December 6, 2017

HBC Reports Third Quarter 2017 Financial Results

TORONTO & NEW YORK & COLOGNE, Germany--(BUSINESS WIRE)-- HBC (TSX: HBC):

- ***Third quarter retail sales decreased 4.2% to $3.2 billion; comparable sales on a constant currency basis declined by 3.2%***
- ***Saks Fifth Avenue achieves positive constant currency comparable sales for second consecutive quarter; Hudson's Bay extends streak of positive comparable sales for the 29th consecutive quarter***
- ***Progress on HBC's digital initiatives include plan to create Lord & Taylor flagship on Walmart.com, completion of second new automated distribution centre and introduction of Saks OFF 5TH inventory on Gilt***
- ***Heightened focus on enhancing margins through improved inventory efficiency combined with reduced capital investment program expected to significantly improve cash flow in 2018; HBC's Transformation Plan remains on track to generate annual savings of $350 million***
- ***WeWork strategic partnership highlights strategy to maximize productivity of real estate assets and create more dynamic retail destinations; agreement to sell Lord & Taylor Fifth Avenue building continues track record of realizing the underlying value of HBC's real estate assets***

HBC (TSX: HBC) today announced its third quarter financial results for the thirteen and thirty-nine week periods ended October 28, 2017. Unless otherwise indicated, all amounts are expressed in Canadian dollars. Certain metrics, including those expressed on an adjusted, normalized, comparable and/or constant currency basis, are non-IFRS financial measures. For more information please refer to the "Supplemental Information" section of this press release and the reconciliation tables below.

"We are making the necessary changes in our retail operations to drive performance across our banners, and took dramatic steps during the third quarter to continue the transformation of HBC and ensure that we are well positioned to succeed in a rapidly evolving retail environment. Our multifaceted strategic partnership with WeWork will provide a unique way to better utilize our physical space while increasing traffic and improving the economics at our stores. The investment by Rhône Capital and sale of the Lord & Taylor Fifth Avenue building will generate total proceeds of $1.6 billion and substantially strengthen our balance sheet. This will allow us to navigate our rapidly changing industry from a position of strength. At the same time, we continue to focus more on digital. Our agreement to create a Lord & Taylor flagship on Walmart.com significantly extends the reach of this business, and we know that all of our banners have meaningful runway to continue to grow their online presence," stated Richard Baker, HBC's Governor and Executive Chairman and Interim CEO.

Ed Record, HBC's Chief Financial Officer, added, "While Saks Fifth Avenue and Hudson's Bay are performing well, our overall third quarter results did not meet our expectations. The workforce reductions made as part of our Transformation Plan caused some operational challenges, particularly in our digital business, which we are working to address. We know we can do better, and our highest priorities include increasing comparable sales, improving margins, and prioritizing our capital investments as we focus on further developing our digital business. Our emphasis on digital continues to grow, and we are re-allocating resources to improve HBC's digital platforms and online capabilities. We also plan on reducing total inventory as part of an effort to moderate promotional activity and increase full price selling. Finally, our Transformation Plan remains on track to generate annual savings of $350 million, and we continue to look at other ways to become more efficient. These savings, combined with our planned reductions in inventory and capital investments are expected to significantly improve cash flow in 2018."

Third Quarter Summary

All comparative figures below are for the thirteen week period ended October 28, 2017 compared to the thirteen week period ended October 29, 2016. DSG refers, collectively, to the Hudson's Bay, Lord & Taylor and Home Outfitters banners. HBC Europe refers, collectively, to the GALERIA Kaufhof, Galeria INNO and Sportarena banners. HBC Off Price refers, collectively, to the Saks Fifth Avenue OFF 5TH ("Saks OFF 5TH") and Gilt banners.

Retail sales were $3,160 million, a decrease of $140 million, or 4.2%, from the prior year. The decrease was driven primarily by lower overall comparable sales of approximately $104 million and negative foreign exchange impacts of $64 million.

Additionally, closed stores had a $34 million negative impact on overall sales. These impacts were partially offset by the opening of new stores, which added approximately $61 million in sales during the quarter.

Consolidated comparable sales trends softened during the quarter, decreasing by 3.2% on a constant currency basis and 5.1% as reported. On a constant currency basis, comparable sales at Saks Fifth Avenue grew for the second consecutive quarter, increasing by 0.2%. Comparable sales at Saks Fifth Avenue have been positive on a constant currency basis for three of the last four quarters, while comparable sales at Hudson's Bay grew for the 29th consecutive quarter. On a constant currency basis, comparable sales declined by 3.0% at HBC Europe, 3.7% at DSG and 7.6% at HBC Off Price. Comparable sales during the quarter were impacted by lower traffic across HBC's banners, higher promotional activity, operational challenges described below and the effects of the hurricanes in Texas, Florida and Puerto Rico.

On a constant currency basis, digital sales increased by 2.1%, or by 9.0% excluding Gilt. The workforce reductions that were made as part of HBC's Transformation Plan caused some marketing and merchandising challenges during the quarter. These challenges had an adverse impact on the business, particularly digital, and process changes are underway to improve operations. Separately, the Company continues to work on transitioning Gilt into a more intent based shopping destination and, subsequent to the quarter end, began selling inventory from Saks OFF 5TH on Gilt.com. This milestone represents an important step in leveraging the potential of these two banners, both of which will benefit from a shared pool of common inventory.

For HBC overall, gross profit[1] as a percentage of retail sales was 41.6%, a decline of 60 basis points compared to the prior year. This decrease was driven primarily by more promotional and clearance activity at a majority of the Company's banners.

SG&A expenses were $1,339 million compared to $1,342 million in the prior year. The reduction was driven primarily by $50 million in savings from the Company's Transformation Plan, $25 million in beneficial foreign exchange impacts and the absence of certain one-time charges. The reductions in SG&A were offset by an increase in European expansion and new store related expenses of $55 million, $19 million of which is related to pre-opening expenses, higher restructuring costs of approximately $13 million and various other items.

Adjusted SG&A[1] expenses, which exclude certain non-cash items and normalizing adjustments consistent with the Company's other adjusted non-IFRS metrics, were $1,261 million or 39.9% of retail sales, compared to $1,284 million or 38.9% in the prior year. This decrease in SG&A dollars was driven primarily by $50 million in savings from the Company's Transformation Plan and $25 million in beneficial foreign exchange impacts. These reductions were partially offset by increased expenses related to the Company's European expansion of $36 million. Despite the reduction in Adjusted SG&A[1] dollars, the impacts associated with lower comparable sales resulted in an increased Adjusted SG&A[1] expense rate.

Adjusted EBITDA[1] was $34 million, a decrease of $55 million compared to the prior year. The decline in Adjusted EBITDA[1] can primarily be attributed to a decline in gross profit dollars partially offset by decrease in Adjusted SG&A[1] expenses as discussed above.

Net loss was $243 million compared to $125 million in the prior year. The higher net loss is primarily due to lower gross margin dollars combined with higher finance costs, higher depreciation and amortization expenses and a lower income tax benefit. Normalized Net Loss[1] was $203 million compared to $102 million in the prior year, primarily as a result of similar factors.

Note:
1 These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions and reconciliations, please refer to the "Non-IFRS Measures" and "Supplemental Information" sections, respectively, of this release.

Inventory

Inventory at the end of the third quarter declined by $64 million compared to the prior year. The lower balance at the end of the quarter was driven primarily by lower comparable store inventory and foreign exchange rate impacts, partially offset by higher overall inventory at HBC Europe, largely as a result of the expansion of Hudson's Bay in the Netherlands and Saks OFF 5TH in Germany.

Store Network

During the third quarter, HBC opened two Saks OFF 5TH stores in Canada, which are located in Vancouver, British

Columbia and Montreal, Quebec. In the U.S., the Company opened three Saks OFF 5TH stores located in New York City, New York; Seattle, Washington and East Hanover, New Jersey. The Company also opened ten Hudson's Bay stores in the Netherlands located in the cities of Amsterdam, Rotterdam, The Hague, Leiden, Breda, Maastricht, Almere, Zwolle, Tilburg and Den Bosch and one Saks OFF 5TH store in Rotterdam. The Company closed one Hudson's Bay Store in Quebec City, Quebec, one Home Outfitters store in Kitchener, Ontario, one Galeria Kaufhof store in Berlin, Germany and one Sportarena store in Dresden, Germany.

Store information as at October 28, 2017	Store Count[1]	Gross Leasable Area [1] / Square Footage (000s)
Hudson's Bay	**89**	**15,731**
Lord & Taylor	**50**	**6,930**
Saks Fifth Avenue	**41**	**5,188**
Saks OFF 5TH	**129**	**3,879**
Home Outfitters	**50**	**1,753**
HBC Europe [2]	**136**	**29,282**
Total	**495**	**62,763**

(1) HBC operates one Find @ Lord & Taylor store, one Hudson's Bay outlet, two Zellers clearance centres and two Lord & Taylor outlets that are excluded from the store count and gross leasable area.
(2) Includes ten Hudson's Bay Europe stores and one Saks OFF 5TH Europe store opened in the Netherlands during the quarter.

Capital Investments

Capital investments, net of landlord incentives, during the third quarter totaled $143 million, $10 million less than the prior year. In addition to new store openings, HBC also continued work on its major renovation at the Saks Fifth Avenue flagship store on Fifth Avenue in New York, completed the installation of robotic technology at its distribution centre in Pottsville, Pennsylvania and performed smaller renovations at various Hudson's Bay, Lord & Taylor and Saks Fifth Avenue stores.

HBC is dedicated to prudent capital management and, given the current retail environment, is focusing its capital investment program on in-progress and expected high-return projects, as well as its digital business. Net capital investments through the third quarter were $485 million, driven by outsized investments in the Company's expansion into the Netherlands and the delayed receipt of various landlord incentives. Management now expects total capital investments in Fiscal 2017, net of landlord incentives, to be between $575 million and $625 million, compared to $657 million in Fiscal 2016.

The above capital investment expectations reflect exchange rate assumptions of USD:CAD = 1:1.27 and EUR:CAD = 1:1.48 for the remainder of the year. Any variation in these foreign exchange rate assumptions and/or other material assumptions and factors described in the "Forward-Looking Statements" section of this press release could impact the above outlook.

Debt Summary

As at October 28, 2017, HBC had the following outstanding loans and borrowings on its balance sheet (refer to note 10 of the unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended October 28, 2017):

(millions of Canadian dollars)	TOTAL ($)
Global ABL	**1,741**
U.S. Term Loan B	**644**
Lord & Taylor Mortgage	**508**
Saks Mortgage	**1,609**
Other loans	**13**
Total Outstanding Loans and Borrowings	**4,515**

At the end of the third quarter, HBC had more than $800 million in availability under its Global ABL facility. The closing of the Rhône Capital equity investment and sale of the Lord & Taylor Fifth Avenue building are expected to generate total proceeds of $1.6 billion and increase liquidity by $1.1 billion following the repayment of the Lord & Taylor Mortgage.

Conference Call to Discuss Results

Management will discuss the third quarter financial results and other matters during a conference call on December 6, 2017 at 8:30 am EST.

The conference call will be accessible by calling the participant operator assisted toll-free dial-in number (800) 535-7056 or international dial-in number (253) 237-1145. A live webcast of the conference call will be accessible on HBC's website at: http://investor.hbc.com/events.cfm. The audio replay also will be available via this link.

Consolidated Financial Statements and Management's Discussion and Analysis

The Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine weeks ended October 28, 2017 and Management's Discussion and Analysis ("MD&A") thereon are available under the Company's profile on SEDAR at www.sedar.com.

Consolidated Financial Information

The following tables set out summary consolidated financial information and supplemental information for the periods indicated. The summary financial information set out below for the periods ended October 28, 2017 and October 29, 2016 has been prepared on a basis consistent with our audited annual consolidated financial statements for Fiscal 2016. In the opinion of the Company's management, such unaudited financial data reflects all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year or any future period. The information presented herein does not contain disclosures required by IFRS and should be read in conjunction with the Company's audited annual consolidated financial statements for Fiscal 2016.

CONDENSED CONSOLIDATED STATEMENTS OF LOSS

(millions of Canadian dollars, except per share amounts)

(Unaudited)

	Thirteen week period ended		**Thirty-nine week period ended**	
	October 28, 2017	October 29, 2016	**October 28, 2017**	October 29, 2016
Retail sales	**3,160**	3,300	**9,654**	9,855
Cost of sales	**(1,846)**	(1,908)	**(5,681)**	(5,729)
Selling, general and administrative expenses	**(1,339)**	(1,342)	**(4,104)**	(4,023)
Depreciation and amortization	**(173)**	(164)	**(519)**	(476)
Gain on sale of investments in joint ventures	**—**	—	**—**	45
Operating loss	**(198)**	(114)	**(650)**	(328)
Finance costs, net	**(62)**	(48)	**(172)**	(149)
Share of net loss in joint ventures	**(44)**	(51)	**(67)**	(104)
Dilution gains from investments in joint ventures	**7**	6	**10**	18
Loss before income tax	**(297)**	(207)	**(879)**	(563)
Income tax benefit	**54**	82	**214**	199
Net loss for the period	**(243)**	(125)	**(665)**	(364)
Loss per common share				
Basic and diluted	**(1.33)**	(0.69)	**(3.65)**	(2.00)

The following table shows additional summary supplemental information for the periods indicated [1]:

	Thirteen week period ended		**Thirty-nine week period ended**	
	October 28, 2017	October 29, 2016	**October 28, 2017**	October 29, 2016
Adjusted EBITDAR [1]	228	276	603	789
Adjusted EBITDA [1]	34	89	29	232

Adjusted SG&A [1]	1,261	1,284	3,889	3,833
Normalized net loss for the period [1]	(203)	(102)	(584)	(315)
Normalized net loss per Common Share — basic and diluted [1]	(1.11)	(0.56)	(3.20)	(1.73)
Declared dividend per Common Share	0.01	0.05	0.07	0.15

(1) See below for relevant definitions and tables for reconciliations of net loss to EBITDA, Adjusted EBITDA and Adjusted EBITDAR, SG&A to Adjusted SG&A and net loss to Normalized net loss. These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this release and for the relevant reconciliations of the nearest IFRS measures, please refer to the "Supplemental Information" section of this release.

CONDENSED CONSOLIDATED BALANCE SHEETS

As at October 28, 2017 and October 29, 2016

(millions of Canadian dollars)

(Unaudited)

	October 28, 2017	October 29, 2016 *restated* [1]
Assets		
Cash	**97**	86
Trade and other receivables	**361**	509
Inventories	**4,070**	4,134
Asset held for sale	**275**	—
Other current assets	**175**	191
Total current assets	**4,978**	4,920
Property, plant and equipment	**5,228**	5,429
Intangible assets and goodwill	**1,749**	2,000
Pensions and employee benefits	**167**	158
Deferred tax assets	**354**	318
Investments in joint ventures	**606**	619
Other assets	**22**	22
Total assets	**13,104**	13,466
Liabilities		
Loans and borrowings	**1,727**	1,240
Finance leases	**30**	23
Trade payables	**1,760**	1,716
Other payables and accrued liabilities	**1,083**	1,122
Deferred revenue	**114**	121
Provisions	**192**	169
Other liabilities	**145**	157
Total current liabilities	**5,051**	4,548
Loans and borrowings	**2,696**	2,796
Finance leases	**505**	493
Provisions	**52**	66
Pensions and employee benefits	**705**	675
Deferred tax liabilities	**535**	724
Investment in joint venture	**44**	11
Other liabilities	**1,792**	1,551
Total liabilities	**11,380**	10,864
Shareholders' equity		

Share capital	**1,426**	1,422
(Deficit) retained earnings	**(201)**	638
Contributed surplus	**139**	104
Accumulated other comprehensive income	**360**	438
Total shareholders' equity	**1,724**	2,602
Total liabilities and shareholders' equity	**13,104**	13,466

(1) Subsequent to the acquisition of Gilt, the Company identified measurement period adjustments related to the acquisition based on new information. Due to this change, certain previously reported figures have been restated. For more information, please refer to Note 4 of the Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine week periods ended October 28, 2017.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 39 weeks ended October 28, 2017 and October 29, 2016

(millions of Canadian dollars)

(Unaudited)

	October 28, 2017	October 29, 2016
Operating activities		
Net loss for the period	**(665)**	(364)
Income tax benefit	**(214)**	(199)
Dilution gains from investments in joint ventures	**(10)**	(18)
Share of net loss in joint ventures	**67**	104
Finance costs, net	**172**	149
Operating loss	**(650)**	(328)
Net cash income taxes received (paid)	**19**	(21)
Interest paid in cash	**(145)**	(127)
Distributions of earnings from joint ventures	**159**	152
Items not affecting cash flows:		
Depreciation and amortization	**519**	476
Net defined benefit pension and employee benefits expense	**22**	23
Other operating activities	**(16)**	(4)
Share of rent expense to joint ventures	**(267)**	(276)
Gain on sale of investments in joint ventures	**—**	(45)
Share based compensation	**29**	23
Settlement of share based compensation grants	**(3)**	(3)
Changes in operating working capital	**(505)**	(541)
Net cash outflow for operating activities	**(838)**	(671)
Investing activities		
Capital investments	**(715)**	(834)
Proceeds from landlord incentives	**230**	342
Capital investments less proceeds from landlord incentives	**(485)**	(492)
Proceeds from lease terminations and other non-capital landlord incentives	**2**	—
Proceeds on disposal of assets	**3**	84
Proceeds from sale of investments in joint ventures	**—**	65
Acquisition of Gilt Groupe Holdings Inc., net of cash acquired	**—**	(325)
Return of capital from joint venture	**39**	6
Other investing activities	**(16)**	1
Net cash outflow for investing activities	**(457)**	(661)
Financing activities		
Long-term loans and borrowings:		
Issuance	**7**	522
Repayments	**(5)**	(328)
Borrowing costs	**—**	(16)
	2	178

Short-term loans and borrowings:		
Net borrowings from asset-based credit facilities	**1,305**	807
Borrowing costs	**(3)**	(13)
	1,302	794
Payments on finance leases	**(25)**	(27)
Dividends paid	**(13)**	(27)
Net cash inflow from financing activities	**1,266**	918
Foreign exchange gain (loss) on cash	**4**	(7)
Decrease in cash	**(25)**	(421)
Cash at beginning of year	**122**	507
Cash at end of period	**97**	86

Supplemental Information

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

	Thirteen week period ended		**Thirty-nine week period ended**	
(millions of Canadian dollars)	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	$	$	$	$
Net loss for the period	**(243)**	(125)	**(665)**	(364)
Finance costs, net	**62**	48	**172**	149
Income tax benefit	**(54)**	(82)	**(214)**	(199)
Depreciation and amortization	**173**	164	**519**	476
EBITDA [1] [5]	**(62)**	5	**(188)**	62
Certain non-cash items [2]	**54**	56	**113**	75
Normalization adjustments [3]	**61**	47	**159**	156
Net rent expense to joint ventures [4]	**41**	41	**127**	121
Cash rent to joint ventures	**(114)**	(112)	**(341)**	(334)
Cash distributions from joint ventures	**54**	52	**159**	152
Total adjustments	**96**	84	**217**	170
Adjusted EBITDA [5]	**34**	89	**29**	232
Rent adjustments				
Third party rent expense	**134**	127	**392**	375
Cash rent to joint ventures	**114**	112	**341**	334
Cash distributions from joint ventures	**(54)**	(52)	**(159)**	(152)
Adjusted EBITDAR [5]	**228**	276	**603**	789

Notes:

(1) Since the fourth quarter of Fiscal 2016, EBITDA as previously reported has been redefined to exclude the add back for ‘Certain non-cash items'. These add backs are summarized in footnote 2 and are now included as part of the adjustments to calculate Adjusted EBITDA. See the definition of EBITDA in the "Non-IFRS measures" section of this release.

(2) Certain non-cash items consist of:

Share of net loss in joint ventures	44	51	67	104
Gain on sale of investments in joint ventures	—	—	—	(45)
Dilution gains from investments in joint ventures [i]	(7)	(6)	(10)	(18)
Non-cash pension expense	7	9	22	23
Impairment and other non-cash items	(1)	(8)	4	(16)

Share based compensation	11	10	30	27
	54	56	113	75

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

(3) Normalization adjustments consist of:

Acquisition and integration related expenses (i)	2	9	10	41
Lease guarantee provision (ii)	—	(2)	—	14
Foreign exchange adjustment (iii)	5	5	(24)	8
Restructuring (iv)	26	13	114	47
Credit card chargeback expense (v)	—	1	1	11
European expansion (vi)	23	4	73	8
Onerous lease provisions (vii)	—	(8)	9	(8)
Other (viii)	5	25	(24)	35
	61	47	159	156

(i) Includes acquisition and integration expenses related to the acquisitions of Kaufhof and Gilt. (ii) Represents the Company's expected share of costs associated with default on subleases guaranteed by the Company. (iii) Represents the impact of unrealized losses (gains) resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the Company. (iv) Restructuring includes expected costs associated with the Transformation Plan, the $75 million initiative announced in February and programs initiated by HBC Europe to optimize operating efficiencies. (v) Represents additional non-recurring credit card chargeback expenses attributed to industry legal liability changes effective October 2015. (vi) Includes one-time start-up and expansion costs related to HBC Europe's opening of Hudson's Bay and Saks OFF 5TH stores in the Netherlands and Germany. (vii) Represents provisions for the estimated costs associated with certain leased locations in excess of anticipated recoveries. (viii) Other normalized expenses for the thirteen week period ended October 28, 2017, includes insurance claim expenses of $3 million and other smaller items totaling a net of $2 million. Other normalized income for the thirty-nine week period ended October 28, 2017 includes $42 million received in the first quarter of Fiscal 2017 for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall, which was partly offset by duplicative costs associated with the U.S. office consolidation of $8 million, insurance claim expenses of $3 million and other smaller items totaling a net of $7 million. Prior year balances primarily represent duplicative costs associated with the U.S. office consolidation of $22 million and $36 million for the thirteen and thirty-nine week periods ended October 29, 2016, respectively, and other smaller items totaling a net of $3 million and $7 million for the thirteen and thirty-nine week periods ended October 29, 2016 respectively, and share based compensation expense adjustment of $8 million for the thirty-nine week period ended October 29, 2016.

(4) Rent expense to the joint ventures net of reclassification of rental income related to the Company's ownership interest in the joint ventures (see note 9 to the Company's unaudited interim condensed consolidated financial statements for the thirteen and thirty-nine week periods ended October 28, 2017).

(5) These performance metrics have been identified by the Company as Non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this release.

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

(millions of Canadian dollars)	Thirteen week period ended		Thirty-nine week period ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	$	$	$	$
SG&A	**1,339**	1,342	**4,104**	4,023
Certain non-cash items (1)	**(17)**	(11)	**(56)**	(34)
Normalization adjustments (2)	**(61)**	(47)	**(159)**	(156)
Total adjustments	**(78)**	(58)	**(215)**	(190)
Adjusted SG&A (3)	**1,261**	1,284	**3,889**	3,833
Adjusted SG&A (3) as a percentage of retail sales	**39.9 %**	38.9 %	**40.3 %**	38.9 %

Notes:

(1) Certain non-cash items consist of:				
Non-cash pension expense	(7)	(9)	(22)	(23)
Impairment and other non-cash items	1	8	(4)	16
Share based compensation	(11)	(10)	(30)	(27)
	(17)	(11)	(56)	(34)
(2) Normalization adjustments consist of:				
Acquisition and integration related expenses (i)	(2)	(9)	(10)	(41)
Lease guarantee provision (i)	—	2	—	(14)
Foreign exchange adjustment (i)	(5)	(5)	24	(8)
Restructuring (i)	(26)	(13)	(114)	(47)
Credit card chargeback expense (i)	—	(1)	(1)	(11)
European expansion (i)	(23)	(4)	(73)	(8)
Onerous lease provisions (i)	—	8	(9)	8
Other (i)	(5)	(25)	24	(35)
	(61)	(47)	(159)	(156)

(i) For details refer to footnote 3 to the reconciliation of net loss to EBITDA, Adjusted EBITDA and to Adjusted EBITDAR table above.

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

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

	Thirteen week period ended		**Thirty-nine week period ended**	
(millions of Canadian dollars)	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
	$	$	$	$
Net loss for the period	**(243)**	(125)	**(665)**	(364)
Certain non-cash items (1)	**(4)**	(3)	**(6)**	(41)
Normalization adjustments (2)	**40**	19	**112**	93
Financing related adjustments	**—**	—	**—**	2
Adjustments to share of net loss in joint ventures (3)	**4**	7	**(25)**	(5)
Total adjustments (4)	**40**	23	**81**	49
Normalized net loss (5)	**(203)**	(102)	**(584)**	(315)

Notes:

(1) Certain non-cash items consist of:				
Gain on sale of investments in joint ventures	—	—	—	(28)
Dilution gains from investments in joint ventures	(4)	(3)	(6)	(13)
	(4)	(3)	(6)	(41)
(2) Normalization adjustments consist of:				
Acquisition and integration related expenses and finance costs (i)	2	(1)	6	14
Restructuring (ii)	19	9	77	32
Foreign exchange adjustment (iii)	2	—	(13)	10

Lease guarantee provision (iv)	—	(2)	—	10
Credit card chargeback expense (v)	(1)	1	—	7
European expansion (vi)	16	1	51	4
Onerous lease provisions (vii)	—	—	6	—
Other (viii)	2	11	(15)	16
	40	19	112	93

(i) Includes acquisition and integration expenses related to the acquisitions of Kaufhof and Gilt. In addition, includes the recognition of non-cash finance income related to Common Share purchase warrants of nil and $1 million for the thirteen and thirty-nine week periods ended October 28, 2017, respectively (thirteen and thirty-nine week periods ended October 29, 2016: $7 million and $15 million, respectively).
(ii) Restructuring includes expected costs associated with the Transformation Plan, the $75 million initiative announced in February and programs initiated by HBC Europe to optimize operating efficiencies.
(iii) Represents the impact of unrealized losses (gains) resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the Company.
(iv) Represents the Company's expected share of costs associated with default on subleases guaranteed by the Company.
(v) Represents additional non-recurring credit card chargeback expenses attributed to industry legal liability changes effective October 2015.
(vi) Includes one-time start-up and expansion costs related to HBC Europe's opening of Hudson's Bay and Saks OFF 5TH stores in the Netherlands and Germany.
(vii) Represents provisions for the estimated costs associated with certain leased locations in excess of anticipated recoveries.
(viii) Other normalized expenses for the thirteen week period ended October 28, 2017, includes insurance claim expenses of $2 million. Other normalized income for the thirty-nine week period ended October 28, 2017 includes $42 million ($25 million net of tax) received in the first quarter of Fiscal 2017 for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall, which was partly offset by duplicative costs associated with the U.S. office consolidation of $4 million, insurance claim expenses of $2 million and other smaller items totaling a net of $4 million. Prior year balances primarily represent duplicative costs associated with the U.S. office consolidation of $13 million and $22 million for the thirteen and thirty-nine week periods ended October 29, 2016, respectively, offset by other smaller items totaling $2 million for the thirteen week period ended October 29, 2016 and share based compensation expense adjustment of $6 million for thirty-nine week period ended October 29, 2016.

(3) Relates to the Company's share of net non-recurring items incurred by the HBS Joint Venture, which is primarily represents the impact of unrealized losses (gains) resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the joint venture.
(4) All adjustments are tax-effected as appropriate.
(5) This performance metric has been identified by the Company as a Non-IFRS measure. For the relevant definition, please refer to the "Non-IFRS Measures" section of this release.

Non-IFRS Measures

Gross profit, EBITDA, Adjusted EBITDA, Adjusted EBITDAR, Normalized Net Loss and Adjusted SG&A are non-IFRS measures that the Company uses to assess its operating performance. Gross profit is defined as retail sales less cost of sales. EBITDA is defined as net earnings (loss) before net finance costs, income tax expense (benefit) and depreciation and amortization expense. EBITDA as previously reported has now been defined to exclude the add back for ‘certain non-cash items'. These add backs are summarized above and in note 2 to the reconciliation of net loss to EBITDA, Adjusted EBITDA and Adjusted EBITDAR in the "Supplemental Information" section of this press release. As a result of this change, previous references to EBITDA have been updated to conform to this basis.

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

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

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

For further clarity, please refer to the detailed tables reconciling net (loss) earnings to Adjusted EBITDA and to Adjusted EBITDAR, reported SG&A to Adjusted SG&A and net (loss) earnings to Normalized net earnings (loss).

The Company uses these non-IFRS measures to provide investors and others with supplemental measures of its operating performance. The Company believes these non-IFRS measures are important supplemental measures of operating performance because they eliminate items that have less bearing on the Company's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors, rating agencies and other interested parties frequently use these non-IFRS measures in the evaluation of issuers, many of which present similar metrics when reporting their results. The Company's management also uses Adjusted EBITDAR in order to facilitate retail business operating performance comparisons from period to period, prepare annual operating budgets and assess the Company's ability to meet its future debt service, capital expenditure and working capital requirements and the Company's ability to pay dividends on its Common Shares. As other companies may calculate these non-IFRS measures differently than the Company, these metrics may not be comparable to similarly titled measures reported by other companies.

This press release makes reference to certain comparable financial results expressed on a constant currency basis, including comparable sales, comparable digital sales and comparable store inventory. The Company calculates comparable sales on a year-over-year basis from stores operating for at least thirteen months and includes digital sales and clearance store sales. In calculating the sales change, including digital sales, on a constant currency basis where applicable, prior year foreign exchange rates are applied to both current year and prior year comparable sales. Additionally, where an acquisition closed in the previous twelve months, comparable sales change on a constant currency basis incorporate results from the pre-acquisition period. This enhances the ability to compare underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations as well as by reflecting new acquisitions. The Company calculates comparable inventory levels on a year-over-year constant currency basis and does not include (i) acquisitions not closed prior to the end of the same comparable quarter of the prior fiscal year and (ii) new store openings after the end of the same comparable quarter of the prior fiscal year. Definitions and calculations of comparable sales financial results differ among companies in the retail industry. The Company notes that results from acquisitions are only incorporated in the Company's reported consolidated financial results from and after the respective acquisition date.

For further discussion of the Company's financial and operating results, please refer to the MD&A of Financial Condition and Results of Operations for the thirteen and thirty-nine weeks ended October 28, 2017.

About HBC

HBC is a diversified global retailer focused on driving the performance of high quality stores and their all-channel offerings, growing through acquisitions and unlocking the value of real estate holdings. Founded in 1670, HBC is the oldest company in North America. HBC's portfolio today includes formats ranging from luxury to premium department stores to off price fashion shopping destinations, with more than 480 stores and over 66,000 employees around the world.

HBC's leading banners across North America and Europe include Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, Gilt, Saks OFF 5TH, Galeria Kaufhof, the largest department store group in Germany, and Belgium's only department store group Galeria INNO.

HBC has significant investments in real estate joint ventures. It has partnered with Simon Property Group Inc. in the HBS Global Properties Joint Venture, which owns properties in the United States and Germany. In Canada, it has partnered with RioCan Real Estate Investment Trust in the RioCan-HBC Joint Venture.

Forward-Looking Statements

Certain statements made in this news release, including, but not limited to, the benefits of the Company's model of combining world class real estate assets with diverse retail businesses, Rhône's equity investment in HBC, the sale of the

Lord & Taylor building to WeWork, the expectation that Rhône's equity investment and the sale of the Lord & Taylor building will generate a total proceeds of $1.6 billion and increase total liquidity by $1.1 billion, plans to create Lord & Taylor flagship on Walmart.com, the ability to enhance margins through improved inventory management and a reduced capital investment program, significant improvement on cash flow in 2018, the anticipated benefits and annualized savings from HBC's Transformation Plan, including the anticipated timing of realizing such savings, ongoing digital initiatives including plans to grow the Company's online presence, the Company's plan to reduce total inventory, the Company's ongoing exploration and evaluation of real estate strategies and its ability to generate value from HBC's extensive real estate portfolio, including increased traffic and improved economics through better utilization of physical space, the ongoing integration of Gilt and Saks OFF 5TH including the introduction of Saks OFF 5TH inventory on Gilt and the expected increase in reach of offerings and benefit from a shared pool of common inventory, the Company's anticipated gross capital investments and capital investments, net of landlord incentives, for Fiscal 2017, and the intended use of such capital investments, efforts to moderate promotional activity and increase full price selling, the Company's prospects for future growth opportunities and other statements that are not historical facts, are forward-looking. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology.

Implicit in forward-looking statements in respect of capital investments, including, among others, the Company's anticipated Fiscal 2017 total capital investments, net of landlord incentives, to be between $575 million and $625 million, are certain assumptions regarding, among others, the overall retail environment and currency exchange rates for Fiscal 2017. Specifically, the Company has assumed the following exchange rates for the remainder of Fiscal 2017: USD:CAD = 1:1.27 and EUR:CAD = 1:1.48. These current assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual capital investments could differ materially from what is currently expected and are subject to a number of risks and uncertainties, including, among others described below, general economic, geo-political, market and business conditions, changes in foreign currency rates from those assumed, the risk of unseasonal weather patterns and the risk that the Company may not achieve overall anticipated financial performance.

Although HBC believes that the forward-looking statements in this news release are based on information and assumptions that are current, reasonable and complete, these statements are by their nature subject to a number of factors that could cause the Company's actual results, level of activity, performance, achievements, future events or developments to differ materially from management's expectations and plans as set forth in such forward-looking statements, including, without limitation, the following factors, many of which are beyond HBC's control and the effects of which can be difficult to predict: ability to execute retailing growth strategies including better utilization of physical space, ability to continue comparable sales growth, challenges associated with implementation of our Transformation Plan, changing consumer preferences, marketing and advertising program success, damage to brands, dependence on vendors, ability to realize synergies and growth from strategic acquisitions, ability to make successful acquisitions and investments, successful inventory management, loss or disruption in centralized distribution centres, ability to upgrade and maintain the Company's information systems to support the organization and protect against cyber-security threats, privacy breach, risks relating to the Company's size and scale, loss of key personnel, ability to attract and retain qualified employees, implementation of changes to the Company's capital investment program, deterioration in labour relations, ability to maintain pension plan surplus, funding requirement of Saks' pension plan, funding requirement of the HBC Europe pension plan, limits on insurance policies, loss of intellectual property rights, insolvency risk of parties which the Company does business with or their unwillingness to perform their obligations, exposure to changes in the real estate market, successful operation of the joint ventures to allow the Company to realize the anticipated benefits, loss of flexibility with respect to properties in the joint ventures, exposure to environmental liabilities, changes in demand for current real estate assets, increased competition, change in spending of consumers including the impact of unfavourable or unstable political conditions and terrorism, international operational risks, fluctuations in the U.S. dollar, Canadian dollar, Euro and other foreign currencies, increase in raw material costs, seasonality of business, extreme weather conditions or natural disasters, ability to manage indebtedness and cash flow, risks related with increasing indebtedness, restrictions of existing credit facilities reducing flexibility, ability to maintain adequate financial processes and controls, ability to maintain dividends, ability of a small number of shareholders to influence the business, uncontrollable sale of the Company's Common Shares by significant shareholders could affect share price, constating documents discouraging favorable takeover attempts, increase in regulatory liability, increase in product liability or recalls, increase in litigation, developments in the credit card and financial services industries, changes in accounting standards, risks associated with the Company's strategic initiatives, including the Transformation Plan, risks associated with the Private Placement 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.

HBC cautions that the foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect its results. For more information on the risks, uncertainties and assumptions that could cause HBC's actual results to differ from current expectations, please refer to the "Risk Factors" section of HBC's Annual Information Form dated April 28, 2017, the "Risk Factors" section of HBC's MD&A dated December 6, 2017, as well as HBC's other public filings, available at www.sedar.com and at www.hbc.com.

The forward-looking statements contained in this news release describe HBC's expectations at the date of this news release and, accordingly, are subject to change after such date. Except as may be required by applicable Canadian securities laws, HBC does not undertake any obligation to update or revise any forward-looking statements contained in this news release, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on these forward-looking statements.

View source version on businesswire.com: http://www.businesswire.com/news/home/20171206005594/en/

Hudson's Bay Company
INVESTOR RELATIONS:
Elliot Grundmanis, (646) 802-2469
elliot.grundmanis@hbc.com
or
MEDIA:
Andrew Blecher, (646) 802-4030
andrew.blecher@hbc.com

Source: Hudson's Bay Company

News Provided by Acquire Media