September 12, 2018

HBC Reports Second Quarter 2018 Financial Results

- ***Total sales decreased 2.0% to $2.2 billion; total comparable sales declined 0.4%, Saks Fifth Avenue comparable sales growth of 6.7% highlights strength of HBC's largest banner***
- ***Net loss was $147 million for the quarter compared to $100 million in the prior year; Year-to-date net loss of $281 million compared to $203 million in the prior year***
- ***Adjusted EBITDA of $33 million, up significantly from $3 million in the prior year driven by gross margin improvement of 240 bps***
- ***Year-to-date Adjusted EBITDA increased significantly to $88 million compared to $5 million in the prior year***
- ***Proceeds from HBC's transactions with SIGNA and the upcoming sale of the Lord & Taylor flagship building expected to materially reduce leverage***
- ***HBC Europe classified as discontinued operations, Q2 results reflect North American operations only***

TORONTO & NEW YORK--(BUSINESS WIRE)-- HBC (TSX:HBC) today announced its financial results for the thirteen and twenty-six week periods ended August 4, 2018. 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. Following the Company's agreements to form a strategic partnership with SIGNA Retail Holdings ("SIGNA"), HBC Europe has been classified as a discontinued operation. Accordingly, the results from this business are excluded from the highlights and summary results discussed in this press release. For more information please refer to the "Supplemental Information" section of this press release and the reconciliation tables below.

"We have emphasized improving bottom line performance across all of our banners, resulting in a significant increase in Adjusted EBITDA during Q2 and year to date. This improvement is encouraging, and was driven by higher gross margins and better inventory management," said Helena Foulkes, HBC's Chief Executive Officer. "We have been making the tough decisions necessary to set HBC up for long-term success and see even more opportunity to drive growth and profitability. By strengthening our retail portfolio, including a particular focus on the customer experience, and maximizing the value of our real estate, we expect to drive performance and unlock shareholder value."

Foulkes added, "We continue to focus on increasing accountability and improving profitability, and our recent results are a step in the right direction. Saks Fifth Avenue's strong performance is especially encouraging. The business's ongoing strategy to elevate the brand through enhancement of its fashion offering, increased customer engagement and efforts to bring together the online and offline shopping experience continues to drive traction within the luxury segment. Going forward, we see even greater runway for this business. While earnings have stabilized, there is still significant work to be done to improve our topline at Lord & Taylor and Saks OFF 5TH, which have not met expectations. With the right leadership team now in place, our banners are empowered to develop and implement strategies that will best drive their businesses forward."

"Our recent strategic partnership in Europe significantly strengthens HBC's retail portfolio and continues our track record of executing transactions that unlock the value of our real estate portfolio. This transaction highlights the significant value of our European assets, creating more than $1.1 billion in real estate value, and generates cash that will improve our liquidity and overall leverage. The combination of HBC Europe with the next largest retail group in Germany provides the groundwork for this newly formed operating company to stabilize performance and tackle the evolving European retail industry head-on. We look forward to working with our new partner on future initiatives for the European real estate assets, as well as continuing to explore opportunities to capitalize on the value of our assets in North America," stated Richard Baker, HBC's Governor and Executive Chairman.

HBC Europe Partnership

As announced on September 11, 2018, HBC entered into definitive agreements with SIGNA to form a strategic partnership encompassing its European retail and real estate assets. HBC Europe's retail operations will merge with SIGNA's Karstadt Warenhaus GmbH's retail operations, with HBC taking a 49.99% interest in the combined businesses. This includes two iconic banners, Galeria Kaufhof and Karstadt, as well as other HBC and SIGNA banners to create a well-capitalized retailer positioned for improved profitability. Together, these businesses generated approximately €5.4 billion in total sales during fiscal 2017. SIGNA will also acquire a 50% interest in HBC's German real estate assets from HBC and its partners, and a 50-50 joint venture will be formed to own and manage HBC's German real estate assets. These transactions will generate net proceeds to HBC of €411 million ($616 million). The net proceeds, together with the implied value of HBC's remaining interest in these real estate assets, net of debt, totals $8.71 per share[2].

Strengthening HBC's Retail Portfolio

HBC is committed to evaluating all opportunities while focusing its resources on the retail businesses that provide the most opportunity for profitable growth. Aligned with this focus, HBC has taken action to strengthen its European portfolio and stabilize its North American operations. The Company's recently announced strategic partnership in Europe creates an improved operating platform and provides additional liquidity and enhanced flexibility to execute in North America. This partnership follows the divestment of Gilt, which closed during the quarter.

While Saks Fifth Avenue and Hudson's Bay have demonstrated solid performance, there is still significant opportunity to improve these businesses. The Company continues to support each banner in leveraging data-driven insights to tailor marketing and digital strategies, delivering a better customer experience in our stores. Earnings at Saks OFF 5TH and Lord & Taylor have stabilized, though overall performance has not met expectations. New leadership teams at these banners are implementing changes that are expected to improve results over time.

Maximizing the Value of HBC's Real Estate

HBC continues to unlock value from its real estate portfolio with the partial sale of its German real estate assets and the upcoming closing of the sale of the Lord & Taylor Fifth Avenue flagship building. Combined, the close of the partial sale of HBC's German real estate assets and the Lord & Taylor flagship building are expected to generate total proceeds of at least $1.4 billion over the coming quarters. In addition to these recent activities, the Company continues to explore strategic partnerships and other alternatives that maximize the value of its North American assets.

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.
2 Assumes 235.6 million outstanding shares.

Second Quarter Summary

All comparative figures below are for the thirteen week period ended August 4, 2018 compared to the thirteen week period ended July 29, 2017. All references to "comparable sales" are made on a constant currency basis. See "Non-IFRS Measures"

During the quarter, the Company committed to a plan to sell its controlling interest in HBC Europe and to form a strategic partnership for its European businesses. As a result, HBC Europe has been classified as a discontinued operation. Accordingly, the results from this business are excluded from the discussion below.

Revenue was $2,160 million, a decrease of $44 million, or 2.0%, from the prior year. Overall comparable sales declined 0.4%, with total comparable digital sales increasing 10.8%. Comparable sales performance at the Company's banners are highlighted below:

- Saks Fifth Avenue comparable sales increase of 6.7%
- DSG (Hudson's Bay, Lord & Taylor and Home Outfitters) comparable sales decrease of 3.8%
- Saks OFF 5TH comparable sales decrease of 7.6%

For HBC overall, gross profit[1] as a percentage of revenue was 39.9%, an improvement of 240 basis points compared to the prior year. Higher margins were driven predominantly by improved full price selling margin rates and increased penetration of full price selling versus clearance sales.

SG&A expenses were $870 million compared to $886 million in the prior year. The decrease was primarily driven by $40 million in additional savings from the Company's restructuring programs, a $34 million reduction in one-time restructuring charges and other smaller items. Partially offsetting this were increased store variable costs driven by the sales mix by banner as well as additional investments in digital resources combined with an increase in fulfillment expenses related to the sales growth in this channel.

Adjusted SG&A[1] expenses, which exclude certain non-cash items and normalizing adjustments consistent with the Company's other non-IFRS metrics, were $835 million or 38.7% of revenue, compared to $832 million or 37.7% in the prior year. This increase was primarily driven by higher variable store costs and increased investment in digital resources as discussed above, partially offset by $40 million in savings from the Company's restructuring programs. The increase in Adjusted SG&A[1] dollars combined with the impacts associated with lower comparable sales resulted in an increased Adjusted SG&A[1] expense rate.

Adjusted EBITDAR[1] was $119 million, an increase of $30 million compared to the prior year. The increase in Adjusted EBITDAR[1] can primarily be attributed to an increase in gross profit dollars, partially offset by nominally higher Adjusted SG&A[1] expenses.

Net loss from continuing operations was $147 million compared to a net loss $100 million in the prior year. The increase in loss was primarily driven by a higher reported loss from the Company's joint ventures, largely driven by the impact of foreign exchange and a decrease in income tax benefits. These impacts were partially offset by higher gross profit dollars and lower SG&A expenses. Normalized net loss[1] was $124 million compared to $97 million in the prior year, driven by lower income tax benefits, increased depreciation and amortization expenses and higher finance costs, partially offset by a reduced operating loss.

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.

European Operations

HBC Europe, which has been classified as a discontinued operation, generated sales of $970 million, an increase of 1.9% compared to the prior year. Comparable sales declined 4.7%, a sequential improvement from the first quarter of Fiscal 2018. Adjusted EBITDAR was $72 million, compared to $114 million in the prior year, driven by lower comparable sales and gross profit dollars and higher rent expenses, largely driven by new store openings over the last 12 months. Net loss was $121 million, compared to $81 million in the prior year.

Inventory

Inventory as reported on the balance sheet at the end of the second quarter declined by $690 million compared to the prior year. This reduced balance at the end of the quarter was driven primarily by the divestment of Gilt and the reclassification of inventory related to HBC Europe to *assets of discontinued operations held for sale,* as well as a 0.7% reduction in comparable inventory at the Company's North American banners. These impacts were partially offset by translation effects from the depreciation of the Canadian dollar.

Store Network - continuing operations

During the second quarter, HBC closed two Home Outfitters stores in Quebec City, Quebec and St. Bruno, Quebec.

Store information as at August 4, 2018	Store Count[(1)]	Gross Leasable Area [(1)] / Square Footage (000s)
Hudson's Bay	**89**	**15,720**
Lord & Taylor	**48**	**6,705**
Saks Fifth Avenue	**42**	**5,303**
Saks OFF 5TH	**132**	**3,966**
Home Outfitters	**39**	**1,363**
Total	**350**	**33,057**

(1) HBC 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.

Capital Investments - continuing operations

Capital investments, net of landlord incentives, totaled $46 million during the second quarter, $32 million less than the prior year. HBC continued work on its major renovation at the Saks Fifth Avenue flagship store on Fifth Avenue in New York, and performed smaller renovations at various Hudson's Bay, Saks Fifth Avenue and Lord & Taylor stores. Technology investments included the completion of the Company's automated distribution center in Pottsville, as well as other digital related initiatives.

Following the agreement to combine its European operations with SIGNA's Karstadt, management expects total North American capital investments in Fiscal 2018, net of landlord incentives, to be between $375 million and $425 million. These capital investment expectations reflect exchange rate assumptions of USD:CAD = 1:1.27 for the remainder of the year. Any variation in these foreign exchange rate assumptions and/or other material assumptions and factors described in the "Forward-Looking Statements" section of this press release could impact the above outlook.

Debt Summary

As at August 4, 2018, HBC had the following outstanding loans and borrowings on its balance sheet (refer to note 13 of the unaudited interim condensed consolidated financial statements for thirteen and twenty-six week periods ended August 4, 2018):

(millions of Canadian dollars)	**Aug 4, 2018**	Jul 29, 2017
Global ABL	**972**	1,222
U.S. Term Loan B	**650**	622
Lord & Taylor Mortgage	**509**	493
Saks Mortgage	**1,624**	1,556
Other loans	**28**	11
Total Outstanding Loans and Borrowings	**3,783**	3,904

Including $78 million of additional ABL borrowings at HBC Europe, HBC had $1,155 million in availability under its Global ABL facility at the end of the second quarter, an increase of $94 million in availability compared to the prior year. The partial sale of HBC's German real estate assets and the close of the Lord & Taylor flagship building sale are expected to generate total proceeds of at least $1.4 billion over the coming quarters. These proceeds will be used to dramatically reduce HBC's outstanding borrowings, significantly enhancing the Company's financial flexibility and increasing overall liquidity. Management currently expects to fully repay the Lord & Taylor mortgage, prepay $228 million of the Term Loan B, and end the year with no outstanding borrowings on HBC's ABL facility.

Dividend

HBC also announced today that its board of directors has approved HBC's regular quarterly dividend to be paid on October 15, 2018, to shareholders of record at the close of business on September 28, 2018. The dividend is in the amount of $0.0125 per HBC common share and is designated as an "eligible dividend" for Canadian tax purposes. The declaration of dividends is at the discretion of HBC's board.

Conference Call to Discuss Results

Management will discuss the second quarter financial results and other matters during a conference call on September 12, 2018 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 twenty-six weeks ended August 4, 2018 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 quarters ended August 4, 2018 and July 29, 2017 has been prepared on a basis consistent with our audited annual consolidated financial statements for Fiscal 2017, respectively. 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 for consolidated financial statements and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six weeks ended August 4, 2018.

CONDENSED CONSOLIDATED STATEMENTS OF LOSS

(millions of Canadian dollars, except per share amounts)

	Thirteen week period ended		**Twenty-six week period ended**	
	Aug 4, 2018	*restated* [1] Jul 29, 2017	**Aug 4, 2018**	*restated* [1] Jul 29, 2017
Revenue	**2,160**	2,204	**4,304**	4,366
Cost of sales	**(1,299)**	(1,378)	**(2,574)**	(2,676)
Selling, general and administrative expenses ("SG&A")	**(870)**	(886)	**(1,732)**	(1,763)
Depreciation and amortization	**(123)**	(113)	**(242)**	(230)
Operating loss	**(132)**	(173)	**(244)**	(303)
Finance costs, net	**(53)**	(43)	**(101)**	(90)
Share of net (loss) earnings in joint ventures	**(12)**	45	**(31)**	57
Dilution gains from investments in joint ventures	**—**	—	**1**	3
Loss before income tax	**(197)**	(171)	**(375)**	(333)
Income tax benefit	**50**	71	**94**	130
Net loss for the period - continuing operations	**(147)**	(100)	**(281)**	(203)
Net loss for the period - discontinued operations, net of taxes	**(117)**	(101)	**(383)**	(219)
Net loss for the period	**(264)**	(201)	**(664)**	(422)
Loss per share - basic and diluted				
Continuing operations	**(0.62)**	(0.55)	**(1.19)**	(1.12)
Discontinued operations	**(0.50)**	(0.55)	**(1.63)**	(1.20)
Total operations	**(1.12)**	(1.10)	**(2.82)**	(2.32)

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

	Thirteen week period ended		**Twenty-six week period ended**	
	Aug 4, 2018	*restated* [1] Jul 29, 2017	**Aug 4, 2018**	*restated* [1] Jul 29, 2017
Adjusted EBITDA [2]	**33**	3	**88**	5
Adjusted EBITDAR [2]	**119**	89	**259**	179
Adjusted SG&A [2]	**835**	832	**1,679**	1,708
Normalized net loss for the period [2]	**(124)**	(97)	**(240)**	(218)
Normalized net loss per Common Share — basic and diluted [2]	**(0.53)**	(0.53)	**(1.02)**	(1.20)
Declared dividend per Common Share	**0.01**	0.01	**0.03**	0.03

(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations.
(2) See below for relevant definitions and tables for reconciliations of net loss - continuing operations 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

(millions of Canadian dollars)

	Aug 4, 2018	Jul 29, 2017
Assets		
Cash	**26**	112
Trade and other receivables	**183**	328
Inventories	**2,634**	3,324
Asset held for sale	**277**	—
Assets of discontinued operations held for sale	**2,779**	—
Other current assets	**208**	199
Total current assets	**6,107**	3,963
Property, plant and equipment	**3,958**	5,273
Intangible assets and goodwill	**1,096**	1,705
Pensions and employee benefits	**165**	170
Deferred tax assets	**309**	358
Investments in joint ventures	**595**	588
Other assets	**41**	22
Total assets	**12,271**	12,079
Liabilities		
Loans and borrowings	**968**	1,206
Finance leases	**29**	28
Trade payables	**888**	1,449
Other payables and accrued liabilities	**674**	946
Deferred revenue	**98**	103
Provisions	**124**	193
Liabilities of discontinued operations held for sale	**2,130**	—
Other current liabilities	**236**	157
Total current liabilities	**5,147**	4,082
Loans and borrowings	**2,726**	2,604
Finance leases	**326**	500
Provisions	**68**	53
Pensions and employee benefits	**182**	690
Deferred tax liabilities	**235**	573
Investment in joint venture	**224**	4
Other liabilities	**1,507**	1,683
Total liabilities	**10,415**	10,189
Shareholders' equity		
Share capital	**2,049**	1,426
(Deficit) retained earnings	**(773)**	44
Contributed surplus	**166**	128
Accumulated other comprehensive income	**414**	292
Total shareholders' equity	**1,856**	1,890

Total liabilities and shareholders' equity	**12,271**	12,079

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)

	Twenty-six week period ended	
	August 4, 2018	*restated* (1) July 29, 2017
Operating activities		
Net loss from continuing operations	**(281)**	(203)
Income tax benefit	**(94)**	(130)
Dilution gains from investments in joint ventures	**(1)**	(3)
Share of net loss (earnings) in joint ventures	**31**	(57)
Finance costs, net	**101**	90
Operating loss	**(244)**	(303)
Net cash income taxes paid	**(3)**	(3)
Interest paid in cash	**(91)**	(81)
Distributions of earnings from joint ventures	**100**	105
Depreciation and amortization	**242**	230
Net defined benefit pension and employee benefits expense	**11**	11
Other operating activities	**12**	(14)
Share of rent expense to joint ventures	**(95)**	(98)
Share based compensation	**27**	15
Settlement of share based compensation grants	**(3)**	(2)
Changes in operating working capital	**(186)**	(76)
Cash outflow for operating activities from continuing operations	**(230)**	(216)
Cash outflow for operating activities from discontinued operations	**(331)**	(242)
Net cash outflow for operating activities	**(561)**	(458)
Investing activities		
Capital investments	**(211)**	(284)
Proceeds from landlord incentives	**72**	103
Capital investments less proceeds from landlord incentives	**(139)**	(181)
Proceeds from lease terminations and other non-capital landlord incentives	**26**	2
Deposit for sale of Lord & Taylor Fifth Avenue building	**33**	—
Proceeds on disposal of assets	**1**	3
Proceeds on sale of Gilt operations	**41**	—
Other investing activities	**—**	(9)
Cash outflow for investing activities from continuing operations	**(38)**	(185)
Cash outflow for investing activities from discontinued operations	**(37)**	(164)
Net cash outflow for investing activities	**(75)**	(349)
Financing activities		
Repayments	**(4)**	(4)
Long-term loans and borrowings	**(4)**	(4)
Net borrowings from asset-based credit facilities	**576**	582
Borrowing costs	**(1)**	(2)
Short-term loans and borrowings	**575**	580
Payments on finance leases	**(19)**	(12)
Dividends paid	**(4)**	(11)
Cash inflow from financing activities from continuing operations	**548**	553
Cash inflow from financing activities from discontinued operations	**80**	243
Net cash inflow from financing activities	**628**	796
Foreign exchange gain on cash	**2**	1
Decrease in cash	**(6)**	(10)
Cash at beginning of year	**70**	122

Cash at end of period	**64**	112
Deduct: cash reclassified to assets of discontinued operations held for sale	**(38)**	—
Cash at end of period - continuing operations	**26**	112

Note:
(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations.

Supplemental Information

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

	Thirteen week period ended		**Twenty-six week period ended**	
(millions of Canadian dollars)	**August 4, 2018**	*restated* (1) July 29, 2017	**August 4, 2018**	*restated* (1) July 29, 2017
	$	$	$	$
Net loss - continuing operations	**(147)**	(100)	**(281)**	(203)
Finance costs, net	53	43	101	90
Income tax benefit	(50)	(71)	(94)	(130)
Depreciation and amortization	123	113	242	230
EBITDA (2)	**(21)**	(15)	**(32)**	(13)
Certain non-cash items (3)	25	(27)	68	(23)
Normalization adjustments (4)	22	36	35	18
Net rent expense to joint ventures (5) (6)	19	19	37	38
Cash rent to joint ventures	(60)	(61)	(120)	(120)
Cash distributions from joint ventures	48	51	100	105
Total adjustments	54	18	120	18
Adjusted EBITDA (2)	**33**	3	**88**	5
Rent adjustments				
Third party rent expense	74	76	151	159
Cash rent to joint ventures	60	61	120	120
Cash distributions from joint ventures	(48)	(51)	(100)	(105)
Adjusted EBITDAR (2)	**119**	89	**259**	179
Adjusted EBITDAR as a percentage of revenue	**5.5%**	4.0%	**6.0%**	4.1%

Notes:
(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations.
(2) These performance metrics have been identified by the Company as non-IFRS measures. For the relevant definitions, please refer to the "Non-IFRS Measures" section of this release.
(3) Certain non-cash items consist of:

Share of net loss (earnings) in joint ventures	12	(45)	31	(57)
Dilution gains from investments in joint ventures (i)	—	—	(1)	(3)
Non-cash pension expense	6	6	11	11
Impairment and other non-cash items	—	7	7	9
Non-cash share based compensation	7	5	20	17
	25	(27)	68	(23)

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

(4) Normalization adjustments consist of:

Acquisition and integration related expenses (i)	5	3	11	7
Lord & Taylor optimization (ii)	—	—	16	—
Foreign exchange adjustment (iii)	7	(18)	7	(29)
Restructuring (iv)	6	40	15	67
Net gain on store closures (v)	—	—	(28)	—
Data security issue (vi)	—	—	3	—
White Flint settlement (vii)	—	—	—	(42)
Other	4	11	11	15
	22	36	35	18

(i) Includes costs associated with acquisition and integration related activities.
(ii) Lord & Taylor optimization includes expected costs associated with the planned closures of certain Lord & Taylor stores beginning in the first quarter of Fiscal 2019.
(iii) Represents the net impact of unrealized (gains) losses resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the Company.
(iv) Restructuring includes expected costs associated with HBC's transformation plan, announced in June 2017 (the "Transformation Plan") and the $75 million initiative announced in February of 2017.
(v) Net gain on store closures represents lease termination fee income received with respect to two Lord & Taylor stores that closed during the first quarter of Fiscal 2018, net of associated costs.
(vi) This represents costs related to the data security issue which occurred during the first quarter of Fiscal 2018 that will not be recoverable under the Company's insurance policies.
(vii) This represents a $42 million payment received for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall.

(5) Rent expense to the joint ventures net of reclassification of rental income related to the Company's ownership interest in the joint ventures (see note 11 to the Company's unaudited interim condensed consolidated financial statements for the thirteen and twenty-six week periods ended August 4, 2018).

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

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

	Thirteen week period ended		**Twenty-six week period ended**	
(millions of Canadian dollars)	**August 4, 2018**	*restated* (1) July 29, 2017	**August 4, 2018**	*restated* (1) July 29, 2017
	$	$	$	$
SG&A - continuing operations	**870**	886	**1,732**	1,763
Certain non-cash items (2)	(13)	(18)	(38)	(37)
Normalization adjustments (3)	(22)	(36)	(15)	(18)
Total adjustments	(35)	(54)	(53)	(55)
Adjusted SG&A (4)	**835**	832	**1,679**	1,708
Adjusted SG&A (4) as a percentage of revenue	**38.7%**	37.7%	**39.0%**	39.1%

Notes:
(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations.
(2) Certain non-cash items consist of:

Non-cash pension expense	(6)	(6)	(11)	(11)
Impairment and other non-cash items	—	(7)	(7)	(9)
Non-cash share based compensation	(7)	(5)	(20)	(17)
	(13)	(18)	(38)	(37)

(3) Normalization adjustments consist of:

Acquisition and integration related expenses [i]	(5)	(3)	(11)	(7)
Foreign exchange adjustment [i]	(7)	18	(7)	29
Restructuring [i]	(6)	(40)	(15)	(67)
Gain on store closures [ii]	—	—	32	—
Data security issue [i]	—	—	(3)	—
White Flint settlement [i]	—	—	—	42
Other	(4)	(11)	(11)	(15)
	(22)	(36)	(15)	(18)

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

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

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

	Thirteen week period ended		**Twenty-six week period ended**	
(millions of Canadian dollars)	**August 4, 2018**	*restated* [1] July 29, 2017	**August 4, 2018**	*restated* [1] July 29, 2017
	$	$	$	$
Net loss - continuing operations	**(147)**	(100)	**(281)**	(203)
Certain non-cash items [2]	—	—	—	(2)
Normalization adjustments [3]	16	26	21	16
Adjustments to share of net (loss) earnings in joint ventures [4] [5]	7	(23)	20	(29)
Total adjustments [6]	23	3	41	(15)
Normalized net loss [7]	**(124)**	(97)	**(240)**	(218)

Notes:
(1) Certain previously reported figures have been restated to exclude the results related to discontinued operations.
(2) Certain non-cash items consist of:

Dilution gains from investments in joint ventures	—	—	—	(2)

(3) Normalization adjustments consist of:

Acquisition and integration related expenses and finance costs [i]	3	1	6	3
Lord & Taylor optimization [ii]	—	—	12	—
Foreign exchange adjustment [iii]	7	(7)	2	(15)
Restructuring [iv]	5	26	12	43
Net gain on store closures [v]	—	—	(20)	—
Data security issue [vi]	—	—	2	—

White Flint settlement (vii)	—	—	—	(25)
Other	1	6	7	10
	16	26	21	16

(i) Includes costs associated with acquisition and integration related activities. In addition, includes the recognition of non-cash finance income related to Common Share purchase warrants of $1 million for the twenty-six week period ended August 4, 2018 and non cash finance income of $2 million and $1 million for the thirteen and twenty-six week periods ended July 29, 2017.
(ii) Lord & Taylor optimization includes expected costs associated with the planned closures of certain Lord & Taylor stores beginning in the first quarter of Fiscal 2019.
(iii) Represents the net impact of unrealized (gains) losses resulting from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the Company.
(iv) Restructuring includes expected costs associated with the Transformation Plan and the $75 million initiative announced in February of 2017.
(v) Net gain on store closures represents lease termination fee income received with respect to two Lord & Taylor stores that closed during the thirteen week period ended May 5, 2018, net of associated costs.
(vi) This represents costs related to the data security issue which occurred during the first quarter of Fiscal 2018 that will not be recoverable under the Company's insurance policies.
(vii) This represents a $42 million ($25 million net of tax) payment received for a favourable verdict with respect to a 2013 lawsuit brought forth by the Company relating to White Flint mall.

(4) As a result of the presentation of HBC Europe as a discontinued operation, the reclassification of rental income to SG&A related to the Company's ownership in the HBS Joint Venture has been restated to exclude amounts related to rental income from HBC Europe.
(5) Relates to the Company's share of net non-recurring items incurred which primarily includes the impact of unrealized losses (gains) of the HBS Joint Venture which result from the translation of certain intra-group monetary assets and liabilities related to the overall tax and legal structure of the joint venture.
(6) All adjustments are tax-effected as appropriate.
(7) This performance metric has been identified by the Company as a non-IFRS measure. For the relevant definition, please refer to the "Non-IFRS Measures" section of this release.

Non-IFRS Measures

Gross profit, EBITDA, Adjusted EBITDA, Adjusted EBITDAR, Normalized net earnings (loss) and Adjusted SG&A are non-IFRS measures that the Company uses to assess its operating performance. Gross profit is defined as revenue less cost of sales. EBITDA is defined as net earnings (loss) before net finance costs, income tax expense (benefit) and depreciation and amortization expense.

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

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

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

For further clarity, please refer to the detailed tables reconciling net earnings (loss) to EBITDA, Adjusted EBITDA and to Adjusted EBITDAR, reported SG&A to Adjusted SG&A and net earnings (loss) 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 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 and comparable inventory 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 thirteen and twenty-six week periods ended August 4, 2018.

About HBC

HBC is a diversified global retailer focused on driving the performance of high quality stores and their omnichannel offerings and unlocking the value of real estate holdings. Founded in 1670, HBC is the oldest company in North America. HBC's portfolio today includes formats ranging from luxury to premium department stores to off price fashion shopping destinations, with more than 480 stores and approximately 65,000 employees around the world.

HBC's leading banners across North America and Europe include Hudson's Bay, Lord & Taylor, Saks Fifth Avenue, 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, ability to grow sales, increase margins, and improve profitability, expectation that the luxury sector and Saks Fifth Avenue will continue to grow, the anticipated closing of the sale of the Company's Lord & Taylor flagship building and resulting improvement to cash flow, the Company's balance sheet and overall liquidity, the strategic partnership with SIGNA, including the combination of HBC Europe's retail operations with SIGNA's retail operations, the proposed real estate joint venture, the transfer of a 50% interest in HBC's German real estate assets from HBC and its partners, the expectation that the transactions will further strengthen HBC's European retail and real estate operations, unlock real estate value, create value for shareholders, improve balance sheet, liquidity and overall leverage and improve performance, the expectation that net proceeds from the proposed transactions will provide additional liquidity and repay debt, the anticipated performance of the combined retail operating company; the anticipated completion of the proposed transactions, the expectation that changes at Saks OFF 5TH and Lord & Taylor will improve results over time, 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 2018 total North American capital investments, net of landlord incentives, to be between $375 million and $425 million, are certain assumptions regarding, among others, the overall retail environment and currency exchange rates for Fiscal 2018. Specifically, the Company has assumed the following exchange rates for the remainder of Fiscal 2018: USD:CAD = 1:1.27. These current assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual capital investments could differ materially from what is currently expected and are subject to a number of risks and uncertainties, including, among others described below, general economic, geo-political, market and business conditions, changes in foreign currency rates from those assumed, the risk of unseasonal weather patterns and the risk that the Company may not achieve overall anticipated financial performance. Additionally, in respect of the amounts related to the strategic partnerships with SIGNA, the Company has assumed an exchange rate of EUR:CAD = 1.50.

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, ability to continue comparable store sales growth, changing consumer preferences, demands and fashion trends, marketing and advertising program success, damage to brands and dependence on vendors, ability to realize synergies and growth from strategic acquisitions, ability to make successful acquisitions. investments, expansions and divestitures, ability to realize savings from the implementation of the Transformation Plan and ability to further reduce overhead, effect of actions of activities shareholders, ability to successfully manage inventory levels, loss or disruption in centralized distribution centers, ability to upgrade and maintain the Company's information systems to support the needs of the Company and protect against cyber-security threats, risks related to privacy breaches, risks relating to the Company's size and scale, loss of key personnel, ability to attract and retain qualified employees, deterioration in labor relations, risks related to labor costs and other challenges from a large workforce, ability to maintain pension plan surplus, funding requirements of Saks' pension plan, funding requirements of HBC Europe's pension plan, limits on insurance policies, loss of intellectual property rights, insolvency risk of parties with which we do business or their unwillingness to perform their obligations, exposure to changes in the real estate market, loss of flexibility with respect to properties in the real estate joint ventures, successful operation of the real estate joint ventures to allow us to realize the anticipated benefits or the ability to effect a future monetization transaction with each of the real estate joint ventures, exposure to environmental liabilities, liabilities associated with third parties who have assumed leases from the Company, changes in demand for current real estate assets, failure to close the sale of the Lord & Taylor Fifth Avenue building, increased competition, change in spending of consumers, extreme weather conditions or natural disasters, international operational risks, fluctuations in the U.S. dollar, Canadian dollar, Euro and other foreign currencies, increase in raw material costs, seasonality of business, ability to manage indebtedness and cash flow, risks related with increasing indebtedness, restrictions of existing credit facilities reducing flexibility, loss of flexibility due to restrictive debt covenants, future availability of financing, limitations related to a decrease in credit rating, ability to maintain adequate financial processes and controls, ability to maintain dividends, ability of a small number of shareholders to influence the business, uncontrollable sale of the Company's Common Shares by significant shareholders could affect share price, constating documents discouraging favorable takeover attempts, effect of existence and creation of Preferred Shares on holders of Common Shares (as defined herein), increase in regulatory liability, increase in product liability or recalls, increase in litigation, inability to comply with laws and regulations that impact the Company's business could lead to litigation or regulatory actions against the Company, non-compliance with changing privacy regulatory environment, exposure to significant additional costs and expenses relating to losing foreign private issuer status in the future, changes in accounting standards, other risks inherent to the Company's business and/or factors beyond the Company's control which could have a material adverse effect on us. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time. These factors are not intended to represent a complete list of the factors that could affect us; however, these factors should be considered carefully.

HBC cautions that the foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect its results. For more information on the risks, uncertainties and assumptions that could cause HBC's actual results to differ from current expectations, please refer to the "Risk Factors" section of HBC's Annual Information Form dated May 4, 2018, as well as HBC's other public filings, available at www.sedar.com and at www.hbc.com.

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

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