor and Saks. Income related to the programs is included in SG&A.

Finance Costs

Our finance costs are expenses resulting from the financing activities of the Company, including interest expense on long and short-term borrowings, gains or losses on the early extinguishment of debt and fair value gains or losses and amortization charges related to embedded derivatives. In addition to credit ratings and credit spreads, the Company's finance costs are dependent on fluctuations in the underlying indices used to calculate interest rates, including, but not limited to, the Canadian prime rate, the Canadian Dealer Offered Rate ("CDOR"), the London Interbank Offered Rate ("LIBOR") and the Euro Interbank Offered Rate ("Euribor").

In connection with the Saks Acquisition, the Company issued 6.75 million Common Share purchase warrants to private placement investors and permitted transferees. 1.5 million of these warrants expired on July 26, 2018 and the remaining 5.25 million warrants expired on November 4, 2018. The non-cash charges associated with the warrants fluctuated with changes in the Common Share trading price and other factors as they required mark-to-market adjustments at each reporting period. The Company recorded the mark-to-market valuation adjustment of these warrants as finance costs/income based on their end-of-period valuations.

Weather

Extreme weather conditions in the areas in which the Company's stores are located could adversely affect the Company's business and results of operations. For example, frequent or unusually heavy snowfall, ice storms, rainstorms, earthquakes, or other extreme weather conditions could make it difficult for the Company's customers to travel to its stores and thereby reduce the Company's sales and profitability. The Company's business is also susceptible to unseasonable or extreme weather conditions such as hurricanes. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could result in lower sales and more promotional activity to clear merchandise at the end of the season. Reduced sales from extreme or prolonged unseasonable weather conditions could materially and adversely affect the Company's business and results of operations.

Competition

The Company conducts its retail merchandising business under highly competitive conditions. Although the Company is one of the largest retailers in North America, it has numerous and varied competitors at the international, national and local levels, including conventional and specialty department stores, other specialty stores, mass merchants, value retailers, discounters, digital and mail-order retailers. Competition may intensify as new competitors enter into the markets in which the Company's businesses operate including U.S. competitors entering into the Canadian market, and/or if the Company's competitors enter into business combinations or alliances. Competition is characterized by many factors, including assortment, advertising, price, quality, service, location, digital applications, reputation and credit availability. If the Company does not compete effectively with regard to these factors, its business and results of operations could be materially and adversely affected.

Consumer Trends

The fashion and retail industries are subject to sudden shifts in consumer trends and consumer spending. The Company's sales and operating results depend, in part, on its ability to predict or respond to changes in fashion trends and consumer preferences in a timely manner. The Company develops new retail concepts and continuously adjusts its market positioning in branded and private-label merchandise and product categories in an effort to satisfy customer demand. Any sustained failure to anticipate, identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect on the Company's business and results of operations. Consumers' discretionary spending impacts the Company's sales and may be affected by many factors outside of the Company's control, including general economic conditions, consumer disposable income levels, consumer confidence levels, the availability, cost and level of consumer debt, the costs of basic necessities and other goods and the effects of weather or natural disasters.

Seasonality

The quarterly sales and earnings of the Company are significantly impacted by customer sales patterns. As a result, sales in the fiscal fourth quarter, due to the holiday shopping season, represent a much greater portion of the Company's annual sales volume and a substantial portion of its annual earnings. The Company generates approximately one-third of its sales during the fourth quarter of each fiscal year due to the Christmas and holiday shopping season. See also "Summary of Consolidated Quarterly Results" section of this MD&A.

Selected 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 has been derived from unaudited interim condensed consolidated financial statements, prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, for the thirteen and thirty-nine week periods ended November 3, 2018. The unaudited financial information presented has been prepared on a basis consistent with our audited consolidated financial statements for Fiscal 2017 except for the presentation of Gilt's and HBC Europe's operations as discontinued operations on a retroactive basis to prior reporting periods. 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.

(millions of Canadian dollars except per share amounts)	Thirteen week period ended				Thirty-nine week period ended			
	Nov 3, 2018		*restated* [1] Oct 28, 2017		Nov 3, 2018		*restated* [1] Oct 28, 2017	
	$	% [2]	$	% [2]	$	% [2]	$	% [2]
Earnings results								
Revenue	2,187	100.0%	2,072	100.0%	6,491	100.0%	6,438	100.0%
Cost of sales	(1,326)	(60.6%)	(1,258)	(60.7%)	(3,900)	(60.1%)	(3,934)	(61.1%)
Gross profit	861	39.4%	814	39.3%	2,591	39.9%	2,504	38.9%
Selling, general and administrative expenses	(868)	(39.7%)	(837)	(40.4%)	(2,600)	(40.1%)	(2,600)	(40.4%)
Depreciation and amortization	(128)	(5.9%)	(111)	(5.4%)	(370)	(5.7%)	(341)	(5.3%)
Operating loss	(135)	(6.2%)	(134)	(6.5%)	(379)	(5.8%)	(437)	(6.8%)
Finance costs, net	(53)	(2.4%)	(53)	(2.6%)	(154)	(2.4%)	(143)	(2.2%)
Share of net (loss) earnings in joint ventures	(6)	(0.3%)	(2)	(0.1%)	(37)	(0.6%)	55	0.9%
Dilution gains from investments in joint ventures	2	0.1%	7	0.3%	3	0.0%	10	0.2%
Loss before income tax	(192)	(8.8%)	(182)	(8.8%)	(567)	(8.7%)	(515)	(8.0%)
Income tax benefit	68	3.1%	66	3.2%	162	2.5%	196	3.0%
Net loss for the period – continuing operations	(124)	(5.7%)	(116)	(5.6%)	(405)	(6.2%)	(319)	(5.0%)
Net loss for the period – discontinued operations, net of taxes	(40)	(1.8%)	(127)	(6.1%)	(423)	(6.5%)	(346)	(5.4%)
Net loss for the period	(164)	(7.5%)	(243)	(11.7%)	(828)	(12.8%)	(665)	(10.3%)
Net loss per share [3] — basic and diluted								
Continuing operations	(0.52)		(0.64)		(1.72)		(1.75)	
Discontinued operations	(0.17)		(0.69)		(1.79)		(1.90)	
Weighted average shares outstanding [3] — basic and diluted (millions)	236		183		236		182	
Supplemental information – continuing operations								
Adjusted SG&A [4]	815	37.3%	786	37.9%	2,494	38.4%	2,494	38.7%
EBITDA [4]	(11)	(0.5%)	(18)	(0.9%)	(43)	(0.7%)	(31)	(0.5%)
Adjusted EBITDA [4]	63	2.9%	40	1.9%	151	2.3%	45	0.7%
Adjusted EBITDAR [4]	141	6.4%	121	5.8%	400	6.2%	300	4.7%
Normalized net loss for the period [4]	(96)	(4.4%)	(95)	(4.6%)	(336)	(5.2%)	(313)	(4.9%)
Normalized net loss per share – basic and diluted [3] [4]	(0.41)		(0.52)		(1.42)		(1.72)	
Declared dividend per Common Share	0.01		0.01		0.04		0.04	

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) As a percentage of revenue.

(3) Beginning the fourth quarter of Fiscal 2017, the calculation of net earnings (loss) per share includes the impact of the Convertible Preferred Shares issued to Rhône. This added approximately 53 million shares to the weighted average shares outstanding for the thirteen and thirty-nine week periods ended November 3, 2018, respectively.

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

	Thirteen week period ended		Thirty-nine week period ended	
	Nov 3, 2018	Oct 28, 2017	Nov 3, 2018	Oct 28, 2017
Reported consolidated revenue percentage change	5.6%	(5.1%)	0.8%	(1.0%)
Comparable sales percentage change [(1)]				
Consolidated [(2)]	2.9%	(2.0%)	1.3%	(1.9%)
DSG	0.9%	(3.7%)	(1.2%)	(2.6%)
Saks Fifth Avenue [(3)]	7.3%	1.0%	6.7%	(0.9%)
Saks OFF 5TH [(3)]	(2.3%)	(4.1%)	(4.5%)	(2.4%)
Store information				
Store count [(4)]				
Hudson's Bay	89	89		
Lord & Taylor	48	50		
Saks Fifth Avenue	42	41		
Saks OFF 5TH	133	129		
Home Outfitters	38	50		
Total	350	359		
Gross leasable area/Square footage (thousands) [(4)]				
Hudson's Bay	15,739	15,731		
Lord & Taylor	6,705	6,930		
Saks Fifth Avenue	5,303	5,188		
Saks OFF 5TH	3,998	3,879		
Home Outfitters	1,328	1,753		
Total	33,073	33,481		

Notes:

(1) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months, includes digital sales and clearance store sales and excludes sales related accounting adjustments. Consolidated comparable sales include results for continuing operations. See "Factors Affecting Our Performance – Comparable Sales".

(2) Previously reported comparable sales for Consolidated have been restated to exclude sales related accounting adjustments and the results for discontinued operations.

(3) Previously reported comparable sales for Saks Fifth Avenue and Saks OFF 5TH have been restated to exclude promotional sales related accounting adjustments which were previously included in reported results.

(4) The Company 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.

Balance Sheet Data (millions of Canadian dollars)	**Nov 3, 2018**	**Oct 28, 2017**	**Feb 3, 2018**
	$	$	$
Cash	27	97	70
Trade and other receivables	163	345	388
Inventories [(1)]	3,163	4,070	3,367
Assets held for sale	359	275	263
Assets of discontinued operations held for sale [(2)]	2,963	—	—
Current assets [(3)]	3,933	4,962	4,302
Property, plant and equipment	3,941	5,228	5,155
Intangible assets and goodwill	1,111	1,749	1,629
Investments in joint ventures [(4)]	500	606	602
Total assets	12,979	13,088	12,234
Liabilities of discontinued operations held for sale [(2)]	2,324	—	—
Current liabilities [(5)]	2,141	3,133	2,812
Loans and borrowings (including current portion)	3,898	4,423	2,979
Finance leases (including current portion)	351	535	561
Investment in the RioCan-HBC JV [(4)]	221	44	227
Other liabilities (including current portion) [(6)]	1,914	1,937	2,141
Shareholders' equity	1,713	1,724	2,407

Notes:

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

(2) As at November 3, 2018, HBC Europe's assets and liabilities of discontinued operations held for sale were as follows:

Cash	62
Inventories	830
Trade and other receivables	179
Property, plant and equipment	1,271
Intangible assets	470
Deferred tax assets	60
Other assets	91
Assets of discontinued operations held for sale	2,963
Loans and borrowings	321
Finance leases	190
Trade payables	382
Other payables and accrued liabilities	286
Deferred revenue	19
Provisions	57
Pensions and employee benefits	524
Deferred tax liabilities	28
Other liabilities	517
Liabilities of discontinued operations held for sale	2,324

(3) Excludes assets of discontinued operations held for sale.

(4) See "Real Estate Joint Ventures" section. See also note 11 of the Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine week periods ended November 3, 2018.

(5) Excludes current loans and borrowings of $1,147 million as at November 3, 2018, $1,727 million as at October 28, 2017 and $363 million as at February 3, 2018; current other liabilities of $236 million as at November 3, 2018, $145 million as at October 28, 2017 and $290 million as at February 3, 2018; current finance leases of $29 million as at November 3, 2018, $30 million as at October 28, 2017 and $35 million as at February 3, 2018 and liabilities of discontinued operations held for sale of $2,324 million as at November 3, 2018, nil as at October 28, 2017 and nil as at February 3, 2018.

(6) Includes deferred landlord incentives of $1,130 million as at November 3, 2018, $1,052 million as at October 28, 2017 and $1,113 million as at February 3, 2018 and straight-line rent liabilities of $291 million as at November 3, 2018, $369 million as at October 28, 2017 and $393 million as at February 3, 2018.

Reconciliation tables

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

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

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(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 MD&A.

(3) Certain non-cash items consist of:

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

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

(4) Normalization adjustments consist of:

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

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

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

(5) Rent expense to the joint ventures net of reclassification of rental income related to the Company's ownership interest in the joint ventures (see note 11 to the Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine week periods ended November 3, 2018).

(6) As a result of the presentation of HBC Europe as a discontinued operation, the reclassification of rental income to SG&A related to the Company's ownership in the HBS Joint Venture has been restated to exclude amounts related to rental income from HBC Europe.

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

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

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) Certain non-cash items consist of:

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

(3) Normalization adjustments consist of:

Acquisition and integration related expenses (i)	(5)	(9)	(14)	(16)
Lord & Taylor optimization (i)	(6)	—	(6)	—
Foreign exchange adjustment (i)	(7)	(5)	(14)	24
Restructuring (i)	(14)	(22)	(29)	(89)
Gain on store closures (ii)	—	—	32	—
Data security issue (i)	—	—	(3)	—
White Flint settlement (i)	—	—	—	42
Other	(3)	2	(16)	(13)
	(35)	(34)	(50)	(52)

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

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

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

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

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) Certain non-cash items consist of:

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

(3) Normalization adjustments consist of:

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

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

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

(iii) Represents the net impact of unrealized (gains) losses resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the Company.

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

(v) Net gain on store closures represents lease termination fee income received with respect to two Lord & Taylor stores that closed during the thirteen week period ended May 5, 2018, net of associated costs.

(vi) This represents costs related to the data security issue which occurred during the first quarter of Fiscal 2018 that will not be recoverable under the Company's insurance policies.

(vii) This represents a $42 million ($25 million net of tax) payment received for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall.

(4) As a result of the presentation of HBC Europe as a discontinued operation, the reclassification of rental income to SG&A related to the Company's ownership in the HBS Joint Venture has been restated to exclude amounts related to rental income from HBC Europe.

(5) 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.

(6) All adjustments are tax-effected as appropriate.

(7) 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 MD&A.

Results of Operations – Continuing Operations

Thirteen week period ended November 3, 2018 compared to the thirteen week period ended October 28, 2017

Revenue

Revenue was $2,187 million in the third quarter, an increase of $115 million or 5.6%. The increase was primarily driven by higher comparable sales of approximately $60 million and a positive net foreign exchange impact of $60 million. These increases were partially offset by the negative impact of closed stores of approximately $5 million.

Consolidated comparable sales increased by 2.9% in the third quarter. Comparable sales increased by 7.3% at Saks Fifth Avenue. Comparable sales increased by 0.9% at DSG and decreased by 2.3% at Saks OFF 5TH. Comparable digital sales increased by 8.0%.

Included in comparable sales results for the third quarter are sales related to the annual promotional event ("Bay Days") at the Hudson's Bay business. In Fiscal 2017, this was held in the fourth quarter. Excluding the impact of the Bay Days shift into the third quarter, consolidated comparable sales growth would have been reduced by 170 basis points to 1.2% while comparable sales at DSG would have been negative 2.4%.

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

Gross profit[1]

Gross profit[1] improved by $47 million to $861 million, driven by higher margin rates as well as a positive foreign exchange impact of $23 million. These increases were partially offset by a $3 million inventory reserve related to the planned store closures at Lord & Taylor.

Gross profit as a percentage of revenue improved by 10 basis points to 39.4%. Higher margins were driven predominantly by improved full price and clearance margin rates. Gross profit as a percentage of revenue improved to 39.5% when adjusted for the negative impact of the additional reserve discussed above. For additional discussion see "Factors Affecting Our Performance – Gross Profit".

Selling, general & administrative expenses

SG&A increased by $31 million to $868 million. The increase was primarily related to negative foreign exchange impact of $24 million, one-time costs related to the planned store closures at Lord & Taylor of $6 million, additional investment in digital resources combined with an increase in fulfillment expenses related to the sales growth in this channel shift, higher variable compensation and other smaller items. These increases were offset by an $8 million reduction in one-time restructuring charges, $7 million of savings from the Company's restructuring programs and other smaller items.

Adjusted SG&A[1] increased by $29 million to $815 million. This increase was driven primarily by foreign exchange impacts and higher variable sales costs and increased investment in digital resources as discussed above.

As a percentage of revenue, Adjusted SG&A[1] improved by 60 basis points to 37.3% compared to 37.9% in the prior year. The increase in sales combined with marginally higher Adjusted SG&A[1] dollar, resulted in an improvement to Adjusted SG&A[1] as a percentage of revenue.

Adjusted EBITDAR[1]

Adjusted EBITDAR[1] increased by $20 million to $141 million. This increase can be attributed primarily to higher gross margin dollars, partially offset by nominally higher Adjusted SG&A expenses.

As a percentage of revenue, Adjusted EBITDAR[1] improved by 60 basis points to 6.4% compared to 5.8% in the prior year.

Adjusted EBITDA[1]

Adjusted EBITDA[1] increased by $23 million to $63 million. This increase was primarily due to higher gross margin dollars offset in part by higher Adjusted SG&A expenses. As a percentage of revenue, Adjusted EBITDA[1] improved by 100 basis points to 2.9% compared to 1.9% in the prior year.

Finance costs

Finance costs remained flat at $53 million.

Income tax benefit

Total income tax benefit increased by $2 million to $68 million in the third quarter. The increase in tax benefit is primarily due to adjustments related to the prior year and permanent items in the current year offset in part by a lower effective income tax rate, which declined primarily due to the decrease in the U.S. federal corporate income tax rate (implemented as part of the U.S. tax reform).

Net loss - continuing operations

Net loss from continuing operations increased by $8 million to $124 million. The increase in loss is primarily related to higher SG&A expenses, higher depreciation and amortization expenses and a higher reported loss from the Company's share in the joint ventures, largely driven by the impact of non-cash foreign exchange. These impacts were partially offset by improvements realized in gross profit dollars.

Normalized net loss[1]

Normalized net loss[1] increased by $1 million to $96 million. The increase was primarily driven by the factors outlined above.

Thirty-nine week period ended November 3, 2018 compared to the thirty-nine week period ended October 28, 2017

Revenue

Revenue was $6,491 million, an increase of $53 million or 0.8% compared to the prior year. The increase was primarily driven by higher comparable sales of approximately $86 million and increased sales due to new stores opened over the last year of approximately $16 million. These increases were partially offset by the negative net foreign exchange impact of $25 million and the negative impact of closed stores of approximately $24 million.

Consolidated comparable sales increased by 1.3%. Comparable sales increased by 6.7% at Saks Fifth Avenue and decreased by 1.2% at DSG and 4.5% at Saks OFF 5TH. Comparable digital sales increased by 8.7% over the comparable thirty-nine week period ended October 28, 2017.

Excluding the impact of Bay Days in the third quarter, consolidated comparable sales would be reduced by 50 basis points to 0.8% and comparable sales at DSG would be reduced by 110 basis points at DSG to negative 2.3%.

Gross profit[1]

Gross profit[1] increased by $87 million to $2,591 million, driven by improved margin rates partially offset by a negative foreign exchange impact of $9 million. In addition, during the year, the Company recorded a $19 million inventory reserve related to the planned store closures as part of the Lord & Taylor optimization initiative, and a $4 million charge for markdowns related to the planned closure of two Lord & Taylor stores.

Gross profit[1] as a percentage of revenue improved by 100 basis points to 39.9%. Higher margins were driven by improved full price selling at higher margin rates along with a proportionately higher mix of full price selling versus clearance sales. Gross profit as a percentage of revenue improved by 140 basis points to 40.3% when adjusted for the negative impact of the additional reserves discussed above. For additional discussion see "Factors Affecting Our Performance – Gross Profit".

Selling, general & administrative expenses

SG&A remained flat at $2,600 million. The savings in SG&A expenses were primarily related to $94 million of savings from the Company's restructuring programs, a $60 million reduction in one-time restructuring charges, a $32 million in lease termination income related to the closure of two Lord & Taylor stores in the first quarter and other smaller items. These savings were offset by higher unrealized foreign exchange losses of $38 million on translation of intra-group monetary assets and liabilities, increased variable store costs, as well as additional investments in digital resources combined with an increase in fulfillment expenses related to the sales growth in this channel shift. In addition the prior year period included the positive impact of a $42 million payment received for a favourable verdict with respect to a lawsuit relating to a property at White Flint mall.

Adjusted SG&A[1] also remained flat at $2,494 million. The savings in Adjusted SG&A were driven by the $94 million of savings from the Company's restructuring programs. These savings were offset primarily by increased investment in digital resources and higher store variable costs as discussed above.

As a percentage of revenue, Adjusted SG&A[1] improved by 30 basis points to 38.4% compared to 38.7% in the prior year. The factors described above, combined with the impacts associated with higher comparable sales, resulted in improvement to Adjusted SG&A as a percentage of revenue.

Adjusted EBITDAR[1]

Adjusted EBITDAR[1] increased by $100 million to $400 million. This increase can be attributed primarily to higher gross margin dollars compared to the prior year.

As a percentage of revenue, Adjusted EBITDAR[1] improved by 150 basis points to 6.2% compared to 4.7% in the prior year.

Adjusted EBITDA[1]

Adjusted EBITDA[1] increased by $106 million to $151 million. This increase was as a result of the factors discussed above. As a percentage of revenue, Adjusted EBITDA[1] improved by 160 basis point to 2.3% compared to 0.7% in the prior year.

Finance costs

Finance costs increased by $11 million to $154 million. Interest paid in cash was $142 million compared to $126 million in the prior year. The increase was driven by higher interest costs on short-term and long-term borrowings.

Income tax benefit

Income tax benefit decreased by $34 million to $162 million. This was driven by a lower effective income tax rate, which declined primarily due to the decrease in the U.S. federal corporate income tax rate (implemented as part of the U.S. tax reform).

Net loss - continuing operations

Net loss from continuing operations increased by $86 million to $405 million. The increase is primarily related to a higher reported loss from the Company's share in the joint ventures, which was largely driven by the impact of non-cash foreign exchange, a reduction in the income tax benefit primarity due to decreases in the U.S. federal corporate income tax rates, as well as higher finance costs and depreciation and amortization expenses. These impacts were partially offset by increases in gross profit dollars.

Normalized net loss[1]

Normalized net loss[1] increased by $23 million to $336 million. The increase was primarily driven by the factors outlined above.

Note:

1. 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 MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the "Selected Consolidated Financial Information - Reconciliation Tables" section of this MD&A.

Supplemental Information – Discontinued Operations

HBC Europe Transaction

On September 11, 2018, the Company announced the entry into definitive agreements with SIGNA, a leading European retail and real estate operator, to form a strategic partnership encompassing certain of SIGNA's retail assets, HBC's European retail assets and HBC’s German real estate assets. On November 30, 2018, the Company announced the completion of the combination of the retail operations of HBC Europe and Karstadt and the formation of the companies’ real estate joint venture. HBC Europe’s retail operations were combined with Karstadt’s retail operations under a newly formed retail operating company, in which SIGNA has a 50.01% interest and HBC has a 49.99% interest.

As HBC Europe represents a separate line of business of the Company, revenue, expenses and cash flows related to HBC Europe’s operations have been presented in the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 3, 2018 and in this MD&A as discontinued operations on a retroactive basis. As at November 3, 2018, HBC Europe’s assets and liabilities have been reclassified to assets and liabilities of discontinued operations held for sale and have been recorded at the lower of their carrying value and their fair value less estimated selling costs.

Commencing in the fourth quarter, the newly formed retail operating company will be accounted for under the equity method. The fair value of the Company’s interest in the new retail operating company will be recognized as an investment at the date of close. Subsequently, at each reporting date, the Company will recognize its proportionate share of the new operating company’s net earnings (loss) and the value of the investment will be adjusted to reflect the change. The Company will also have supplementary disclosures in the Company’s consolidated financial statements as required disclosures under an equity method and include supplementary disclosure in the management discussion and analysis, which will include a summary statement of earnings (loss) and a summary balance sheet.

Sale of Gilt

The sale of the Gilt business was completed through two separate transactions, both of which closed during the second quarter of Fiscal 2018. Under the terms of the agreement with Rue La La (“RLL”), which closed on July 9, 2018, RLL acquired certain assets and liabilities of the Gilt business from certain U.S. and Irish subsidiaries of the Company. Under the terms of the second agreement, which closed on July 27, 2018, the Company sold the shares of Gilt Groupe K.K., a Japanese subsidiary of Gilt to Gladd Inc. As Gilt represented a separate line of business of the Company the revenue, expenses and cash flows related to Gilt’s operations have been presented in the unaudited interim condensed consolidated financial statements as discontinued operations on a retroactive basis.

Upon closing of the transactions, the Company received aggregate cash proceeds of $41 million and a promissory note of $2 million, subject to customary adjustments. During the thirty-nine weeks ended November 3, 2018, the Company recognized a net loss on disposal of $55 million which included a purchase price adjustment of $1 million received during the thirteen weeks ended November 3, 2018. The net loss on disposal of Gilt was comprised of the following components:

(millions of Canadian dollars)	**Thirty-nine weeks ended Nov 3, 2018**
Impairment loss	**(81)**
Gain on disposal	**26**
Net loss on disposal	**(55)**

Financial results of the discontinued operations

The combined results related to discontinued operations (Gilt and HBC Europe) were as follows:

	Thirteen week period ended		Thirty-nine week period ended	
(millions of Canadian dollars)	**Nov 3, 2018**	**Oct 28, 2017**	**Nov 3, 2018**	**Oct 28, 2017**
	$	$	$	$
Revenue	974	970	2,888	2,818
Cost of sales	(531)	(510)	(1,591)	(1,489)
Gross profit	443	460	1,297	1,329
Selling, general and administrative expenses	(475)	(501)	(1,506)	(1,485)
Depreciation and amortization	—	(49)	(104)	(139)
Operating loss	(32)	(90)	(313)	(295)
Finance costs, net	(8)	(8)	(29)	(26)
Loss before income tax	(40)	(98)	(342)	(321)
Income tax (expense) benefit	(1)	(9)	—	22
Net loss for the period – HBC Europe	(41)	(107)	(342)	(299)
Net earnings (loss) for the period – Gilt	1	(20)	(81)	(47)
Net loss for the period – discontinued operations	(40)	(127)	(423)	(346)
Supplemental information – discontinued operations				
HBC Europe				
EBITDA [(1)]	(32)	(41)	(209)	(156)
Adjusted EBITDA [(1)]	(39)	(6)	(176)	(22)
Adjusted EBITDAR [(1)]	82	105	187	291
Gilt				
EBITDA [(1)]	1	(3)	(69)	(1)
Adjusted EBITDA [(1)]	—	—	(5)	6
Adjusted EBITDAR [(1)]	—	2	(2)	12

Note:
(1) 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 MD&A.

Results of operations – HBC Europe

The results of operations for HBC Europe form a substantial component of discontinued operations. Included below are some highlights related to the operations of HBC Europe only and do not include the results of operations of Gilt.

Thirteen week period ended November 3, 2018 compared to the thirteen week period ended October 28, 2017

Revenue increased by $4 million to $974 million, compared to $970 million in the prior year. Comparable sales declined 2.1%.

Adjusted EBITDAR decreased by $23 million to $82 million, compared to $105 million in the prior year. The decrease in Adjusted EBITDAR is driven by lower comparable sales and gross profit dollars and higher rent expense, largely driven by new store openings over the last year.

Net loss decreased by $66 million to $41 million, compared to a loss of $107 million in the prior year. The decrease in loss is primarily due to a decrease in the depreciation and amortization and SG&A expenses. Since the classification of HBC Europe’s assets and liabilities as held for sale, no depreciation and amortization was charged.

Thirty-nine week period ended November 3, 2018 compared to the thirty-nine week period ended October 28, 2017

Revenue increased by $70 million to $2,888 million, compared to $2,818 million in the prior year. Comparable sales declined by 4.4%.

Adjusted EBITDAR decreased by $104 million to $187 million, compared to $291 million in the prior year.

Net loss increased by $43 million to $342 million, compared to $299 million in the prior year. The increase in loss was driven by lower gross profit dollars, higher SG&A expenses and lower income tax benefit partially offset by decrease in depreciation and amortization expenses.

Reconciliation tables

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

	Thirteen week period ended		Thirty-nine week period ended	
(millions of Canadian dollars)	**Nov 3, 2018**	**Oct 28, 2017**	**Nov 3, 2018**	**Oct 28, 2017**
	$	$	$	$
Net loss – discontinued operations	**(40)**	(127)	**(423)**	(346)
Finance costs, net	8	9	29	29
Income tax expense (benefit)	1	12	1	(18)
Depreciation and amortization	—	62	115	178
EBITDA [1] – discontinued operations	**(31)**	(44)	**(278)**	(157)
Certain non-cash items [2]	—	—	58	2
Normalization adjustments [3]	(18)	27	10	107
Net rent expense to joint ventures	68	67	204	195
Cash rent to joint ventures	(58)	(56)	(175)	(163)
Total adjustments	(8)	38	97	141
Adjusted EBITDA [1] – discontinued operations	**(39)**	(6)	**(181)**	(16)
Rent adjustments				
Third party rent expense	63	57	191	156
Cash rent to joint ventures	58	56	175	163
Adjusted EBITDAR [1] – discontinued operations	**82**	107	**185**	303

Notes:

(1) 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 MD&A.

(2) Certain non-cash items consist of:

Non-cash pension expense	—	2	—	6
Impairment and other non-cash items [i]	—	(3)	56	(7)
Non-cash share based compensation	—	1	2	3
	—	—	58	2

(i) The amount for the thirty-nine week period ended November 3, 2018 primarily comprised of the net loss on disposal of Gilt.

(3) Normalization adjustments consist of:

Acquisition and integration related expenses [i]	—	—	1	1
Restructuring [ii]	(14)	4	1	25
European expansion [iii]	2	22	8	73
Onerous lease provisions	(4)	—	(4)	9
Other	(2)	1	4	(1)
	(18)	27	10	107

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

(ii) Restructuring includes expected costs associated with the Transformation Plan and programs initiated by HBC Europe to optimize operating efficiencies. In thirteen week period ended November 3, 2018, a portion of accrued expenses was reversed as previously identified restructuring costs were reevaluated based on updated estimates.

(iii) Includes one-time start-up and expansion costs related to HBC Europe's opening of Hudson's Bay and Saks OFF 5TH stores in the Netherlands and Germany.

Summary of Consolidated Quarterly Results

The following table summarizes quarterly financial information of the Company for the past eight quarters.

	Fiscal Quarter Ended							
			restated [(1)]					
(millions of Canadian dollars except per share amounts)	**Nov 3, 2018**	**Aug 4, 2018**	**May 5, 2018**	**Feb 3, 2018**	**Oct 28, 2017**	**Jul 29, 2017**	**Apr 29, 2017**	**Jan 28, 2017**
	$	$	$	$	$	$	$	$
Revenue	2,187	2,160	2,144	3,052	2,072	2,204	2,162	3,056
Net (loss) earnings – continuing operations	(124)	(147)	(134)	197	(116)	(100)	(103)	(14)
Net loss – discontinued operations, net of taxes	(40)	(117)	(266)	(113)	(127)	(101)	(118)	(138)
Net (loss) earnings per share - basic and diluted [(2)]								
Continuing operations	(0.52)	(0.62)	(0.57)	0.92	(0.64)	(0.55)	(0.57)	(0.07)
Discontinued operations	(0.17)	(0.50)	(1.13)	(0.53)	(0.69)	(0.55)	(0.65)	(0.76)
Reported consolidated revenue percentage change – continuing operations	5.6%	(2.0%)	(0.8%)	(0.1%)	(5.1%)	3.2%	(1.1%)	16.8%
Adjusted EBITDA [(3)]								
Continuing operations	63	33	55	216	40	3	2	268
Discontinued operations	(39)	(52)	(90)	101	(6)	13	(23)	136
Adjusted EBITDAR [(3)]								
Continuing operations	141	119	140	303	121	89	90	327
Discontinued operations	82	69	34	225	107	118	78	237
Normalized net earnings (loss) [(3)]								
Continuing operations	(96)	(124)	(116)	30	(95)	(97)	(121)	35
Comparable sales percentage change – Continuing Operations [(3) (4)]								
Consolidated [(5)]	2.9%	(0.4%)	1.6%	(0.5%)	(2.0%)	(0.2%)	(3.6%)	(0.3%)
DSG	0.9%	(3.8%)	(0.6%)	(2.6%)	(3.7%)	(1.7%)	(2.4%)	0.6%
Saks Fifth Avenue [(6)]	7.3%	6.7%	6.0%	3.1%	1.0%	1.9%	(5.2%)	(0.1%)
Saks OFF 5TH [(6)]	(2.3%)	(7.6%)	(3.5%)	(2.0%)	(4.1%)	0.2%	(3.1%)	(5.3%)

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

(2) Net earnings (loss) per Common Share ("EPS") in each quarter is computed using the weighted-average number of Common Shares outstanding during that quarter, while EPS for the full year is computed using the weighted-average number of Common Shares outstanding during the year. Thus, the sum of the four quarters' EPS may not equal the full-year EPS. Beginning the fourth quarter of Fiscal 2017, the calculation of net earnings (loss) per share includes the impact of the Convertible Preferred Shares issued to Rhône. This increased the weighted average share outstanding by approximately 53 million shares for the thirteen week period ending November 3, 2018, 52 million shares for the thirteen week periods ending August 4, 2018 and May 5, 2018 and 31 million shares for the fourteen week period ended February 3, 2018.

(3) 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 MD&A and for the relevant reconciliations of the nearest IFRS measures, please refer to the "Selected Consolidated Financial Information – Reconciliation Tables" section of this MD&A.

(4) The Company calculates comparable sales on a year-over-year basis from stores operating for at least 13 months, includes digital sales and clearance store sales and excludes sales related accounting adjustments. Consolidated comparable sales include results for continuing operations. See "Factors Affecting Our Performance – Comparable Sales".

(5) Previously reported comparable sales for Consolidated have been restated to exclude sales related accounting adjustments and the results for discontinued operations.

(6) Previously reported comparable sales for Saks Fifth Avenue and Saks OFF 5TH have been restated to exclude promotional sales related accounting adjustments which were previously included in reported results.

Real Estate Joint Ventures

The Company's real estate joint ventures were created in 2015 to highlight the value of HBC's real estate and act as additional growth platforms for the Company. HBC's joint ventures consist of premier retail real estate assets in Canada, the United States, and Germany. In Canada, HBC has partnered with RioCan REIT in the RioCan-HBC JV. The RioCan-HBC JV holds ten properties contributed by HBC, and a 50% interest in two mall assets contributed by RioCan REIT. HBC owns 87.5% of this joint venture. The HBS Joint Venture, is a partnership with Simon Properties and third party investors including Ivanhoé Cambridge, Madison International, and a large U.S. pension fund. Prior to the formation of the European Real Estate JV, the HBS Joint Venture held properties in North America and Germany. The HBS Joint Venture continues to hold 42 properties in North America. HBC owns 62.4% of this joint venture.

On October 7, 2018, the HBS Joint Venture distributed to its owners the net assets of the 41 German properties to form the European Real Estate JV. As at November 3, 2018, HBC had a 62.4% interest in the European Real Estate JV. On November 30, 2018, SIGNA acquired a 12.4% interest from HBC and a 37.6% interest held by the other HBS Joint Venture limited partners in the European Real Estate JV, resulting in a 50% interest in the European Real Estate JV for each of HBC and SIGNA. As at November 3, 2018, HBC's 12.4% ownership interest in the European Real Estate JV was reclassified to assets held for sale and was recorded at the lower of its carrying value and its fair value less estimated selling costs.

The acquisition by SIGNA of a 50% interest in 18 additional HBC wholly-owned properties in Germany is expected to close in the fourth quarter of Fiscal 2018 and the acquisition by SIGNA of the Kaufhof location in Cologne and the Carsch-Haus in Duesseldorf, is expected to occur in early Fiscal 2019, subject to customary closing conditions.

The RioCan-HBC JV's board of directors is comprised of four directors, two of whom have been appointed by each of HBC and RioCan. The HBS Joint Venture's board of directors is comprised of five directors, two of whom have been appointed by each of HBC and Simon and one of whom has been appointed by Ivanhoé Cambridge. The European Real Estate JV's advisory board is comprised of six members, three of whom have been appointed by each of HBC and SIGNA. Unanimous Board consent of HBC and RioCan (in the case of the RioCan-HBC JV), HBC, Simon and Ivanhoé Cambridge (in the case of the HBS Joint Venture) and HBC and SIGNA (in the case of the European Real Estate JV) is required for all major operating decisions.

The mandates of the joint ventures are to diversify the portfolios and tenant base of each joint venture creating additional value for the Company's shareholders. Management continues to seek accretive real estate acquisition and sublease opportunities for its real estate joint ventures, HBS Joint Venture and the RioCan-HBC JV, to diversify the asset base and overall credit of each joint venture portfolio. HBC continues to look at ways to structure its real estate joint ventures to facilitate the future public listing of these entities and management believes that further diversification would improve the opportunity to undertake an initial public offering, subject to favorable market conditions.

The Company currently accounts for its ownership in the joint ventures using the equity method of accounting. To provide additional details on the results of these entities, unaudited interim financial statements have been provided in this MD&A as well as summarized in note 11 "Investments in joint ventures" of the Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine week periods ended November 3, 2018.

RioCan-HBC JV

The following provides additional information relating to the RioCan-HBC JV:

Statements of Earnings

	Thirteen week period ended		Thirty-nine week period ended	
(millions of Canadian dollars)	**Nov 3, 2018**	**Oct 28, 2017**	**Nov 3, 2018**	**Oct 28, 2017**
Rental revenue	**27**	27	**82**	82
Rental revenue – recoveries	**2**	2	**6**	6
Property operating costs	**(4)**	(5)	**(9)**	(10)
Operating income	**25**	24	**79**	78
Depreciation and amortization	**(11)**	(11)	**(33)**	(31)
Earnings before finance costs	**14**	13	**46**	47
Finance income	**3**	3	**8**	8
Finance costs	**(8)**	(4)	**(23)**	(12)
Net earnings for the period	**9**	12	**31**	43

Balance Sheets

(millions of Canadian dollars)	**Nov 3, 2018**	**Oct 28, 2017**	**Feb 3, 2018**
Assets			
Cash	**2**	1	3
Accounts receivable and other assets	**1**	9	—
Total current assets	**3**	10	3
Investment properties	**1,681**	1,711	1,703
Finance lease receivables	**149**	146	147
Total assets	**1,833**	1,867	1,853
Liabilities			
Loans and borrowings	**359**	7	446
Accounts payable and accrued liabilities	**3**	3	4
Deferred revenue	**8**	—	8
Total current liabilities	**370**	10	458
Loans and borrowings	**414**	581	338
Total liabilities	**784**	591	796
Total partners' equity	**1,049**	1,276	1,057
Total liabilities and partners' equity	**1,833**	1,867	1,853

Statements of Cash Flows

(millions of Canadian dollars)	Thirty-nine week period ended Nov 3, 2018	Oct 28, 2017
Operating activities		
Net earnings for the period	**31**	43
Finance costs	**23**	12
Finance income	**(8)**	(8)
Earnings before finance costs	**46**	47
Cash interest paid	**(24)**	(13)
Proceeds from finance lease receivables	**6**	6
Items not affecting cash flows:		
Depreciation and amortization	**33**	31
Non-cash rental income	**(10)**	(12)
Changes in working capital	**(1)**	(1)
Net cash inflow from operating activities	**50**	58
Investing activities		
Capital expenditures and tenant incentives paid	**(2)**	—
Net cash outflow for investing activities	**(2)**	—
Financing activities		
Long-term loans and borrowings:		
Issuance	**82**	45
Repayments	**(91)**	(2)
Borrowing costs	**(1)**	—
	(10)	43
Contributions received	**7**	2
Return of capital to partners	**—**	(45)
Distributions paid	**(46)**	(59)
Net cash outflow for financing activities	**(49)**	(59)
Decrease in cash	**(1)**	(1)
Cash at beginning of year	**3**	2
Cash at end of period	**2**	1

HBS Joint Venture and European Real Estate JV

The HBS Joint Venture includes financial results related to the 41 German properties up to the distribution date of October 7, 2018. The European Real Estate JV includes financial results of these properties during the period from October 7, 2018 (date of formation) to November 3, 2018. In order to improve comparability against prior periods, the Company has presented the financial results for the HBS Joint Venture and the European Real Estate JV for the thirteen and thirty-nine week periods ended November 3, 2018, as well as the financial positions as at November 3, 2018 on a combined basis.

For the combined basis reporting, the financial results of the 41 German properties which are included in the HBS Joint Venture reporting have not been presented as discontinued operations as is required under IFRS. For further details, please refer to note 5 "Discontinued Operations" of the Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine week periods ended November 3, 2018.

Combined Statements of Net Earnings and Comprehensive Income

	Thirteen week period ended			
	Nov 3, 2018			**Oct 28, 2017**
(millions of U.S. dollars)	**HBS Joint Venture**	**European Real Estate JV**	**Combined**	**HBS Joint Venture**
Rental revenue	67	17	**84**	**86**
Rental revenue – recoveries	5	1	**6**	**4**
Property operating costs	(4)	—	**(4)**	**(4)**
Operating income	68	18	**86**	**86**
General and administrative expenses	(1)	—	**(1)**	**(1)**
Foreign exchange losses [1]	(6)	—	**(6)**	**(8)**
Depreciation and amortization	(18)	(3)	**(21)**	**(21)**
Finance costs	(20)	(5)	**(25)**	**(23)**
Earnings before income taxes	23	10	**33**	**33**
Income tax expense	(3)	(2)	**(5)**	**(3)**
Net earnings for the period	20	8	**28**	**30**
Other comprehensive income				
Currency translation adjustment	3	—	**3**	**1**
Total comprehensive income	23	8	**31**	**31**

(millions of U.S. dollars)	Thirty-nine week period ended			
	Nov 3, 2018			Oct 28, 2017
	HBS Joint Venture	European Real Estate JV	Combined	HBS Joint Venture
Rental revenue	239	17	**256**	**248**
Rental revenue – recoveries	15	1	**16**	**13**
Property operating costs	(10)	—	**(10)**	**(9)**
Operating income	244	18	**262**	**252**
General and administrative expenses	(4)	—	**(4)**	**(4)**
Foreign exchange (losses) gains [1]	(46)	—	**(46)**	**47**
Depreciation and amortization	(59)	(3)	**(62)**	**(63)**
Finance costs	(66)	(5)	**(71)**	**(66)**
Earnings before income taxes	69	10	**79**	**166**
Income tax expense	(13)	(2)	**(15)**	**(10)**
Net earnings for the period	56	8	**64**	**156**
Other comprehensive income (loss)				
Currency translation adjustment	5	—	**5**	**(9)**
Total comprehensive income	61	8	**69**	**147**

Note:
(1) Represents the foreign exchange (losses) gains on the translation of Euro denominated monetary asset and liability balances related to the overall tax and legal structure of the joint venture.

Combined Balance Sheets

(millions of U.S. dollars)	Nov 3, 2018 HBS Joint Venture	Nov 3, 2018 European Real Estate JV	Nov 3, 2018 Combined	Oct 28, 2017 HBS Joint Venture	Feb 3, 2018 HBS Joint Venture
Assets					
Cash	**10**	**37**	**47**	14	41
Trade and other receivables	**—**	**2**	**2**	13	16
Total current assets	**10**	**39**	**49**	27	57
Investment properties	**1,623**	**2,314**	**3,937**	4,011	4,181
Intangible assets	**—**	**50**	**50**	53	56
Other assets	**—**	**15**	**15**	16	17
Total assets	**1,633**	**2,418**	**4,051**	4,107	4,311
Liabilities					
Loans and borrowings	**150**	**—**	**150**	150	150
Deferred revenue	**10**	**16**	**26**	—	26
Finance leases	**—**	**1**	**1**	1	1
Other payables and accrued liabilities	**10**	**83**	**93**	87	102
Total current liabilities	**170**	**100**	**270**	238	279
Loans and borrowings	**687**	**1,512**	**2,199**	2,223	2,338
Deferred tax liabilities	**—**	**209**	**209**	211	228
Finance leases	**—**	**16**	**16**	17	18
Other liabilities	**—**	**95**	**95**	101	106
Total liabilities	**857**	**1,932**	**2,789**	2,790	2,969
Total members' equity	**776**	**486**	**1,262**	1,317	1,342
Total liabilities and members' equity	**1,633**	**2,418**	**4,051**	4,107	4,311

Combined Statements of Cash Flows

(millions of U.S. dollars)	Thirty-nine week period ended			
	Nov 3, 2018			Oct 28, 2017
	HBS Joint Venture	European Real Estate JV	Combined	HBS Joint Venture
Operating activities				
Net earnings for the period	56	8	**64**	**156**
Income tax expense	13	2	**15**	**10**
Finance costs	66	4	**70**	**66**
Earnings before finance costs and income taxes	135	14	**149**	**232**
Interest paid in cash	(69)	—	**(69)**	**(67)**
Items not affecting cash flows:				
Depreciation and amortization	59	3	**62**	**63**
Foreign exchange losses (gains)	46	—	**46**	**(47)**
Non-cash rental income	(31)	(2)	**(33)**	**(36)**
Changes in operating working capital	(5)	—	**(5)**	**(13)**
Net cash inflow from operating activities	135	15	**150**	**132**
Investing activities				
Tenant incentives paid	—	—	**—**	**(23)**
Net cash outflow for investing activities	—	—	**—**	**(23)**
Financing activities				
Payments on finance leases	(1)	—	**(1)**	**(1)**
Contributions received	—	—	**—**	**23**
Distributions paid	(127)	(13)	**(140)**	**(130)**
Net cash outflow for financing activities	(128)	(13)	**(141)**	**(108)**
Foreign exchange loss on cash	(3)	—	**(3)**	**—**
Increase in cash	4	2	**6**	**1**
Cash at beginning of year	41	—	**41**	**13**
Distribution of net assets of 41 German properties	(35)	35	**—**	**—**
Cash at end of period	10	37	**47**	**14**

Outlook

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

Liquidity and Capital Resources

Cash Flows

Total cash, including restricted cash, is managed to remain at minimal levels by drawing on or repaying the Company's revolving credit facilities. The Company's liquidity and capital resources are primarily impacted by: (i) current cash and cash equivalents; (ii) operating activities; (iii) investing activities; and (iv) financing activities. The following table summarizes cash flows by activity:

	Thirteen week period ended					
				restated (1)		
(millions of Canadian dollars)	**Nov 3, 2018**			**Oct 28, 2017**		
	Continuing Operations	**Discontinued Operations**	**Total**	**Continuing Operations**	**Discontinued Operations**	**Total**
	\$	\$	\$	\$	\$	\$
Operating activities	(173)	(235)	(408)	(106)	(274)	(380)
Investing activities	67	(31)	36	(53)	(55)	(108)
Financing activities	157	241	398	511	(41)	470
Foreign exchange (losses) gains on cash	(1)	—	(1)	3	—	3
Increase (decrease) in cash	50	(25)	25	355	(370)	(15)
Transfer from continuing operations	(57)	57	—	(370)	370	—
Cash at beginning of year	26	38	64	112	—	112
Cash at end of period	19	70	89	97	—	97

	Thirty-nine week period ended					
				restated (1)		
(millions of Canadian dollars)	**Nov 3, 2018**			**Oct 28, 2017**		
	Continuing Operations	**Discontinued Operations**	**Total**	**Continuing Operations**	**Discontinued Operations**	**Total**
	\$	\$	\$	\$	\$	\$
Operating activities	(403)	(566)	(969)	(322)	(516)	(838)
Investing activities	29	(68)	(39)	(238)	(219)	(457)
Financing activities	705	321	1,026	1,064	202	1,266
Foreign exchange gains on cash	1	—	1	4	—	4
Increase (decrease) in cash	332	(313)	19	508	(533)	(25)
Transfer from continuing operations	(383)	383	—	(533)	533	—
Cash at beginning of year	70	—	70	122	—	122
Cash at end of period	19	70	89	97	—	97

Notes:

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations. For more information, please refer to the "Supplemental Information – Discontinued Operations" section of this MD&A.

Net Cash Flow - Operating Activities from Continuing Operations

Net cash outflows for operating activities from continuing operations was $173 million compared to $106 million for the thirteen week period ended October 28, 2017. The $67 million increase in the outflow of cash was primarily due to higher investments in working capital.

Net cash outflow for operating activities from continuing operations was $403 million for the thirty-nine week period ended November 3, 2018 compared to $322 million for the thirty-nine week period ended October 28, 2017, an increase in outflow of $81 million, primarily due to higher investments in working capital.

Net Cash Flow - Investing Activities from Continuing Operations

For the thirteen week period ended November 3, 2018, net cash inflow from investing activities from continuing operations was $67 million compared to an outflow of $53 million for the thirteen week period ended October 28, 2017. The $120 million increase in inflow was primarily due to the $152 million landlord incentive received with respect to Oakridge Amendment, partly offset by the absence of a return of capital from the RioCan-HBC JV, which was received in the prior year period.

Net cash inflow from investing activities from continuing operations was $29 million for the thirty-nine week period ended November 3, 2018 compared to a cash outflow of $238 million for the thirty-nine week period ended October 28, 2017, an increase in inflow of $267 million, primarily due to the receipt of the Oakridge Amendment landlord incentive, $41 million of proceeds received for the sale of Gilt, the second deposit in the amount of $33 million received with respect to the Lord & Taylor Fifth Avenue building, $26 million received with respect to a lease termination and lower capital investments. These increases were partially offset by the absence of the return of capital noted above.

Net Cash Flow - Financing Activities from Continuing Operations

For the thirteen week period ended November 3, 2018, net cash inflow from financing activities from continuing operations was $157 million compared to $511 million for the thirteen week period ended October 28, 2017. The $354 million decrease was primarily due to a net decrease in short-term borrowings.

Net cash inflow from financing activities from continuing operations was $705 million for the thirty-nine week period ended November 3, 2018 compared to $1,064 million for the thirty-nine week period ended October 28, 2017, a decrease in inflow of $359 million also primarily due a net decrease in short-term borrowings.

Net Cash Flow - Discontinued Operations

For the thirteen week period ended November 3, 2018, net cash outflow from discontinued operations was $25 million compared to $370 million for the thirteen week period ended October 28, 2017. The $345 million net decrease in outflow was primarily due to a net increase in short-term borrowings, higher investments in working capital and lower capital investments partially offset by lower landlord incentives.

Net cash outflow from discontinued operations was $313 million for the thirty-nine week period ended November 3, 2018 compared to $533 million for the thirty-nine week period ended October 28, 2017, a decrease in outflow of $220 million, primarily due to a net increase in short-term borrowings, lower capital investments and lower investments working capital, partially offset by an increase in operating loss.

Cash Balances and Liquidity

The Company's primary needs for cash are to fund: (i) operations; (ii) capital expenditures in connection with our new store opening and renovation programs, technology investments and strategic initiatives; (iii) seasonal inventory purchases and other working capital requirements; (iv) debt service and (v) acquisitions and strategic partnerships. Working capital requirements are at their highest in the latter half of the fiscal year as inventory builds through the fall, peaking just before the holiday selling season.

The Company's primary sources of funds are cash flows provided by operations, landlord incentives, the Company's asset-based revolving credit facility ("Global ABL"), and mortgage backed real estate financing. Other potential sources of funding may include, among others, new corporate loans and mortgages, the sale and leaseback of real estate properties, selling real estate, selling other company assets and investments or the issuance of equity. The availability of funding sources is dependent, among other factors, on economic conditions, capital markets and the Company's financial condition.

The Company may consider additional acquisitions of, and investments in, retail businesses, real estate and other complimentary assets or companies. Transactions, if any, are expected to be financed through a combination of the following sources: cash on hand, borrowing under existing or new credit facilities and the issuance of long term debt or other securities, including equity securities such as Common Shares or preferred shares.

During the third quarter of Fiscal 2018, the Board of Directors determined that the Company met the requirements to qualify as a "foreign private issuer" under applicable U.S. securities laws and the rules of the United States Securities and Exchange Commission (the "SEC"). In the event the Company does not meet the requirements to qualify as a "foreign private issuer" in the future, the Company's ability to issue unrestricted equity on a public offering basis may be limited. Given other potential available sources of capital and liquidity (including, for example, asset and/or property sales, debt and/or mortgage financing, or equity issuances on a private placement basis), the Company does not currently anticipate that a loss of foreign private issuer status could adversely affect its business or financial condition. As a result of the equity investment by Rhône and the Company's obligation under the Rhône Investor Rights Agreement, the Company currently expects to register its securities with the SEC (under the multi-jurisdictional disclosure system) in connection with the expiry of the lock-up period under such agreement.

Funding Capacity

The Company anticipates that it will be able to satisfy its working capital requirements, planned capital expenditures and debt service requirements with proceeds from cash flows from operations, short-term trade credit, seasonal borrowings under its Global ABL revolving credit facilities and other sources of financing. The Company expects to generate sufficient cash flow from operating activities to sustain current levels of operations.

Management believes that there is not a significant risk of default and/or arrears on lease payments, interest or principal payment of debt, or of a breach of debt covenants.

There is no provision in debt, lease, or other arrangements that could trigger an additional funding requirement for the Company. There are no legal or practical restrictions on the ability of subsidiaries to transfer funds to the Company that would affect the ability to meet its obligations as and when they fall due.

As at November 3, 2018, the Company had approximately $1.1 billion in availability under the Global ABL, of which approximately $300 million is related to the European sub-facilities, compared to $0.8 billion in the prior year.

The amounts outstanding and the availability under the Global ABL were as follows:

(millions of Canadian dollars)	**Nov 3, 2018**	Oct 28, 2017	Feb 3, 2018
Gross borrowing base availability	**2,950**	2,897	2,435
Drawings [(1)]	**(1,461)**	(1,741)	(375)
Outstanding letters of credit [(1)]	**(371)**	(330)	(332)
Borrowing base availability net of drawings and letters of credit [(1)]	**1,118**	826	1,728

(1) As at November 3, 2018, drawings included $312 million which are included in liabilities of discontinued operations held for sale. Outstanding letters of credit included $285 million in letters of credit issued by the Company with respect to HBC Europe. Borrowing base availability net of drawings and letters of credit included $91 million with respect to HBC Europe.

In connection with the merger of HBC's European retail operations with Karstadt's retail operations on November 30, 2018, the German and Dutch subfacilities of the Global ABL were terminated, which resulted in a reduction of the borrowing line from U.S.$2.25 billion to U.S.$1.94 billion. The Global ABL's borrowing line of U.S. $1.94 billion now consists of a U.S. subfacility and a Canadian subfacility.

Subsequent to the quarter end, the Company closed the combination of the retail operations of HBC Europe and Karstadt and the formation of the companies' real estate joint venture and used the proceeds to repay U.S.$175 million in U.S. term loan borrowings. The Company, expects to generate total additional proceeds of $1.1 billion by the end of the fiscal year from the partial sale of HBC's German real estate assets and the close of the Lord & Taylor flagship building sale. With these proceeds Management expects to fully repay the existing mortgage on the property and end the fiscal year with no outstanding borrowings on the Company's Global ABL facility, enhancing the Company's overall liquidity.

Please refer to the Company's management's discussion and analysis for the fourteen and fifty-three weeks ended February 3, 2018 for additional details regarding the Company's current and legacy credit facilities and loans.

Contractual Obligations

The Company has a number of obligations related to leases, lease guarantees, loans and borrowings, procurement obligations, pensions and other obligations. As of November 3, 2018, except as disclosed elsewhere in this MD&A, there were no material changes to the Company's contractual obligations compared to those identified at year-end. For a complete description of the contractual obligations of the Company, please refer to the management's discussion and analysis for the fourteen and fifty-three weeks ended February 3, 2018.

In 2008, the Company assigned nine leases to Les Ailes de la Mode, Inc. ("Les Ailes") and obtained a full, unconditional and continuing guarantee and indemnity for the obligations thereunder from its related company, International Clothiers Inc. ("ICI"). As of February 3, 2018, these leases had future minimum lease payments of $4 million. In December 2015, Les Ailes filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. The Quebec Superior Court has approved a Debtors Proposal with respect to the Les Ailes bankruptcy proceeding. On March 28, 2016, ICI filed a notice of intention to make a proposal under section 50.4 of the Bankruptcy and Insolvency Act. On June 6, 2016, the proposal trustee for ICI filed a Proposal in the ICI bankruptcy proceeding, which was approved by a majority of its creditors. In August 2016, the Quebec Superior Court approved a Debtors Proposal with respect to the ICI bankruptcy proceedings. HBC has filed a Proof of Claim under the ICI proposal, but anticipates minimal, if any, recovery. The Company currently believes that the maximum claim against it with respect to these leases is approximately $10 million.

Included in the Company's lease agreements guarantees as at November 3, 2018 are $52 million with respect to remaining obligations on six leases that the Company guaranteed as part of the sale of the Northern Department Store Group to The Bon-Ton Stores, Inc. ("Bon-Ton") in 2006 (the "Bon-Ton Lease Guarantees"). The terms of the Bon-Ton Lease Guarantees can extend up to the year 2024. On February 4, 2018, Bon-Ton filed voluntary petitions for a court-supervised financial restructuring under Chapter 11 of the United States Bankruptcy Code and, on April 11, 2018, the bankruptcy court entered an order authorizing the debtor's liquidation. The debtor has rejected all of the guaranteed leases. The landlords have brought suit in either New York or Illinois state courts seeking recovery under the guarantees. The Company is contesting the suits on procedural and substantive grounds, and is pursuing available paths to mitigate its exposure under the Bon-Ton Lease Guarantees. An amount of $32 million was accrued in the audited consolidated financial statements for Fiscal 2017, which represents the Company's best estimate of the potential future obligation with respect to these guarantees as at November 3, 2018.

Guarantees and Off-Balance Sheet Arrangements

The Company has guarantees and general indemnification commitments to counterparties. Historically, the Company has not made any significant payments with respect to these guarantees and indemnification provisions and management believes that the risk of significant loss is low.

Standby and documentary letters of credit are used in connection with certain obligations mainly related to purchase orders and Workers Compensation Collateral requirements. The aggregate gross potential liability related to the Company's letters of credit was $371 million as at November 3, 2018, of which $285 million related to discontinued operations with respect to HBC Europe.

Other than in connection with the joint ventures (including a related entity), the Company has not created, and is not party to, any special purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating its business. The Company does not have any relationships or arrangements with entities that are not consolidated into its financial statements that are reasonably likely to materially affect liquidity or the availability of capital resources. The joint ventures are accounted for using the equity method of accounting. As a result, indebtedness at the joint ventures is not consolidated in the Company's balance sheet. See the "Real Estate Joint Ventures" section of this MD&A.

Financial Instruments

The Company utilizes certain derivatives as cash flow hedges for its exposure to foreign currency risk and interest rate risk. The effective portion of the changes in the fair value of the hedging derivatives, net of taxes, is recognized in other comprehensive income (loss).

The Company enters into forward foreign exchange contracts to fix the cost in Canadian dollars of certain U.S. dollar based purchases of merchandise from foreign suppliers. These forward exchange contracts are designated as cash flow hedges and are reported at fair value in financial assets or financial liabilities. Once the inventory is recorded, the Company has elected to reclassify the related accumulated other comprehensive income or loss amount to merchandise inventories. Subsequent changes in the fair value of the forward foreign exchange contracts are recorded in net earnings (loss).

Derivative financial instruments not designated within an effective hedging relationship and embedded derivatives are classified as fair value though profit or loss and measured at fair value with any changes in their fair values recognized in net earnings (loss) during the period in which the change occurs. Short-term deposits, which are measured at amortized cost using the effective interest method, are classified as amortized cost. All other financial assets are also classified as amortized costs and are measured at amortized cost using the effective interest method. Interest income and expense are included in finance costs.

All other financial liabilities are classified amortized costs and measured at amortized cost using the effective interest method. Interest income and expense are included in finance costs.

The Company determines the fair value of its long-term loans and borrowings using either quoted prices for identical or similar securities or a discounted cash flow model that uses current market interest rates for items of similar risk.

The fair values of interest rate swaps, forward foreign currency contracts and warrants reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date, and are determined using valuation techniques based on observable market input data. The fair values of embedded foreign currency derivatives reflect the estimated amounts the Company would receive or pay to settle forward foreign exchange contracts with similar terms using valuation techniques and observable market input data.

In connection with the Saks Acquisition, the Company issued Common Share purchase warrants which, due to certain features, were being presented as financial liabilities. The warrants were classified as fair value through profit or loss and measured at fair value. Subsequent changes in the fair value were recognized in net earnings or loss in the period in which the change occurs. The fair values of the warrants were determined using the Black-Scholes option pricing model. The remaining outstanding warrants expired on November 4, 2018. For a complete description of the derivative financial instruments of the Company and related risks, please refer to note 17 to the Company's audited consolidated financial statements for Fiscal 2017.

Tax Matters

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that there are no tax matters that will have a material adverse effect on its liquidity, consolidated financial position or results of operations because the Company believes that it has adequate provisions for any tax matters. Should the ultimate tax liability materially differ from the provisions, the Company's effective tax rate and its earnings or loss could be affected, positively or negatively, during the period in which the matters are resolved.

Related Party Transactions

Transactions between HBC and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed herein. Details of certain transactions with other related parties are disclosed below. For further disclosure, see note 17 of the Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 3, 2018.

The Company has entered into an agreement to sell the Lord & Taylor Fifth Avenue building to WPA which holds an interest in the Convertible Preferred Shares held by Rhône.

Excluding returns of capital and distributions received (see note 11 of the Company's unaudited interim condensed consolidated financial statements for the Fiscal 2018), transactions with the RioCan-HBC JV, the HBS Joint Venture and the European Real Estate JV comprised the following:

	Thirteen week period ended		**Thirty-nine week period ended**	
(millions of Canadian dollars)	**Nov 3, 2018**	**Oct 28, 2017**	**Nov 3, 2018**	**Oct 28, 2017**
Management agreements reimbursement	**—**	—	**1**	—
Rent expense - continuing operations	**67**	65	**199**	201
Rent expense - discontinued operations	**71**	70	**217**	206

Balances due from (to) the the RioCan-HBC JV, the HBS Joint Venture and the European Real Estate JV are comprised of:

	RioCan-HBC JV			**HBS Joint Venture**			**European Real Estate JV (1)**
(millions of Canadian dollars)	**Nov 3, 2018**	**Oct 28, 2017**	**Feb 3, 2018**	**Nov 3, 2018**	**Oct 28, 2017**	**Feb 3, 2018**	**Nov 3, 2018**
Prepaid rents (included in other current assets)	**9**	2	7	**13**	—	32	20
Receivables (included in trade and other receivables)	**—**	—	—	**1**	16	16	4
Payables (included in other current liabilities)	**—**	—	—	**—**	(3)	(4)	—
Loans payable (included in other current liabilities)	**—**	—	—	**—**	(12)	(12)	—

(1) Prepaid rents and receivables related to the European Real Estate JV were reclassified to assets of discontinued operations held for sale as of November 3, 2018.

In addition, included in other current liabilities as at October 28, 2017 were promissory notes in the aggregate amount of $12 million to both RioCan-HBC JV and RioCan ($6 million each) which pertained to a tenant improvement advance from the joint venture to the Company. The promissory notes were interest-free and were fully settled during the fourth quarter of fiscal 2017 as HBC had satisfied its tenant improvement commitment.

All of the above amounts have been recorded at the exchange value of the transaction.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's audited consolidated financial statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are described in note 2 of the Fiscal 2017 audited consolidated financial statements.

The preparation of these financial statements requires management to make judgments, estimates and assumptions that are not readily apparent from other sources about the carrying amounts of assets and liabilities and reporting of income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ materially from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized during the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are certain critical judgments and estimations that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the audited consolidated financial statements (see note 3 to the Company's audited consolidated financial statements for Fiscal 2017):

- Inventory valuation;
- Loyalty programs;
- Impairment and reversal of impairment of long-lived assets;
- Impairment of goodwill and indefinite lived intangible assets;
- Income taxes;
- Pensions and employee benefits;
- Valuation of warrants;
- Business combinations and
- Joint ventures

Changes in Accounting Policies Including Initial Adoption

Accounting Standards Implemented in Fiscal 2018

Revenue

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers ("IFRS 15"), which provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and was applied for the first time by the Company in the first quarter of Fiscal 2018.

The Company adopted IFRS 15 using the modified retrospective method with the cumulative effect of any adjustments recognized in the opening balance of retained earnings as of February 4, 2018. Comparative information has not been restated and continues to be reported under previous accounting standards. IFRS 15 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Company made use of a practical expedient and elected to apply IFRS 15 retrospectively only to contracts that are not completed contracts as at February 4, 2018.

After completing the analysis of its significant customer contracts, the Company has determined that the implementation of IFRS 15 did not result in any adjustments to the opening balance of deficit or to the presentation of the Company's condensed consolidated interim balance sheet.

As a result of adopting IFRS 15, the Company updated its accounting policies for the recognition of revenue as set out below.

Retail merchandise sales

Revenue consists of sales through retail stores of the banners operated by the Company and includes sales through the Company's e-commerce ("Digital Commerce") operations. Merchandise sales through retail stores are recognized at the time of delivery to the customer which is generally at the point of sale when control of the goods has transferred from the Company to the customer. Merchandise sales through Digital Commerce are recognized upon estimated receipt by the customer.

It is the Company's policy to sell merchandise to the customer with a right to return within a specified period. Accumulated experience is used to estimate and provide for such returns. Where it is determined that the Company acts as an agent rather than a principal in a transaction, revenue is recognized to the extent of the commission.

Gift card breakage

Through its retail stores, websites and selected third parties, the Company sells gift cards that have no administrative fee charges or expiration dates. No revenue is recognized at the time gift cards are sold. Revenue is recognized as a merchandise sale when the gift card is redeemed by the customer.

The Company also recognizes income when it is considered highly probable that a gift card will not be redeemed by the customer ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns and is recognized in proportion to the redemption of gift card balances.

Loyalty programs

Award credits are accounted for as a separate component of the sales transaction in which they are granted. As a result, the consideration received is allocated between the loyalty awards and the goods and services on which the awards were earned, based on their relative stand-alone selling prices. The amount allocated to the loyalty points is recorded as deferred revenue until the award credits are redeemed by the customer. The points expected to be redeemed are based on many factors, including an actuarial review, where required, of customers' past experience and trends.

Financial Instruments

In July 2014, the IASB issued IFRS 9 - Financial Instruments ("IFRS 9"), which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 and the related consequential amendments to IFRS 7 - Financial Instruments: disclosures are effective for annual periods beginning on or after January 1, 2018 and were applied for the first time by the Company in the first quarter of Fiscal 2018.

As permitted by the transitional provision of IFRS 9, the Company elected not to restate comparative figures. Adjustments to the carrying amount of financial assets and financial liabilities at the date of transition were recognized in the opening deficit of the current period. Accordingly, the information presented in these interim financial statements for the prior year does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented in the current period under IFRS 9.

The impact of implementing IFRS 9 on the carrying amounts of the Company's financial assets and financial liabilities is related to a prior period modification of the Company's U.S. Term Loan B, which at the time of modification did not result in the derecognition of that loan. Under IFRS 9, this modification reduces the carrying value of U.S. Term Loan B resulting in the recognition of a $15 million modification gain, which has been recognized in the opening deficit of the current period.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their contractual cash flow characteristics. Financial assets are classified and measured based on these categories: amortized cost, fair value through other comprehensive income, and fair value through profit or loss. Financial liabilities are classified and measured based on two categories: amortized cost or fair value through profit and loss. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at February 4, 2018.

Asset/Liability	Original classification under IAS 39	New classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Short-term deposits	Held-to-maturity	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Trade payables and other liabilities	Other liabilities	Amortized cost
Loans and borrowings	Other liabilities	Amortized cost
Derivatives, not in a hedging relationship	Fair value through profit or loss	Fair value through profit or loss

Financial assets are not reclassified subsequent to their initial recognition, unless the Company identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (“ECL”) model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income or loss, except for investments in equity instruments. The new ECL model will result in an allowance for credit losses being recorded on financial assets irrespective of whether there has been an actual loss event.

The Company’s financial assets at amortized cost consist of trade and other receivables, cash, restricted cash and short-term deposits.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12 month ECLs: These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: These are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company applied the practical expedient to determine ECLs for its trade receivables based on historical credit loss experiences to estimate lifetime ECLs.

The Company determined that the initial application of IFRS 9’s impairment requirements at February 4, 2018 resulted in no additional recorded impairment allowance.

Hedge accounting

As permitted by IFRS 9, the Company has elected to continue applying the hedge accounting requirements of IAS 39 instead of the requirements set out in IFRS 9. This election applies to all of the Company’s hedging relationships.

New accounting standard not yet implemented

Leases

In January 2016, the IASB issued the final publication of IFRS 16 – Leases (“IFRS 16”), which is to replace the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach under IFRS 16 substantially unchanged from the current IAS 17 lease accounting standard and related interpretations. IFRS 16 is effective for periods beginning on or after January 1, 2019. The Company is currently assessing the impact the adoption of this standard will have on the Company’s financial statements, related disclosures and processes. The Company has contracted third party advisors to assist with the implementation of this standard along with implementing a separate system to facilitate the identification, tracking and reporting of leases based on the requirements of the new lease standard. Although the Company is still in the process of assessing the potential impact of IFRS 16, it expects this standard will have a significant impact on its consolidated balance sheet, along with a change to the recognition, measurement and presentation of lease expenses in the consolidated statement of earnings (loss).

Uncertain Tax Positions

In June 2017, the IASB issued IFRS Interpretations Committee Interpretation 23 – Uncertainty over Income Tax Treatments (“IFRIC 23”), which is effective for annual periods commencing on or after January 1, 2019. The interpretation provides guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept a company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. The Company is assessing the potential impact of IFRIC 23.

Management's Report on Internal Controls over Financial Reporting

National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filing requires public companies in Canada to submit interim and annual certificates relating to the design (quarterly) and effectiveness (annual) of the internal control over financial reporting and disclosure controls and procedures that are in use at the Company.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Governor and Executive Chairman, the CEO and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company's management, under the supervision of the CEO and the CFO, has designed and maintained a set of disclosure controls and procedures to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls over Financial Reporting

The CEO and the CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the thirteen week period ended November 3, 2018, that have affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional Information

Additional information relating to the Company, including the most recently filed AIF dated May 4, 2018, is available on SEDAR at www.sedar.com.

Dividends

The Company's board of directors approved the payment of a quarterly dividend on December 4, 2018, which will be paid on January 15, 2019, to shareholders of record at the close of business on December 31, 2018. The dividend will be in the amount of $0.0125 per Common Share and was designated as an "eligible dividend" for Canadian tax purposes. The declaration of dividends is at the discretion of the Company's board of directors.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. As of December 4, 2018, the Company had 183,305,219 Common Shares issued and outstanding and 50,919,608 Convertible Preferred Shares issued and outstanding, which are convertible into 53,778,265 Common Shares as of such date. As of December 4, 2018, the Company had 16,442,225 share options and 7,280,504 restricted share units outstanding, all of which are convertible or exchangeable into Common Shares. The Company's Common Shares trade on the Toronto Stock Exchange under the symbol "HBC" and began trading on November 20, 2012.

Voting Rights of Convertible Preferred Shares

The holders of the Convertible Preferred Shares are entitled to receive notice of, attend and vote (in person or by proxy) at all meetings of the shareholders of the Company. Each Convertible Preferred Shares will be entitled to a single vote. Each holder of Convertible Preferred Shares shall be deemed to hold, for the sole purpose of voting at any meeting of shareholders of the Company at which such holder is entitled to vote, the number of Convertible Preferred Shares equal to the number of whole Common Shares into which such holder's registered Convertible Preferred Shares are convertible as of the record date for the determination of shareholders entitled to vote at such shareholders meeting.

Risk Factors

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's AIF dated May 4, 2018, which is available on SEDAR at www.sedar.com. Additional risk factors are outlined below. The Company is not otherwise aware of any significant changes to the Company's risk factors from those disclosed at that time.

The Company may not be able to successfully complete the remaining components of the strategic partnership transactions with SIGNA.

There can be no assurance that the transfer of a 50% interest in 18 additional wholly-owned German properties, the sale of two German properties from the European Real Estate JV and receipt of proceeds therefrom will be completed in accordance with the contemplated timeline, on the proposed terms or at all. HBC intends to use certain net proceeds of these transactions to repay amounts outstanding under its Global ABL. The completion of the remaining components of the strategic partnership transactions is subject to customary closing conditions and will depend in part on the ability of SIGNA to fulfill its funding commitments. The failure to consummate the remaining components of the strategic partnership transactions with SIGNA, on the contemplated timeline, on the proposed terms or at all, could have a material adverse effect on the business, financial condition, results of operations and prospects of the Company.

There can be no assurance that the Company will realize the expected benefits from the strategic partnership transactions with SIGNA.

While the Company believes the strategic partnership transactions with SIGNA will enhance its balance sheet and provide a better operating platform for its European retail business, there is risk that some or all of the anticipated benefits associated with these transactions may fail to materialize, or may not occur within the time periods currently anticipated by the Company. The realization of such benefits may be affected by a number of factors, many of which are beyond the control of the Company. See additional risk factors below.

While each of HBC Europe and SIGNA's Karstadt have been subject to similar risks operating independently in the European retail market, the challenge of integrating previously independent businesses makes evaluating the combined European retail business and future financial prospects difficult. The past financial performance of each of HBC Europe and Karstadt may not be indicative of the future financial performance of the combined European retail business. The anticipated combination synergies, assessed based on operational improvements and cost savings, may not be as substantial as anticipated or realized on the anticipated timeline or at all.

There also can be no assurance that the new real estate joint venture with SIGNA will provide the expected benefits, including, among others, enabling the Company to diversify the tenant base, identify new real estate growth opportunities such as future property acquisitions, or that the Company will be able to monetize its investment in the new joint venture at a future date.

While the Company and SIGNA share joint oversight over all major decisions affecting the combined European retail business, the Company does not run the day-to-day management and operations.

While the Company and SIGNA share joint oversight over all major decisions regarding the combined European retail business, SIGNA is ultimately responsible for its day-to-day management and operations. The Company therefore has a non-controlling interest in the combined European retail business and is not in a position to exercise sole decision-making authority or run its day-to-day management and operations. Consequently, there can be no assurance by the Company that the combined European retail business will be well-managed or properly operated on a regular basis. Poor management or even mismanagement of the combined European retail business could, in turn, have a material adverse effect on the business, financial condition, results of operations and prospects of the Company.

The combined European retail business may not be successful in maintaining certain key relationships following closing of the strategic partnership transactions with SIGNA.

While the Company will not have day-to-day management and operational control over the combined European retail business, the Company currently anticipates that SIGNA or the combined European retail business will maintain certain key relationships. However, SIGNA or the combined European retail company may not be successful in retaining the services of certain key personnel or maintaining relationships with certain key customers, business partners, suppliers, distributors, employee unions or other third parties following completion of the proposed transactions. SIGNA's or the combined European retail business' failure to do so or any changes in its relationship with key stakeholders could have a material adverse effect on the business, financial condition, results of operations and prospects of the Company.

The Company will account for the combined European retail business using the equity method of accounting as a result of its non-controlling interest

Using the equity method of accounting, the Company will recognize the fair value of its interest in the combined European retail business as an investment at the date of close and then subsequently, at each reporting date, recognize its proportionate share of the combined European retail business' net earnings (loss) and the value of the investment will be adjusted to reflect the change. This method of accounting will be applied as the Company does not have a controlling interest in the combined European retail business and does not run the day-to-day management and operations. As described above, the past financial performance of each of HBC Europe and Karstadt may not be indicative of the future financial performance of the combined European retail business, and anticipated benefits of the combination may not materialize, or may not occur within the time periods currently anticipated by the Company.