HUDSON'S BAY COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THIRTEEN WEEK PERIOD ENDED MAY 4, 2019

Dated June 13, 2019

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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", "we", "us" or "our". It should be read in conjunction with the unaudited interim consolidated financial statements of the Company and notes thereto for the thirteen week period ended May 4, 2019. Unless otherwise indicated, all amounts are expressed in Canadian dollars.

The Company's audit committee, pursuant to the authority delegated to it by the Company's board of directors, approved the contents of this MD&A. This MD&A reflects information as of June 12, 2019, unless otherwise indicated.

Definitions

In this document:

"€" refers to the currency of European Union.

"424 LLC" refers to 424 Fifth Avenue Holdings LLC.

"AIF" refers to the Company's Annual Information Form dated May 3, 2019.

"Common Shares" refers to HBC's common shares.

"Convertible Preferred Shares" refers to HBC's series "A" 8-year mandatory convertible preferred shares.

"EDS Group" refers to European Department Store Holding S.à r.l. a joint venture in which SIGNA has a 50.01% interest and HBC has a 49.99% interest.

"European Real Estate JV" refers to a joint venture that holds 59 German properties held 50-50 by HBC and SIGNA.

"European transaction" refers to the proposed sale of the Company's remaining stake in its German real estate joint venture, the divestiture of its related retail joint venture to its partner, SIGNA, and the assumption of certain obligations.

"FASB" refers to the Financial Accounting Standards Board.

"Fiscal 2017" refers to the fifty-three week period ending February 3, 2018.

"Fiscal 2018" refers to the fifty-two week period ending February 2, 2019.

"Fiscal 2019" refers to the fifty-two week period ending February 1, 2020.

"Gilt" refers to Gilt Groupe Holdings Inc. and its subsidiaries.

"Global ABL" refers to the Company's asset-based revolving credit facility with Bank of America, N.A. as the administrative agent.

"HBC Europe" refers collectively to, Galeria Kaufhof, Galeria INNO, Saks OFF 5TH Europe and Hudson's Bay Netherlands businesses.

"HBS Joint Venture" refers to HBS Global Properties LLC.

"IFRS" refers to International Financial Reporting Standards as issued by the International Accounting Standards Board.

"Karstadt" refers to Karstadt Warenhaus GmbH.

"Kaufhof" refers to GALERIA Holding GmbH.

"L&T LLC" refers to Lord & Taylor LLC.

"L&T Acquisition" refers to Lord & Taylor Acquisition Inc. the indirect parent of L&T LLC and Saks Incorporated.

"LIBOR" refers to London Interbank Offered Rate.

"Lord & Taylor" refers to the banner's operating business.

"Lord & Taylor Mortgage" refers to a U.S.$400 million floating rate mortgage loan with an affiliate of CIBC World Markets Inc., as administrative agent of the syndicate of lenders.

"Netherlands Leases" refers to lease obligations related to Hudson's Bay Netherlands' retail business.

"Rhône" refers to Rhône Capital LLC.

"RioCan" refers to RioCan Real Estate Investment Trust.

"RioCan-HBC JV" refers to RioCan-HBC Limited Partnership.

"SEC" refers to the U.S. Securities and Exchange Commission.

"SIGNA" refers to SIGNA Retail Holdings GmbH.

"Simon" refers to Simon Property Group Inc.

"WPI" refers to WeWork Property Investors.

"U.S. GAAP" refers to generally accepted accounting principles in the United States of America as issued by the FASB.

"U.S. Term Loan B" refers to the Company's U.S. dollar senior secured term loan facility with Bank of America, N.A. as the administrative agent.

General Information

HBC is a Canadian corporation amalgamated under the Canada Business Corporations Act. On November 26, 2012, the Company completed an initial public offering of its Common shares, which trade on the Toronto Stock Exchange. On December 6, 2017, the Company issued Convertible Preferred Shares to an affiliate of Rhône for an aggregate purchase price of U.S.$500 million. The Convertible Preferred Shares are convertible into Common shares.

Retail

In January 2012, through an internal reorganization, L&T LLC 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, for U.S.$16 per share, in an all-cash transaction valued at U.S.$2,973 million, including assumed debt.

On September 30, 2015, the Company completed the acquisition of 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. On November 30, 2018, the Company completed the combination of the retail operations of HBC Europe and SIGNA's Karstadt to form the EDS Group.

On February 1, 2016, the Company completed the acquisition of Gilt and on July 27, 2018, the Company completed the divestment of the Gilt business.

Real estate

On July 9, 2015, the Company and RioCan closed the first tranche of their joint venture, 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 May 4, 2019, HBC had an 87.4% ownership interest in the RioCan-HBC JV.

On July 22, 2015, the Company and Simon closed their joint venture, Simon HBC Opportunities LLC, which, on September 2015, became a wholly-owned subsidiary of the HBS Joint Venture. The HBS Joint Venture focuses on credit tenant, net-leased and multi-tenant retail buildings in the United States. As of May 4, 2019, HBC had a 62.4% ownership interest in the HBS Joint Venture.

In conjunction with the acquisition of Kaufhof, the HBS Joint Venture acquired 41 properties from Kaufhof in September 2015. On October 7, 2018, the HBS Joint Venture distributed to its partners the net assets of the 41 German properties held in the HBS Joint Venture to form the European Real Estate JV. On November 30, 2018, a subsidiary of SIGNA acquired a 12.4% equity interest from HBC together with a 37.6% equity interest from other limited partners in the European Real Estate JV, resulting in a 50-50 joint venture between HBC and SIGNA. On January 31, 2019, HBC completed the sale of a 50% interest in 18 German properties of HBC Europe to a subsidiary of SIGNA. These properties are included in the European Real Estate JV.

On February 8, 2019, HBC completed its sale of the Lord & Taylor Fifth Avenue building to an affiliate of WPI in a transaction valued at $1.1 billion (U.S.$850 million) for cash proceeds of $955 million (U.S. $725 million) and a $163 million (U.S.$125 million) preferred equity interest in the building, held by HBC through a non-controlling equity interest in 424 LLC. See the "First Quarter Events" section of this MD&A.

See also the "Real Estate Joint Ventures" and "Subsequent Events" sections of this MD&A.

Basis of Presentation

Our unaudited interim consolidated financial statements are prepared in accordance with U.S. GAAP effective February 3, 2019 and retrospectively applied to the prior periods. Prior to February 3, 2019 the Company's consolidated financial statements were prepared in accordance with IFRS up to and including the Company's annual consolidated financial statements for the fifty-two week period ended February 2, 2019.

Accounting Periods

This MD&A is based on information in the unaudited interim consolidated financial statements and accompanying notes thereto for the thirteen week period ended May 4, 2019.

Discontinued Operations

As a result of the Company's divestment of its controlling interest in HBC Europe in the fourth quarter of Fiscal 2018, 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 retrospectively restated, as required. Net loss of discontinued operations for Fiscal 2018 includes the financial results of the Gilt and HBC Europe businesses for the periods from February 4, 2018 to their respective disposal dates. See the "Supplemental Information - Discontinued Operations" section of this MD&A.

Investment in the EDS Group

The Company's investment in the EDS Group is accounted for using the equity method. Under the equity method, the Company recognizes its share of the profit or loss of the EDS Group in its statements of operations. The EDS Group's fiscal year end is September 30. The Company records its share of net income or loss in the EDS Group on a one-month lag. To the extent that the EDS Group has material transactions during the one-month lag period, the Company records its share of income or loss related to these transactions in the current reporting period.

Forward-Looking Statements

Certain statements made in this MD&A, including, but not limited to, the Company's expected improvement in financial performance in 2019, including cadence of Adjusted EBITDA (as defined herein) in 2019, expected benefits from and timing of our strategic initiatives, the anticipated closing of the European transaction and the use of proceeds therefrom, the review of options for the Netherlands business, any cost savings initiatives relating to the Netherlands business, including, among others, certain store closures, the strategic review of the Lord & Taylor business, the expected closures of Saks OFF 5th stores, the closing of Home Outfitters stores including the timing of any store closures and the expectation that, once completed, the closures will be slightly favourable to Adjusted EBITDA, the Company's ability to focus on its best opportunities for growth, deeply connect with customers, deliver an exceptional omnichannel experience, improve profitability, inventory efficiency and free cash flow through improved inventory management and an improved cost structure, increase productivity of HBC's real estate, pursue accretive asset sales, diversify the assets in HBC's real estate joint ventures, the ability to enhance margins, leverage selling, general and administrative expenses, the Company's anticipated North American capital investments, net of landlord incentives, for Fiscal 2019, potential future obligations with respect to the Bon-Ton Lease Guarantees (as defined herein) and the guarantee obligations with respect to the Netherlands Leases, the Company's prospects for fixing the fundamentals, strengthening operations and future growth opportunities, including renovation programs 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 Adjusted EBITDA and capital investments, including, among others, the Company's anticipated Fiscal 2019 total North American capital investments, net of landlord incentives, to be between \$300 million and \$325 million, are certain assumptions regarding, among others, the overall retail environment and currency exchange rates for Fiscal 2019. Specifically, the Company has assumed the exchange rate of EUR:CAD = 1:1.5 and USD:CAD = 1:1.31 for Fiscal 2019. These current assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual Adjusted EBITDA and 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.

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 AIF: ability to execute our retail strategies, changing consumer preferences, demand and fashion trends, marketing and advertising program success, damage to brands and dependence on vendors, ability to make successful acquisitions, investments, expansions and divestitures, ability to successfully manage inventory levels, loss of or disruption in centralized distribution centers, ability to upgrade, maintain and secure the Company's information systems to support the needs of the Company and protect against cyber security threats, risks related to privacy issues and cyber and other security breaches, ability to attract and retain quality employees, risks related to labor costs and other challenges from a large workforce, deterioration in labor relations, ability to maintain pension plan surplus, funding requirements of Saks' pension plan, limits on insurance policies, loss of intellectual property rights, insolvency risk of parties with whom we do business or their unwillingness to perform their obligations, exposure to changes in the real estate market, loss of flexibility with respect to properties in the real estate joint ventures, ability to realize the expected benefits from the real estate joint ventures or to effect a future monetization transaction with each of the real estate joint ventures, exposure to potential environmental liabilities relating to owned and leased real property, liabilities associated with lease guarantees and with third parties who have assumed leases from the Company, the ability to obtain the required consents, approvals, and/or regulatory clearances, or otherwise successfully complete the European transaction, ability to realize the expected benefits from the European transaction or benefit from the review of strategic options related to the Netherlands retail business, ability of the combined European retail business to successfully maintain certain key relationships following the closing of the strategic partnership transactions with SIGNA, risks related to accounting for the combined European retail business using the equity method of accounting, increased or new competition, change in spending of consumers and lower demand, extreme or unseasonable weather conditions or natural disasters, international operational risks, fluctuations in the U.S. dollar, Canadian dollar, Euro and other foreign currencies, increase in raw material costs, seasonality of business, ability to manage indebtedness and cash flow, risks related to increasing indebtedness, restrictions of existing credit facilities reducing flexibility, loss of flexibility due to restrictive debt covenants, future availability of financing, limitations related to changes in the Company's credit ratings, ability to maintain adequate financial and management processes and controls, ability to maintain dividends, ability of a small number of shareholders to influence the business, future sales of the Company's Common Shares by significant shareholders could affect share price, constating documents could delay and discourage favourable takeover attempts, effect of existence and creation of Convertible Preferred Shares on holders of Common Shares, effect of actions by activist shareholders, risks related to regulatory liability, risks of product liability claims and product recalls, inability to comply with laws and regulations that impact the Company's business could lead to litigation or regulatory actions against the Company, non-compliance with changing privacy regulatory environment, exposure to significant additional costs and expenses relating to losing foreign private issuer status in the future, risks related to tax matters, changes in accounting standards, and other risks inherent to the Company's business and/or factors beyond the Company's control which could have a material adverse effect on us. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian and U.S. 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-GAAP Measures

This MD&A makes reference to certain non-GAAP measures. These measures are not recognized measures under U.S. GAAP, do not have a standardized meaning prescribed by U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement U.S. GAAP 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 U.S. GAAP. The Company uses non-GAAP measures including, as described further below, EBITDA, Adjusted EBITDA, Adjusted EBITDA of the EDS Group, Combined Adjusted EBITDA, Adjusted EBITDAR, Adjusted EBITDAR of the EDS Group, Combined Adjusted EBITDAR and Normalized net income (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 U.S. GAAP financial measures. The Company also believes that securities analysts, investors, rating agencies and other interested parties frequently use non-GAAP measures in the evaluation of issuers. The Company's management also uses non-GAAP 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-GAAP measures differently than the Company does, these metrics may not be comparable to similarly titled measures reported by other companies.

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

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

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

"Adjusted EBITDA - Real estate equity method investments" is defined as share of net loss in real estate equity method investments adjusted for interest expense, net, income tax expense, depreciation and amortization and foreign exchange adjustment.

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

"Adjusted EBITDAR" is defined as Adjusted EBITDA before rent expense.

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

"Adjusted EBITDAR of the EDS Group" is defined as Adjusted EBITDA of the EDS Group before rent expense.

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

"Combined Adjusted EBITDAR" equals Adjusted EBITDAR plus Adjusted EBITDAR of the EDS Group.

"Normalized net loss" is defined as net income (loss) adjusted to exclude: (A) gain on sale of property, net, (B) dilution gains from equity method investments - real estate, (C) transaction, restructuring and other costs or income,

(D) adjustment to share of loss from equity method investments - real estate, (E) adjustment to share of loss from investment in the EDS Group, (F) adjustment for store closures cost, (G) other adjustments not associated with day to day operations, and (H) tax related adjustments.

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

This MD&A also makes reference to a combined statement of operations and comprehensive income for the HBS Joint Venture and the European Real Estate JV, which is comprised of the individual statements of operations and comprehensive income for the HBS Joint Venture and the European Real Estate JV. The statements of operations and comprehensive income of these entities are presented on a combined basis for comparability with the prior year period.

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. See also "Factors Affecting Our Performance – Comparable Sales" section of this MD&A.

First Quarter Events

- Effective for the first quarter of Fiscal 2019, the Company has prepared its financial statements in accordance with U.S. GAAP in place of IFRS. The adoption of U.S. GAAP has been retrospectively applied to prior periods. On April 30, 2019 the Company provided certain preliminary, unaudited historical financial information in accordance with U.S. GAAP. On June 13, 2019, the Company provided updated historical financial information in accordance with U.S. GAAP. Please see Investor Relation section of our website at www.hbc.com.
- On February 3, 2019, the Company adopted, ASC 842, *Leases* ("ASC 842") under a modified retrospective basis. As a result, the Company's first quarter of 2019 results reflect lease accounting under ASC 842. Prior year results have not been restated.
- On February 8, 2019, the Company closed the sale of the Lord & Taylor Fifth Avenue building with a transaction value of $1.1 billion (U.S.$850 million) to an affiliate of WPI, which holds Convertible Preferred Shares jointly with Rhône. The Company received aggregate cash proceeds of $955 million (U.S.$725 million), of which $793 million (U.S.$600 million) were received upon close and $162 million (U.S.$125 million) had been received as non-refundable deposits in prior years. Of the proceeds received on close, $515 million (U.S. $389 million) was used to retire the Lord & Taylor Mortgage and the Company has used $252 million (U.S. $190 million) to pay down the Global ABL. The Company recorded a gain on sale of the property of $817 million during the thirteen week period ended May 4, 2019, net of transaction costs of $23 million.
- On February 21, 2019, the Company announced the closure of its Home Outfitters business in Canada and the review of its Saks OFF 5TH portfolio of 129 stores with an estimate of closing 20 locations in the United States. The Home Outfitters business is expected to close at the end of the second quarter of Fiscal 2019. Once completed, the closures are expected to be slightly favourable to Adjusted EBITDA.
- Effective March 1, 2019, Alison Coville stepped down as President of Hudson's Bay and Home Outfitters. The Company has retained an executive search firm to recruit a new President of Hudson's Bay to further enhance the business's strategies and drive its next phase of growth. In the interim Hudson's Bay is led by key executives from the HBC team, under the direction of the Company's Chief Executive Officer ("CEO"), Helena Foulkes, until a permanent successor is found.
- On March 28, 2019 the Company's board of directors (the "Board of Directors") announced that it appointed Stephanie Coyles as an independent director of the Company effective March 27, 2019.

Subsequent Events

- On May 6, 2019 the Company announced it is pursuing strategic alternatives for the Lord & Taylor operating business, including a possible sale or merger, as part of its strategy to focus on its greatest opportunities for growth.
- On June 10, 2019, HBC entered into definitive agreements to sell the Company's remaining stake in its European Real Estate JV, and divest its interest in the EDS Group to, SIGNA, along with assumption of certain obligations for a total consideration of $1.5 billion (€1 billion). A portion of the transaction's net proceeds will be used to fortify HBC's balance sheet by fully repaying its outstanding $436 million U.S. Term Loan B. Upon close, HBC will completely exit its German operations. As part of the overall transaction, HBC will assume ownership of the Netherlands retail business, and release SIGNA from its 50.01% back-to-back guarantee of certain obligations of Hudson's Bay Netherlands. SIGNA will assume German liabilities from HBC. HBC has retained a financial advisor to review options for the Netherlands business, which has not performed to expectations. As HBC pursues options, the Company expects to undertake cost savings initiatives including, among others, certain store closures. The transaction is expected to close in fall 2019, subject to applicable regulatory approvals and other customary closing conditions. At signing, SIGNA delivered a deposit of $150 million (€100 million).
- On June 10, 2019 the Company announced that its Board of Directors has formed a Special Committee of independent directors to review the June 10, 2019 proposal from a group of HBC shareholders for the privatization of the Company at a price of $9.45 per share, payable in cash. The group of HBC shareholders submitting the proposal includes individuals and entities related to, or affiliated with, Richard A. Baker, Governor and Executive Chairman of HBC; Rhône Capital L.L.C.; WeWork Property Advisors; Hanover Investments (Luxembourg) S.A.; and Abrams Capital Management, L.P.

  The Special Committee noted that no decision has been made and it intends to carefully and throughly review the proposal with the assistance of its outside financial and legal advisers. There can be no assurance that any definitive agreement will be executed or that the proposed transaction will be approved or consummated. HBC noted that the continuing Shareholders have advised the Company that they are not interested in an alternative transaction that would result in the sale of the continuing Shareholders' interest in HBC or the acquisition by a third party of HBC or any of its material assets.

Overview

Our Business

HBC is a premier North American retailer with a global portfolio of real estate assets in the United States, Canada and Germany. Founded in 1670, HBC is the oldest company in North America. The Company's portfolio includes formats ranging from luxury to premium department stores to off price fashion shopping destinations. Its leading businesses include Saks Fifth Avenue, Hudson's Bay, Saks OFF 5TH and Lord & Taylor.

During Fiscal 2018, the Company appointed a new CEO Helena Foulkes. Under Ms. Foulkes' leadership, the Company set out to simplify its real estate and retail strategies to create a financially stronger company. As a result of its intensive review of businesses, systems, and operations, HBC took decisive actions including the agreement to sell its remaining stakes in German real estate and retail, the pursuit of strategic alternatives for Lord & Taylor, the divestiture of the Gilt business, the rightsizing of the Company's store footprint, including the anticipated closure of Home Outfitters in July 2019, the closure of up to 20 Saks OFF 5TH locations and 10 Lord & Taylor locations. Those decisions allow the Company to focus on its North American businesses, which represent its greatest opportunities for growth.

HBC is committed to fixing the fundamentals and improving the productivity of its retail businesses, enhancing the customer experience across all channels, reducing complexity and operating costs, and capitalizing on the value of its real estate. Key components of the Company's strategy are:

- *Focus on the Company's best opportunities for growth.* HBC is committed to evaluating all opportunities while focusing its resources on the retail businesses that provide best opportunity for growth - Saks Fifth Avenue and Hudson's Bay. In both Saks Fifth Avenue and Hudson's Bay, the Company benefits from scale and unique positions within their respective markets. Saks Fifth Avenue is synonymous with luxury in the United States and it continues to build upon its long-term strategy to elevate the brand through a fashion-forward offering which has led to consistent comparable sales growth. Hudson's Bay has a rich Canadian heritage, which affords the business strong top of mind awareness within its markets and in key merchandise categories.

- *Deeply connect with customers.* HBC is relentlessly focused on understanding its customers to provide a level of service that anticipates needs and exceeds expectations. During Fiscal 2018, HBC implemented a net promoter score framework across North America, which utilizes direct customer feedback to understand customer challenges and enhance the customer experience. The Company believes these insights will allow it to deepen the customer connection to HBC's businesses and allow the Company to acquire new customers and increase its share of existing customers' relevant spending.

- *Deliver an exceptional omnichannel experience.* HBC is committed to making key investments in its stores, digital applications, technology and marketing to simplify our customers' omnichannel experience. Each channel has inherent advantages. In store, experience and associates connecting with customers on a one-to-one basis, while online provides convenience, merchandise breadth, and expansive market opportunity. HBC believes each channel is more powerful when considered holistically, exactly the way customers interact with our business units. To make its services seamless, relevant, differentiated and personalized in-store and online, the Company is leveraging data-driven insights, growing its capabilities in marketing and digital, and advancing tools connecting our store teams with an enhanced client view that allows for direct connection.

- *Improve profitability, inventory efficiency and free cash flow***.** Management believes HBC has significant opportunity to simplify its cost structure and improve profitability without sacrificing the customer experience. Because HBC grew opportunistically through acquisition, the Company added inefficiencies and redundancies for our customers and employees. By reducing complexity, the Company believes fundamental improvements can lead to a lower cost structure, better inventory management, and improved free cash flow. Based on our strategic plans, we expect our financial performance will improve in 2019. In terms of cadence, we anticipate Adjusted EBITDA will be lower in the first half of the year - by comparison to the prior year. That is driven by a late start to spring selling, in part, driven by the later Easter holiday, and the timing of the expected benefits from our strategic initiatives, which are expected to fully take effect in the fall season.

- *Increasing the productivity of HBC's real estate.* Management is actively strengthening its retail businesses and 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 financial profile of a given building. Management will continue to explore opportunities with other partners for similar arrangements, which adds to the predictability of the Company's cash flows.

- *Pursuing accretive asset sales.* The management team has a demonstrated track record of success in realizing the underlying value through sale, sale-leaseback, and other value enhancing transactions. 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 sale of the Lord & Taylor Fifth Avenue building and the European transaction announced on June 10, 2019 are 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 and the RioCan-HBC JV, to diversify the asset base and overall credit profile of each joint venture portfolio.

Highlights of the Results of Operations

(millions of Canadian dollars)	Thirteen week period ended May 4, 2019		May 5, 2018		Change
	$	% (1)	$	% (1)	
Revenue	2,116	100%	2,188	100%	*(72)*
Gross profit	825	39.0%	873	39.9%	*(90) bps*
Adjusted EBITDA (2)	44	2.1%	85	3.9%	*(41)*
Adjusted EBITDAR (2)	124	5.9%	181	8.3%	*(57)*
Net income (loss) – continuing operations	275	13.0%	(132)	(6.0%)	*407*

	Thirteen week period ended May 4, 2019	May 5, 2018
Comparable sales percentage change (3)		
Consolidated	(2.1%)	1.8%
Hudson's Bay	(4.3%)	3.2%
Lord & Taylor	(17.1%)	(6.2%)
Saks Fifth Avenue	2.4%	6.0%
Saks OFF 5TH	4.4%	(3.5%)
Comparable digital sales percentage change (3)		
Consolidated	9.8%	7.4%

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) As a percentage of total revenue.

(2) These performance metrics have been identified by the Company as non-GAAP measures. For the relevant definitions, please refer to the "Non-GAAP Measures" section of this MD&A and for the relevant reconciliations of the nearest GAAP measures, please refer to the "Selected Consolidated Financial Information – Reconciliation Tables" section of this MD&A.

(3) 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 stores undergoing liquidation and sales related accounting adjustments. Consolidated comparable sales include results for continuing operations. See "Factors Affecting Our Performance – Comparable Sales".

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 – Our Business" section of this MD&A.

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 as a separate line item, Credit revenue and other, net, in the Company's consolidated statement of operations.

Comparable Sales

All comparative sales figures are for the thirteen week period ended May 4, 2019, compared to the same period ended May 5, 2018. 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. Consolidated comparable sales include results of continuing operations. 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. 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. 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. See also "Non-GAAP measures" section of this MD&A.

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. 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 investment in L&T Acquisition, whose functional currency is U.S. dollars, presents foreign exchange risks to HBC. In the prior years, the Company used a net investment hedge to mitigate a portion of the U.S. dollar foreign exchange risk by designating U.S.$245 million of the U.S. Term Loan B as a hedge of the first U.S.$245 million of net assets of L&T Acquisition. In Fiscal 2018, the hedge was reduced to U.S.$70 million upon repayment of $233 million (U.S.$175 million) of the U.S. Term Loan B. Foreign currency translation of the net income (loss) of

L&T Acquisition impacts consolidated net income (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 income (loss).

Selling, General & Administrative Expenses

Our selling, general & administrative expenses ("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, 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.

Interest Expense

Our interest expense is primarily resulting from the financing activities of the Company, including interest expense on long and short-term borrowings, gains or losses on modification 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 interest expense is dependent on fluctuations in the underlying indices used to calculate interest rates, including, but not limited to, the U.S. prime rate, Federal Funds rate, Canadian prime rate, the Canadian Dollar Offered Rate and LIBOR.

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, and digital 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.

U.S. Tariffs

The United States of America's government has implemented tariffs for handbags, cosmetics, luggage, leather goods imported from China, and has proposed tariffs on all apparel and footwear from China. Hudson's Bay and Saks Fifth Avenue account for more than 70 percent of HBC's revenues and the Company anticipates very little impact due to their respective positions in luxury and Canadian retail. For the remaining 30 percent or HBC's revenue, the Company has a small amount of direct imports from China, however, the Company could have indirect exposure, particularly at Lord & Taylor and Saks OFF 5TH through suppliers. Any financial impact from potential tariffs is not included in our estimate that North American retail EBITDA will be better in 2019, as compared to 2018.

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 consolidated financial statements, prepared in accordance with U.S. GAAP, for the thirteen week period ended May 4, 2019. The adoption of U.S. GAAP has been retrospectively applied to prior periods.

(millions of Canadian dollars except per share amounts)	Thirteen week period ended			
	May 4, 2019		May 5, 2018	
	$	% [(1)]	$	% [(1)]
Earnings results				
Retail sales	2,082	98.4%	2,154	98.4%
Credit revenue and other, net	34	1.6%	34	1.6%
Total revenue	2,116	100.0%	2,188	100.0%
Cost of goods sold (exclusive of depreciation shown separately below)	(1,291)	(61.0%)	(1,315)	(60.1%)
Gross profit	825	39.0%	873	39.9%
Selling, general and administrative expenses	(822)	(38.8%)	(876)	(40.0%)
Depreciation and amortization	(110)	(5.2%)	(119)	(5.4%)
Gain on sale of property, net	817	38.6%	—	—
Transaction, restructuring and other (costs) income	(36)	(1.7%)	14	0.6%
Impairment	—	—	(7)	(0.4%)
Operating income (loss)	674	31.9%	(115)	(5.3%)
Interest expense, net	(43)	(2.0%)	(42)	(1.8%)
Loss from equity-method investments - real estate	(5)	(0.2%)	(19)	(0.9%)
Loss from investment in the EDS Group [(2)]	(133)	(6.4%)	—	—
Dilution gains from equity-method investments - real estate	—	—	1	—
Income (loss) before income tax	493	23.3%	(175)	(8.0%)
Income tax (expense) benefit	(218)	(10.3%)	43	2.0%
Net income (loss) for the period – continuing operations	275	13.0%	(132)	(6.0%)
Net loss for the period – discontinued operations, net of taxes	—	—	(266)	(12.2%)
Net income (loss) for the period	275	13.0%	(398)	(18.2%)
Net income (loss) per share — basic and diluted				
Continuing operations	1.15		(0.72)	
Discontinued operations	—		(1.45)	
Weighted average shares outstanding — basic and diluted (millions)	184		183	
Supplemental information – continuing operations				
EBITDA [(3)]	646	30.5%	(14)	(0.6%)
Adjusted EBITDA - North American Department Store [(3)]	6	0.3%	43	2.0%
Adjusted EBITDA - Real estate joint ventures [(3)]	38	1.8%	42	1.9%
Adjusted EBITDA [(3)]	44	2.1%	85	3.9%
Adjusted EBITDAR [(3)]	124	5.9%	181	8.3%
Normalized net loss for the period [(3)]	(209)	(9.9%)	(114)	(5.2%)
Normalized net loss per share – basic and diluted [(3)]	(1.14)		(0.62)	
Declared dividend per Common Share	0.01		0.01	

Notes:

(1) As a percentage of total revenue.

(2) Includes the Company's 49.99% share of net loss of the EDS Group for the period ended January 1 to March 31, 2019 - See also 'Investment in the EDS Group" section of this MD&A. To the extent that the EDS Group has material transactions during the one-month lag period, the Company records its share of income or loss related to these transactions in the current reporting period.

(3) These performance metrics have been identified by the Company as non-GAAP measures. For the relevant definitions, please refer to the "Non-GAAP Measures" section of this MD&A and for the relevant reconciliations of the nearest GAAP measures, please refer to the "Selected Consolidated Financial Information – Reconciliation Tables" section of this MD&A.

	Thirteen week period ended	
	May 4, 2019	May 5, 2018
Reported consolidated revenue percentage change	(3.3%)	(1.2%)
Comparable sales percentage change (1)		
Consolidated	(2.1%)	1.8%
Hudson's Bay	(4.3%)	3.2%
Lord & Taylor	(17.1%)	(6.2%)
Saks Fifth Avenue	2.4%	6.0%
Saks OFF 5TH	4.4%	(3.5%)
Store information		
Store count (2)		
Hudson's Bay	89	89
Lord & Taylor	45	48
Saks Fifth Avenue	42	42
Saks OFF 5TH	129	132
Home Outfitters	37	41
Total	342	352
Gross leasable area/Square footage (thousands) (2)		
Hudson's Bay	15,771	15,720
Lord & Taylor	5,768	6,705
Saks Fifth Avenue	5,217	5,303
Saks OFF 5TH	3,871	3,939
Home Outfitters	1,280	1,427
Total	31,907	33,094

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 stores undergoing liquidation and sales related accounting adjustments. Consolidated comparable sales include results for continuing operations. See "Factors Affecting Our Performance – Comparable Sales".

(2) 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)	**May 4, 2019**	**Feb 2, 2019**
	$	$
Cash	22	21
Trade and other receivables	160	157
Inventories	2,704	2,513
Asset held for sale	—	279
Current assets	3,012	3,141
Property, plant and equipment	3,776	4,153
Operating lease assets(1)	3,447	—
Finance lease assets	410	—
Equity method investments - real estate (2) (asset)	753	554
Investment in the EDS Group (3)	152	284
Total assets	12,922	9,517
Current liabilities (4)	1,825	1,881
Loans and borrowings (including current portion)	2,794	3,009
Operating lease liabilities (including current portion) (1)	4,513	—
Finance lease liabilities (including current portion)	351	347
Equity method investment - real estate (2) (liability)	234	239
Other liabilities (including current portion) (5)	620	2,037
Shareholders' equity	2,001	1,684

Notes:

(1) With the adoption of ASC 842, effective February 3, 2019, operating lease assets and liabilities are now recorded on the Company's consolidated balance sheet. Most of the deferred landlord incentives and straight line rent liabilities, which had previously been recorded as other liabilities, are now recorded as a reduction to the operating lease assets.

(2) See "Real Estate Joint Ventures" section of this MD&A. See also note 6 of the Company's unaudited interim consolidated financial statements for the thirteen week period ended May 4, 2019.

(3) See "Investment in the EDS Group" section of this MD&A. See also note 7 of the Company's unaudited interim consolidated financial statements for the thirteen week period ended May 4, 2019.

(4) Excludes current loans and borrowings of $703 million as at May 4, 2019 and $471 million as at February 2, 2019; current other liabilities of $82 million as at May 4, 2019 and $246 million as at February 2, 2019; current finance leases of $29 million as at May 4, 2019 and $29 million as at February 2, 2019; current operating leases of $216 million as at May 4, 2019.

(5) Includes deferred landlord incentives of $229 million as at May 4, 2019 and $1,109 million as at February 2, 2019 and straight-line rent liabilities of $293 million as at February 2, 2019.

Reconciliation Tables

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

	Thirteen week period ended	
(millions of Canadian dollars)	**May 4, 2019**	**May 5, 2018**
	$	$
Net income (loss) – continuing operations	**275**	(132)
Interest expense, net	43	42
Income tax expense (benefit)	218	(43)
Depreciation and amortization	110	119
EBITDA [1]	**646**	(14)
Transaction, restructuring and other costs (income)	36	(14)
Impairment	—	7
Loss from equity-method investments - real estate	5	19
Loss from investment in the EDS Group [2]	133	—
Dilution gains from equity-method investments - real estate	—	(1)
Gain on sale of property, net	(817)	—
Non-cash share based compensation	4	13
Non-cash pension expense	5	5
Adjustment for store closures	(5)	20
Other	(1)	8
Adjusted EBITDA [1] **- North American Department Stores**	**6**	43
Share of net loss in real estate equity method investments	**(5)**	(19)
Interest expense, net	26	22
Income tax expense	4	4
Depreciation and amortization	13	17
Foreign exchange adjustment	—	18
Adjusted EBITDA [1] **- Real estate equity method investments**	**38**	42
Adjusted EBITDA [1]	**44**	**85**
Rent adjustments	80	96
Adjusted EBITDAR [1]	**124**	**181**
Share of net loss in the EDS Group [2]	(133)	—
Interest expense, net	6	—
Income tax benefit	(31)	—
Depreciation and amortization	33	—
Inventory purchase price adjustment included in cost of sales	31	—
Restructuring	12	—
Adjusted EBITDA - EDS Group [1]	**(82)**	**—**
Third party rent expense - EDS Group	91	—
Adjusted EBITDAR - EDS Group [1]	**9**	**—**
Combined Adjusted EBITDA [1]	**(38)**	**85**
Combined Adjusted EBITDAR [1]	**133**	**181**

Notes:

(1) These performance metrics have been identified by the Company as non-GAAP measures. For the relevant definitions, please refer to the "Non-GAAP Measures" section of this MD&A.

(2) Includes the Company's 49.99% share in net loss of the EDS Group for the period ended January 1 to March 31 2019 - See also "Investment in the EDS Group" section of this MD&A. To the extent that the EDS Group has material transactions during the one-month lag period, the Company records its share of income or loss related to these transactions in the current reporting period.

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

(millions of Canadian dollars)	Thirteen week period ended May 4, 2019	Thirteen week period ended May 5, 2018
	$	$
Net income (loss) – continuing operations	**275**	(132)
Gain on sale of property, net	(533)	—
Dilution gains from equity-method investment - real estate	—	(1)
Transaction, restructuring and other costs (1)	25	25
Adjustments to loss on equity method investments - real estate (2)	—	13
Adjustments to loss from investment in the EDS Group	30	—
Adjustment for store closures	(4)	(20)
Others	(2)	1
Total adjustments (3)	(484)	18
Normalized net loss (4)	**(209)**	(114)

Notes:

(1) Relates primarily to one time costs associated with acquisitions, divestitures, and current restructuring programs.

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

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

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

Results of Operations - Continuing Operations

During the quarter and on a go forward basis, the definitions of Total revenue and Gross profit have been modified and are separately disclosed in the interim consolidated statements of operations.

The new definition of Total revenue includes Retail sales along with additional and separate disclosure defined as Credit revenue and other, which is comprised of net credit revenue, gift card breakage and shipping revenues. Gross profit has been modified to include additional costs related to fulfillment, associated with the shipping revenues earned and included in Total revenue above.

In addition, the definitions of Adjusted EBITDA, Adjusted EBITDAR, Combined Adjusted EBITDA and Combined Adjusted EBITDAR have also been modified. For these relevant definitions, please refer to the "Non-GAAP Measures" section of this MD&A. For the relevant reconciliations of the nearest U.S. GAAP measures, please refer to the "Selected Consolidated Financial Information - Reconciliation Tables" section of this MD&A.

Thirteen week period ended May 4, 2019 compared to the thirteen week period ended May 5, 2018

Revenue

Revenue in the quarter was $2,116 million, a decrease of $72 million or 3.3% compared to the prior year. The decrease was primarily driven by the operation of fewer stores than a year ago and lower comparable sales of approximately $44 million partially offset by the positive net foreign exchange impact of $58 million.

Consolidated comparable sales reported on a week for week basis decreased by 2.1%. Comparable sales increased by 2.4% at Saks Fifth Avenue and by 4.4% at Saks OFF 5TH, while the comparable sales decreased by 4.3% at Hudson's Bay and 17.1% at Lord & Taylor. In May 2019, the Company announced that it is pursuing strategic alternatives for the Lord & Taylor operating business. Excluding Lord & Taylor and Home Outfitters, the Company's comparable sales would have increased 0.3%. Comparable digital sales increased by 9.8% over the comparable thirteen week period ended May 5, 2018.

Gross profit

First quarter gross profit declined year-over-year by $48 million compared to the prior year. The decrease is primarily attributed to the impact of closed stores of approximately $25 million and $26 million related to both lower sales and reduced gross margin rates respectively. Liquidation pricing as part of the Lord & Taylor optimization initiative and the Home Outfitters liquidation announced in February 2019 contributed to the reduction in gross profit dollars. These declines were offset by a positive impact of foreign exchange of approximately $24 million.

Gross profit margin was 39% in the first quarter, down 90 basis points year-over-year. Approximately half of the decline is due to store closures, with the balance driven by the larger proportion of clearance sales this quarter, as compared to last year's first quarter.

Excluding the negative impact of the Lord & Taylor liquidations and the Home Outfitters margins in comparable quarters, gross profit as a percentage of revenue was 39.7% as compared to 40.0% in the prior year, or a decline of 30 basis points. For additional discussion see "Factors Affecting Our Performance – Gross Profit".

Selling, general & administrative expenses

SG&A in the quarter decreased by $54 million to $822 million. This was primarily due to savings of approximately $28 million related to closed stores, $15 million of personnel related costs, $14 million of store related costs, and lower marketing spend and fraud charges of $11 million. These savings were primarily offset by a negative impact of foreign exchange of approximately $23 million.

In the first quarter, SG&A totaled $822 million, down $54 million over the prior year resulting in an SG&A margin of 38.8%, an improvement of 120 basis points. Controlling spending allows us to make smarter investments in technology, digital and marketing, while maintaining financial discipline. SG&A expense reductions were widespread with corporate, store operations, and closed stores contributing to the year over year improvement. While SG&A reflects the benefits from stores already closed, our current rationalization negatively impacted our gross profit.

Adjusted EBITDA[1]

Adjusted EBITDA[1] in the quarter was $44 million or a decrease of $41 million. As expected, Adjusted EBITDA[1] was lower in the first quarter by comparison to the previous year period due to the late start to spring selling, in part driven by the later Easter holiday, and the timing of the expected benefits from our strategic initiatives. This translated to reduced margin rates experienced within our business units which was only partially offset by improved operating costs.

Combined Adjusted EBITDA[1]

Combined Adjusted EBITDA[1] in the quarter was negative $38 million or a decrease of $123 million. The decrease is due primarily to reductions in Adjusted EBITDA identified above, and the inclusion of a negative $82 million Adjusted EBITDA for the EDS Group. See "Investment in EDS Group"section of this MD&A.

Adjusted EBITDAR[1]

Adjusted EBITDAR[1] in the quarter was $124 million or a decrease of $57 million. As a percentage of revenue, Adjusted EBITDAR[1] declined by 240 basis points to 5.9% compared to 8.3% in the prior year. Reductions in Adjusted EBITDA combined with lower rent expense contributed to the year over year decline.

Interest expense

Interest expense increased by $1 million to $43 million. The increase was driven primarily by $4 million of additional interest expense related to the finance liability recorded with respect to the adoption of ASC 842, and higher interest costs on short-term borrowings partially offset by reduced interest costs on long-term borrowings due to the repayment of a portion of borrowing under U.S. Term Loan B on November 30, 2018 and the repayment of the Lord & Taylor Mortgage on February 8, 2019.

Income tax expense

Income tax expense increased by $261 million in the quarter to $218 million primarily due to the sale of the Lord & Taylor Fifth Avenue building. The effective income tax rate of 44.2% for the quarter increased from 24.6% in the prior year.

Net income - continuing operations

Net income from continuing operations increased by $407 million to $275 million. The increase is primarily related to the gain recognized on the sale of our Lord & Taylor Fifth Avenue building, offset in part by reduced gross profit and our share of net losses related to the EDS Group.

Normalized net loss[1]

Normalized net loss[1] increased by $95 million to a loss of $209 million. The increased loss is primarily the result of our share of net losses related to the EDS Group.

Note:
1. These performance metrics have been identified by the Company as non-GAAP measures. For the relevant definitions, please refer to the "Non-GAAP Measures" section of this MD&A and for the relevant reconciliations of the nearest U.S. GAAP measures, please refer to the "Selected Consolidated Financial Information - Reconciliation Tables" section of this MD&A.

Supplemental Information - Discontinued Operations

Discontinued operations for the thirteen week period ended May 5, 2018 comprise the financial results of the Gilt and HBC Europe businesses, which were disposed of in the second and fourth quarters of Fiscal 2018, respectively. The divestiture of these businesses resulted from strategic shifts by the Company and will have a major effect on the Company's operations and financial results in future periods. As a result, the revenue, expenses and cash flows related to Gilt's and HBC Europe's operations have been presented in these interim consolidated financial statements as discontinued operations on a retrospective basis.

During the thirteen week period ended May 5, 2018, certain of Gilt's assets and liabilities were reclassified to assets and liabilities of discontinued operations held for sale and recorded at the lower of their carrying value and their fair value less estimated selling costs. As a result, the Company recognized a pre-tax impairment loss of $77 million and a related tax benefit of $4 million, which are included in net loss for the period from discontinued operations.

Financial results of the discontinued operations

The following table sets out the combined financial results of the discontinued operations, Gilt and HBC Europe. As Gilt and HBC Europe had disposal dates in 2018, there are no current quarter results.

(millions of Canadian dollars)	Thirteen week period ended May 5, 2018
	$
Retail sales	1,051
Credit revenue and other	4
Total revenue	1,055
Cost of sales	(586)
Gross profit	469
Selling, general and administrative expenses	(586)
Depreciation and amortization	(63)
Impairment	(77)
Operating loss	(257)
Interest expense, net	(11)
Loss before income tax	(268)
Income tax benefit	2
Net loss for the period – discontinued operations (1)	(266)

Note :
(1) Includes net loss of $181 million relating to HBC Europe and $85 million relating to Gilt for thirteen week period ended May 5, 2018.

Summary of Consolidated Quarterly Results

(millions of Canadian dollars)	May 4, 2019	Feb 2, 2019	Nov 3, 2018	Aug 4, 2018	May 5, 2018	Feb 3, 2018	Oct 28, 2017	Jul 29, 2017
	Fiscal Quarter Ended							
	$	$	$	$	$	$	$	$
Retail sales	2,082	2,889	2,192	2,166	2,154	3,059	2,081	2,215
Credit revenue and other, net	34	47	36	38	34	54	32	40
Total Revenue	**2,116**	**2,936**	**2,228**	**2,204**	**2,188**	**3,113**	**2,113**	**2,255**
Cost of revenue	(1,291)	(1,878)	(1,361)	(1,340)	(1,315)	(1,924)	(1,293)	(1,419)
Gross profit	**825**	**1,058**	**867**	**864**	**873**	**1,189**	**820**	**836**
Selling, general and administrative expenses	(822)	(945)	(852)	(866)	(876)	(989)	(813)	(849)
Depreciation and amortization	(110)	(136)	(128)	(124)	(119)	(121)	(114)	(114)
Gain on sale of property, net	817	—	—	—	—	—	—	—
Gain on sale of investment in real estate joint venture	—	120	—	—	—	—	—	—
Transaction, restructuring and other (costs) income	(36)	(54)	(24)	(10)	14	(32)	(31)	(43)
Impairment	—	(49)	—	—	(7)	(3)	(2)	(7)
Operating income (loss)	**674**	**(6)**	**(137)**	**(136)**	**(115)**	**44**	**(140)**	**(177)**
Interest expense, net	(43)	(50)	(46)	(45)	(42)	(37)	(46)	(36)
Loss from equity-method investments - real estate	(5)	(26)	(6)	(12)	(19)	25	(2)	45
Loss from investment in the EDS Group	(133)	(146)	—	—	—	—	—	—
Dilution gain from equity-method investments - real estate	—	2	5	—	1	1	8	—
Income (loss) before income tax	**493**	**(226)**	**(184)**	**(193)**	**(175)**	**33**	**(180)**	**(168)**
Income tax (expense) benefit	(218)	35	65	49	43	153	64	69
Net income (loss) for the period – continuing operations	**275**	**(191)**	**(119)**	**(144)**	**(132)**	**186**	**(116)**	**(99)**
Net income (loss) for the period – discontinued operations, net of taxes	—	286	(42)	(120)	(266)	(98)	(125)	(101)
Net income (loss) for the period	**275**	**95**	**(161)**	**(264)**	**(398)**	**88**	**(241)**	**(200)**
Net income (loss) per share - basic and diluted								
Continuing operations	1.15	(0.81)	(0.65)	(0.79)	(0.72)	0.87	(0.64)	(0.54)
Discontinued operations	—	1.21	(0.23)	(0.66)	(1.45)	(0.46)	(0.68)	(0.55)
Reported consolidated revenue percentage change – continuing operations	(3.3%)	(5.7%)	5.4%	(2.3%)	(1.2%)	0.3%	(0.5%)	3.7%
Adjusted EBITDA [(1)] - Continuing operations	44	217	89	71	85	238	70	38
Adjusted EBITDAR [(1)] - Continuing operations	124	308	181	162	181	338	163	133
Combined Adjusted EBITDA [(1)] - Continuing operations	(38)	306	89	71	85	238	70	38
Combined Adjusted EBITDAR [(1)] - Continuing operations	133	423	181	162	181	338	163	133
Normalized net (loss) income [(1)] Continuing operations	(209)	(33)	(95)	(121)	(114)	22	(98)	(95)

Notes:

(1) These performance metrics have been identified by the Company as non-GAAP measures. For the relevant definitions, please refer to the "Non-GAAP Measures" section of this MD&A and for the relevant reconciliations of the nearest GAAP measures, please refer to the "Selected Consolidated Financial Information – Reconciliation Tables" section of this MD&A.

Summary of Consolidated Quarterly Financial Information

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

	Fiscal Quarter Ended							
(millions of Canadian dollars except per share amounts)	**May 4, 2019**	**Feb 2, 2019**	**Nov 3, 2018**	**Aug 4, 2018**	**May 5, 2018**	**Feb 3, 2018**	**Oct 28, 2017**	**Jul 29, 2017**
	$	$	$	$	$	$	$	$
Retail sales by banner [1]								
Hudson's Bay	599	938	683	641	631	1,028	658	647
Home Outfitters......................	42	35	31	36	35	56	45	52
Lord & Taylor.........................	251	441	334	337	334	489	335	376
Saks Fifth Avenue..................	879	1,087	832	855	862	1,083	739	821
Saks OFF 5TH........................	311	388	312	297	292	403	304	319
Total retail sales	2,082	2,889	2,192	2,166	2,154	3,059	2,081	2,215
Comparable sales percentage change – Continuing Operations [2] [3]								
Hudson's Bay	(4.3%)	(2.9%)	4.3%	(0.6%)	3.2%	1.4%	0.1%	2.4%
Lord & Taylor.........................	(17.1%)	(9.0%)	(5.0%)	(8.4%)	(6.2%)	(8.7%)	(9.7%)	(7.8%)
Saks Fifth Avenue..................	2.4%	3.9%	7.3%	6.7%	6.0%	3.1%	1.0%	1.9%
Saks OFF 5TH........................	4.4%	(2.1%)	(2.3%)	(7.6%)	(3.5%)	(2.0%)	(4.1%)	0.2%
Consolidated HBC	(2.1%)	(1.2%)	3.1%	(0.2%)	1.8%	(0.5%)	(2.0%)	(0.2%)
Digital	9.8%	8.7%	8.0%	10.8%	7.4%	9.1%	10.7%	9.0%
Store count								
Hudson's Bay	89	89	89	89	89	89	89	90
Lord & Taylor.........................	45	45	48	48	48	50	50	50
Saks Fifth Avenue..................	42	42	42	42	42	41	41	41
Saks OFF 5TH........................	129	129	133	132	132	129	129	124
Home Outfitters......................	37	37	38	39	41	44	50	51
Gross leasable area/ square footage (in thousands)								
Hudson's Bay	15,771	15,771	15,739	15,720	15,720	15,731	15,731	15,837
Lord & Taylor.........................	5,768	5,768	6,705	6,705	6,705	6,930	6,930	6,895
Saks Fifth Avenue..................	5,217	5,216	5,303	5,303	5,303	5,187	5,188	5,188
Saks OFF 5TH........................	3,871	3,868	3,998	3,966	3,939	3,879	3,879	3,727
Home Outfitters......................	1,280	1,280	1,328	1,363	1,427	1,529	1,753	1,793
Cash rent to joint ventures	60	62	61	60	59	59	58	61

Notes:

(1) The quarterly sales and earnings of the Company are significantly impacted by customer sales patterns. 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.

(2) 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 stores undergoing liquidation and sales related accounting adjustments. Consolidated comparable sales include results for continuing operations. See "Factors Affecting Our Performance – Comparable Sales".

(3) The Company follows the retail operating calendar which included a 53rd week in Fiscal 2017. All comparable sales figures are for the thirteen and fifty-two week periods ended February 2, 2019, compared to the same periods ended February 3, 2018.

Investment in the EDS Group

As previously noted, on November 30, 2018, the HBC Europe's retail operations were combined with Karstadt's retail operations, to form the EDS Group, in which SIGNA has a 50.01% interest and HBC has a 49.99% interest. The board of directors of EDS Group is comprised of six directors, three appointed by SIGNA and three appointed by HBC. Governance of the EDS Group requires joint approval on all major decisions but SIGNA is ultimately responsible for the management of day-to-day operations of the EDS Group.

The EDS Group's fiscal year end is September 30. The Company records its share of net loss in the EDS Group on a one-month lag. As a result, during the thirteen week period ended May 4, 2019, the Company recognized earnings related to the EDS Group for the three months ending March 31, 2019. To the extent that the EDS Group has material transactions during the one-month lag period, the Company records its share of income or loss related to these transactions in the current reporting period. During the one-month lag period, it was determined that there were no material transactions that required inclusion in the Company's share of net loss in the EDS Group for the period ended May 4, 2019. Included in the Company's share of net loss in the EDS Group for the period ended February 2, 2019 are $194 million of restructuring charges, which were accrued by the EDS Group during the one-month lag period - January 2019.

Summarized financial information of the investment as at May 4, 2019 and reconciliation to the carrying amount of the investment in the EDS Group in the consolidated balance sheets are set out below. See also note 7 "Investment in the EDS Group" of the Company's interim consolidated financial statements for the thirteen week period ended May 4, 2019.

Statement of Loss - EDS Group

(millions of Canadian dollars)	**Thirteen week period ended May 4, 2019**
Retail sales	**1,481**
Cost of sales	**(901)**
SG&A	**(830)**
Depreciation and amortization	**(65)**
Interest expense	**(12)**
Income tax benefit	**61**
Net earnings at 100%	**(266)**
Company's share of net loss in the EDS Group	**(133)**

Balance Sheet - EDS Group

(millions of Canadian dollars)	May 4, 2019	Feb 2, 2019
Cash	**598**	729
Current financial assets	**1,380**	1,481
Current other assets	**67**	97
Non-current other assets	**3,069**	2,653
Current financial liabilities	**(651)**	(755)
Current other liabilities	**(1,118)**	(814)
Non-current financial liabilities	**(986)**	(979)
Non-current other liabilities	**(2,095)**	(1,496)
Net assets at 100%	**264**	916
Company's share of net assets in the EDS Group based on ownership interest	**132**	458
Adjustments for the Company's share of material transactions during the one-month lag	**—**	(194)
Plus capitalized transaction costs	**20**	20
Company's carrying value of investment in the EDS Group	**152**	284

Effective June 10, 2019, the Company announced the sale of its remaining 49.99% interest in the EDS Group. See "Subsequent Events" section of this MD&A.

Real Estate Joint Ventures

The Company's real estate joint ventures highlight the value of HBC's real estate and act as additional growth platforms for the Company. HBC's real estate joint ventures consist of premier retail real estate assets in Canada, the United States, and Germany. The Company accounts for its ownership in joint ventures using the equity method of accounting. To provide additional details on the results of these entities, financial statements have been provided in this MD&A as well as summarized in note 6 "Equity-method Investments - Real Estate" of the Company's interim consolidated financial statements for the thirteen week period ended May 4, 2019.

Canada

HBC has partnered with RioCan in Canada 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. HBC currently owns approximately 87% of this joint venture. 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. Unanimous board consent of HBC and RioCan is required for all major operating decisions.

United States

In conjunction with the sale of the Company's Lord & Taylor Fifth Avenue building to an affiliate of WPI, the Company holds a $163 million non-controlling equity interest in the building which is held through a newly created entity, 424 LLC. The Company's interest provides for a specified return via distributions based on the $163 million initial capital contribution along with an allocation of profits and losses from leasing the building to an affiliate of WeWork Property Investors, subject to certain stipulated contractual conditions. There was no allocation of profit or loss or distributions from 424 LLC in the first quarter of Fiscal 2019.

HBC has partnered with Simon, Ivanhoé Cambridge, Madison International, and a large U.S. pension fund, in the HBS Joint Venture. The HBS Joint Venture holds 42 properties in the United States, and HBC currently owns approximately 62% of this joint venture. 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. Unanimous board consent of HBC, Simon and Ivanhoé Cambridge is required for all major operating decisions. For accounting purposes, the HBS Joint Venture is a variable interest entity ("VIE") as the voting rights of some of its partners are disproportionate to their equity interests. Since the Company and Simon have joint control of the entity, the Company is not the primary beneficiary of the VIE. Therefore, the HBS Joint Venture is accounted for as an unconsolidated VIE and the equity method of accounting is applied.

Germany

HBC has partnered with SIGNA in the European Real Estate JV.

On October 7, 2018, the HBS Joint Venture distributed to its owners the net assets of 41 German properties to form the European Real Estate JV. As at May 4, 2019, HBC and SIGNA each held a 50% interest in the European Real Estate JV.

On January 31, 2019, a subsidiary of SIGNA acquired a 50% equity interest in the 18 German properties controlled by HBC Europe, which had not previously been contributed to any joint venture**.** As a result, the 18 German properties are included in a new 50-50 real estate joint venture between HBC and SIGNA, which is combined with the European Real Estate JV for presentation purposes.

The advisory board of the European Real Estate JV is comprised of six members, three of whom have been appointed by each of HBC and SIGNA. Unanimous affirmative approval of all shareholders of the European Real Estate JV is required for all major operating decisions.

Effective June 10, 2019, the Company announced the sale of its remaining 49.99% interest in the EDS Group. See "Subsequent Events" section of this MD&A.

RioCan-HBC JV

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

Statements of Operations and Comprehensive Income

(millions of Canadian dollars)	May 4, 2019	May 5, 2018
Rental revenue	**25**	24
Rental revenue – recoveries	**1**	—
Property operating costs	**(1)**	—
Operating income	**25**	24
Depreciation and amortization	**(2)**	(3)
Income before interest expense	**23**	21
Interest income	**3**	3
Interest expense	**(6)**	(8)
Net income and comprehensive income for the period	**20**	16

Balance Sheets

(millions of Canadian dollars)	May 4, 2019	Feb 2, 2019
Assets		
Cash	**1**	1
Total current assets	**1**	1
Property, plant and equipment	**280**	230
Equity-method investments	**131**	131
Finance lease receivables	**150**	148
Total assets	**562**	510
Liabilities		
Loans and borrowings	**5**	356
Accounts payable and accrued liabilities	**2**	3
Deferred revenue	**8**	8
Total current liabilities	**15**	367
Loans and borrowings	**630**	282
Other financial liabilities	**49**	—
Total liabilities	**694**	649
Partners' Equity		
Partners' capital	**(132)**	(139)
Total partners' equity	**(132)**	(139)
Total liabilities and partners' equity	**562**	510

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 for the period from October 7, 2018 (date of formation) to May 4, 2019 and the financial results of the 18 German properties for the period from February 3 to May 4, 2019. In order to improve comparability against prior periods, the Company has presented the statements of operations for the HBS Joint Venture and the European Real Estate JV for the thirteen week period ended May 4, 2019 on a combined basis. In addition, financial results of the portfolio of German properties for the thirteen week period ended May 5, 2018, have not been presented as discontinued operations.

Combined Statements of Operations and Comprehensive Income

	Thirteen week period ended			
	May 4, 2019			May 5, 2018
(millions of Canadian dollars)	**HBS Joint Venture**	**European Real Estate JV**	**Combined [1]**	**HBS Joint Venture**
Rental revenue	43	79	**122**	**111**
Rental revenue – recoveries	4	3	**7**	**6**
Property operating costs	(6)	(9)	**(15)**	**(6)**
Operating income	41	73	**114**	**111**
General and administrative expenses	(1)	(2)	**(3)**	**(2)**
Foreign exchange loss [2]	—	—	**—**	**(29)**
Depreciation and amortization	(9)	(11)	**(20)**	**(21)**
Finance costs	(15)	(20)	**(35)**	**(30)**
Earnings before income taxes	16	40	**56**	**29**
Income tax expense	—	(8)	**(8)**	**(6)**
Net income and comprehensive income for the period	16	32	**48**	**23**
Other comprehensive income				
Currency translation adjustment	—	—	**—**	**2**
Total comprehensive income	16	32	**48**	**25**

Notes:

(1) This performance metrics have been identified by the Company as non-GAAP measures. For the relevant definitions, please refer to the "non-GAAP Measures" section of this MD&A.

(2) Represents the foreign exchange loss on the translation of Euro denominated monetary asset and liability balances related to the overall tax and legal structure of the joint venture.

Balance Sheets

(millions of Canadian dollars)	May 4, 2019	Feb 2, 2019	May 4, 2019	Feb 2, 2019
	HBS Joint Venture		European Real Estate JV	
Assets				
Cash	58	13	87	63
Trade and other receivables	—	—	43	7
Asset held for sale	—	—	446	444
Total current assets	58	13	576	514
Property, plant and equipment	1,216	1,194	2,966	3,086
Intangible assets	—	—	36	38
Operating lease assets	86	—	548	—
Other assets	—	—	214	21
Total assets	1,360	1,207	4,340	3,659
Liabilities				
Loans and borrowings	201	197	1	1
Current portion of operating lease liabilities	—	—	21	—
Deferred revenue	67	13	24	25
Finance leases	—	—	—	6
Other payables and accrued liabilities	15	13	133	141
Total current liabilities	283	223	179	173
Loans and borrowings	923	900	1,998	1,995
Deferred tax liabilities	—	—	303	302
Operating lease liabilities	86	—	558	—
Finance leases	—	—	—	157
Other liabilities	—	—	348	156
Total liabilities	1,292	1,123	3,386	2,783
Total members' equity	68	84	954	876
Total liabilities and members' equity	1,360	1,207	4,340	3,659

Outlook

We expect total North American capital investments in Fiscal 2019, to be between $300 million and $325 million, net of landlord incentives. These capital investment expectations reflect exchange rate assumptions of USD:CAD = 1:3 for the Fiscal 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					
(millions of Canadian dollars)	**May 4, 2019**			**May 5, 2018**		
	Continuing Operations	**Discontinued Operations**	**Total**	**Continuing Operations**	**Discontinued Operations**	**Total**
	$	$	$	$	$	$
Operating activities	(345)	—	(345)	(129)	(279)	(408)
Investing activities	657	—	657	(118)	(69)	(187)
Financing activities	(311)	—	(311)	437	172	609
Foreign exchange gains on cash	—	—	—	2	—	2
Increase (decrease) in cash	1	—	1	192	(176)	16
Transfer from continuing operations	—	—	—	(176)	176	—
Cash at beginning of year	21	—	21	70	—	70
Cash at end of period	22	—	22	86	—	86

Net Cash Flow - Operating Activities from Continuing Operations

For the thirteen week period ended May 4, 2019, net cash outflow from operating activities from continuing operations was $345 million compared to $129 million for the thirteen week period ended May 5, 2018, an increase of $216 million. This increase was primarily due to lower cash from operations partially offset by improvements in working capital.

Net Cash Flow - Investing Activities from Continuing Operations

For the thirteen week period ended May 4, 2019, net cash inflow for investing activities from continuing operations was $657 million compared to a net cash outflow of $118 million for the thirteen week period ended May 5, 2018 an increase in inflow of $775 million. This increase was primarily due to net proceeds received with respect to the sale of the Lord & Taylor Fifth Avenue building.

Net Cash Flow - Financing Activities from Continuing Operations

For the thirteen week period ended May 4, 2019, net cash outflow from financing activities from continuing operations was $311 million compared to a net cash inflow of $437 million for the thirteen week period ended May 5, 2018, or an increase in outflow of $748 million. The increase in outflow was due to the retirement of the Lord & Taylor Mortgage and the payment of associated costs and lower net drawings of the Global ABL balance compared to the prior period.

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 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 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. In connection with the registration rights granted under the Rhône Investor Rights Agreement and in contemplation of the Company's obligations thereunder, the Company has confidentially submitted to the SEC a registration statement on Form 40-F pursuant to the U.S.-Canada Multijurisdictional Disclosure System. The Company has received an exemption from Sections 3.2 and 3.3 of National Instrument 52-107 - Acceptable Accounting Principles and Auditing Standards permitting it to prepare its financial statements in accordance with U.S. GAAP in lieu of financial statements prepared in accordance with IFRS, which is required as a reporting issuer in Canada.

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 May 4, 2019, the Company had approximately $1.5 billion in availability under the Global ABL. The amounts outstanding and the availability under the Global ABL were as follows:

(millions of Canadian dollars)	**May 4, 2019**	Feb 2, 2019
Gross borrowing base availability	**2,302**	1,948
Drawings	**(709)**	(472)
Outstanding letters of credit	**(140)**	(240)
Borrowing base availability net of drawings and letters of credit	**1,453**	1,236

On February 8, 2019, the Company sold the Lord & Taylor Fifth Avenue building to an affiliate of WPI for cash proceeds of approximately $955 million (U.S.$725 million), excluding transaction costs. The Company used $515 million (U.S. $400 million) of the cash proceeds to retire the Lord & Taylor Mortgage on the property, and to pay down $252 million (U.S. $190 million) of the Global ABL.

On June 10, 2019, the Company announced the European transaction for a total consideration of $1.5 billion (€1 billion). A portion of the transaction's net proceeds will be used to fully repay its outstanding U.S. Term Loan B.

Interest rate swaps were entered into on July 19, 2016 to reduce the Company's cash flow exposure to floating interest rates by fixing the effective interest rate at 4.3% over the term of the Lord & Taylor Mortgage. These interest rate swaps were settled in connection with the repayment of the Lord & Taylor Mortgage. Upon settlement of these contracts, the Company received $16 million, which represented the fair value of the contract assets on the settlement date.

Please refer to the Company's management's discussion and analysis for the thirteen and fifty-two week periods ended February 2, 2019 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 May 4, 2019, 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 thirteen and fifty-two week periods ended February 2, 2019.

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.

Lease Guarantees

As part of the sale of the Northern Department Store Group to The Bon-Ton Stores, Inc. ("Bon-Ton") in 2006, the Company guarantees the remaining obligations on six leases (the "Bon-Ton Lease Guarantees"). The terms of the Bon-Ton Lease Guarantees can extend up to the year 2024. On February 5, 2018, Bon-Ton filed voluntary petitions for a court-supervised financial restructuring under Chapter 11 of the United States Bankruptcy Code. While the ultimate treatment of the underlying leases to which the Bon-Ton Lease Guarantees may apply has not yet been determined, an amount of $34 million has been accrued in the interim consolidated financial statements which at this time represents the Company's best estimate of potential future obligation with respect to these guarantees. This amount is included within other payables and accrued liabilities in the consolidated balance sheet of the Company.

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. 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. As at February 2, 2019, the Company had a legal provision of $9 million recorded within other payables and accrued liabilities in the consolidated balance sheet which the Company currently believes could be the maximum claim against it with respect to these leases

Please also see "Related Party Transactions" for certain leases guarantees in respect of the EDS Group, including the Netherlands Leases.

Potential liabilities related to these lease guarantees may be subject to certain defenses by the Company. The Company's obligations under the assigned leases would be offset by payments from existing or future assignees and their obligations to the Company to comply with the assigned leases.

Letters of Credit

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 $140 million as at May 4, 2019.

Other than in connection with the joint ventures (including a related entity) and its interest in the HBS Joint Venture, which is accounted for as a VIE, 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 and the VIE are accounted for using the equity method of accounting. As a result, indebtedness at the joint ventures and the VIE are not consolidated in the Company's balance sheet. See the "Investment in the EDS Group" and "Real Estate Joint Ventures" sections 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. The effective portion of the gain or loss is deferred in accumulated other comprehensive income (loss) and reclassified to cost of sales when the related inventory is sold.

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 income (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 interest expense.

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

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 forward foreign currency contracts and interest rate swaps (as at February 2, 2019) 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.

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 16 of the Company's unaudited interim consolidated financial statements for the thirteen week period ended May 4, 2019.

On February 8, 2019, the Company sold the Lord & Taylor Fifth Avenue building to an affiliate of WPI which may be deemed to hold an interest in the Convertible Preferred Shares held by Rhône. See also "First Quarter Events" section of this MD&A.

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 EDS Group. 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 EDS Group defaults on its lease commitments. In addition, the Company has provided guarantees of the EDS Group's lease obligations related to the Netherlands Leases. SIGNA in turn has provided the Company with a guarantee of 50.01% of the Netherlands Leases. As a part of the recently announced European transaction, HBC will assume ownership of the Netherlands retail business on closing of such transaction, and release SIGNA from its 50.01% back-to-back guarantee of the Netherlands Leases. The current annual rent payable under the Netherlands Leases totals approximately $74.3 million (€49.5 million) per year. See also "Subsequent Events" section of this MD&A.

Excluding returns of capital and distributions received (see note 6 of the Company's unaudited interim consolidated financial statements for the thirteen week period ended May 4, 2019), transactions with the RioCan-HBC JV, the HBS Joint Venture and the European Real Estate JV comprised the following:

	Thirteen week period ended	
(millions of Canadian dollars)	**May 4, 2019**	**May 5, 2018**
Rent expense - continuing operations	**67**	66
Rent expense - discontinued operations	—	73

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		EDS Group
(millions of Canadian dollars)	**May 4, 2019**	**May 5, 2018**	**May 4, 2019**	**May 5, 2018**	**May 4, 2019**	**Feb 2, 2019**	**May 4, 2019**
Prepaid rents (included in other current assets)	—	9	—	13	—	—	—
Receivables (included in trade and other receivables)	—	—	1	1	3	5	—
Loans [(1)] (included in other assets)	—	—	—	—	—	—	19
Current portion of operating lease liabilities	(14)	—	(36)	—	—	—	—
Operating lease liabilities	(916)	—	(1,650)	—	—	—	—

(1) The loans to the EDS Group mature in fiscal 2029 and accrue interest at a rate of 4% per annum.

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 unaudited interim consolidated financial statements, which were prepared for the first time in accordance with U.S. GAAP effective February 3, 2019. The Company has consistently applied the same accounting policies in its U.S. GAAP consolidated balance sheets for the comparative period February 2, 2019 and throughout all periods presented in the unaudited interim consolidated financial statements except for the adoption of ASC 842, effective February 3, 2019. The Company's significant accounting policies are described in note 2 to the unaudited interim consolidated financial statements for the thirteen week period ended May 4, 2019.

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.

Accounting Standards Implemented in Fiscal 2019

Leases (Topic 842)

In February 2016, the FASB issued a new standard related to leases, ASC 842, to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for leases classified as operating leases. Under the standard, additional disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASC 842 is effective for annual periods beginning after December 15, 2018 and was applied for the first time by the Company effective February 3, 2019 ("the transition date").

The Company adopted the new standard, using a modified retrospective method and therefore did not restate comparative periods. Adjustments to the carrying amount of the assets and liabilities at the transition date of $20 million, net of tax, were recognized in the opening deficit of the current period. As permitted under the transition guidance, the Company elected to use the following practical expedients upon adoption:

- the Company will carry forward the assessment of whether its contracts contain or are leases, its lease classification, initial direct costs and remaining lease terms;
- for lease agreements with lease and non-lease components, the Company will combine the components and treat them as a single lease component;
- the Company made an accounting policy election whereby short-term leases with an initial term of 12 months or less will not be recorded on the consolidated balance sheets; and;
- the Company will use a single discount rate to a portfolio of leases based on lease term.

The Company purchased and implemented a separate system to facilitate the identification, tracking and reporting of leases based on the requirements of the new lease standard. The Company also implemented internal processes, controls and key system functionality to enable the preparation of financial information on adoption.

Adoption of the standard had a material impact on the Company's consolidated balance sheet resulting in the recognition of operating lease assets and operating lease liabilities of $4,563 million. Deferred landlord incentives of $848 million and straight-line rent liabilities of $294 million (both previously recorded in other liabilities) were netted against the operating lease assets on the transition date. Favourable lease intangible assets of $87 million (previously recorded in other intangible assets) were also included in the operating lease assets. The accounting for finance leases remained substantially unchanged. Adoption of the standard did not materially impact the consolidated interim statement of operations and had no impact on cash flows.

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 operating 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 U.S. GAAP.

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 May 4, 2019, 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, is available under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on the Company's website at www.hbc.com.

Dividends

The Board of Directors approved the payment of a quarterly dividend on June 13, 2019, which will be paid on July 15, 2019, to shareholders of record at the close of business on June 28, 2019. 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 June 12, 2019, the Company had 184,076,650 Common Shares issued and outstanding and 50,919,608 Convertible Preferred Shares issued and outstanding, which are convertible into 55,364,646 Common Shares as of such date. As of June 12, 2019, the Company had 14,288,016 share options and 7,996,534 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 AIF, which is available under the Company's profile on SEDAR at www.sedar.com and on the Company's website at www.hbc.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 or other parties may not be able to obtain the required consents, approvals, and/or regulatory clearances, or otherwise successfully complete the European transaction.

There can be no assurance that the European transaction will be completed in accordance with the contemplated timeline, on the proposed terms or at all. The European transaction is subject to certain consents, approvals, and/or regulatory clearances, including from applicable government authorities and third parties, and there can be no assurance that such consents, approvals or clearances will be obtained. The completion of the European transaction will also depend in part on the ability of SIGNA to fulfill its funding commitments. The failure to consummate the European transaction, 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 European transaction or as to the outcome of any review of strategic options related to the Netherlands retail business.

While the Company believes the European transaction will deliver important financial and strategic benefits, including further advancing HBC's strategy and growth opportunities for its North American businesses, unlocking the value of real estate and improving and strengthening HBC's balance sheet, there is risk that some or all of the anticipated benefits associated with the European transaction may fail to materialize, or may not occur within the time periods currently anticipated by the Company. In addition, on closing of the European transaction HBC will assume ownership of the Netherlands retail business, and release SIGNA from its 50.01% back-to-back guarantees of the Netherlands Leases. There is risk that the anticipated cost savings initiatives, including certain store closures, contemplated for the Netherlands retail business cannot be realized, and that HBC will incur additional costs and expenses in connection with the Netherlands retail business prior to or after closing of the European transaction, including as a result of the guarantees of the Netherlands Leases. See "Related Party Transactions". The realization of the expected benefits from the European transaction and the funding requirements in respect of the Netherlands retail business may be affected by a number of factors, including credit, market, currency, operational, real estate, liquidity and funding risks generally, including changes in economic conditions, interest rates or tax rates; risks and uncertainties relating to information management, technology, supply chain, product safety, changes in law, competition, seasonality, commodity price and business and other risks inherent to the Company's business and/or factors beyond its control which could have a material adverse effect on the Company.