



Hudson's Bay Company

JV Transactions to Unlock Real Estate Value and
Drive Long-Term Growth

February 25, 2015

Forward Looking Statements

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Pro Forma Information

The pro forma information in this presentation should not be considered to be what the actual financial position or other results would have necessarily been had the JV transactions occurred, as, at, or for the periods stated.

Non-IFRS Measures

This presentation makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including gross profit, EBITDA, Normalized EBITDA, Normalized Net Earnings (Loss) and Normalized Selling, General & Administrative Expenses to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We also believe that securities analysts, investors, rating agencies and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our future debt service, capital expenditure and working capital requirements.



Introduction

- Strategic process to unlock value in HBC's unique real estate portfolio continues
 - January 2011: Zellers leases sold for a total of C\$1.8 billion
 - January 2014: C\$650 million sale and leaseback of HBC's flagship store in Toronto
 - November 2014: US\$1.25 billion mortgage loan on the ground portion of Saks Fifth Avenue flagship store
- Formation of two real estate JVs is the optimal next step to surface and maximize HBC's real estate portfolio value
- HBC will continue to assess value surfacing opportunities, including:
 - A REIT IPO of the JVs at a future date
 - Saks and Lord & Taylor flagship stores in NYC, which remain 100% owned
 - Other HBC real estate assets







Transaction Rationale

- Surface value from HBC's extensive real estate portfolio
 - Sale of 20.2% of Canadian JV portfolio at 5.08% cap rate and C\$1.7 billion valuation
 - Sale of 20.0% of US JV portfolio at 6.125% cap rate and US\$1.7 billion (C\$2.1 billion) valuation
 - Support management's sum-of-the-parts real estate valuation of C\$9.2 billion
- Create two new growth platforms while diversifying real estate portfolio
 - Transactions structured to facilitate REIT IPOs at a future date
- Establish strategic relationship with the leading REIT in each of the US and Canada
- Support the growth of the retail business with greater financial flexibility
 - C\$1.1 billion in debt will be repaid



Transaction Overview

HBC is creating two real estate JVs, one in the US with Simon Property Group and one in Canada with RioCan Real Estate Investment Trust.

| | US JV | | Canadian JV | |
|--|---|---|---|---|
| |  |  |  |  |
| USDCAD: 1.25 | | | | |
| HBC Properties | | | | |
| # Fee Owned | | 20 | | 5 |
| # Ground Leased | | 22 | | 5 |
| | | <u>42</u> | | <u>10</u> |
| GLA (sq ft) | | 5.42 M | | 3.29 M |
| Valuation | | US\$1.7 B | C\$2.1 B | C\$1.7 B |
| Net Rent | | US\$105 M | C\$131 M | C\$85 M |
| Implied Cap Rate | | 6.125% | | 5.08% |
| JV Partner Commitment | | | | |
| At Close | | US\$50 M | | C\$144 M ⁽¹⁾ |
| Tenant Inducement (called by HBC) | | US\$50 M | | C\$53 M |
| Undrawn Commitment to finance acquisitions | | US\$178.5 M | | C\$128 M |
| Total | | <u>US\$278.5 M</u> | C\$348 M | <u>C\$325 M</u> |
| JV Partner Equity Stake | | | | |
| Based on Full Commitment | | 20.0% | | 20.2% |
| At Close | | 4.3% | | 10.1% |
| JV Debt | | | | |
| HBC Debt Assumed | | US\$600 M | | C\$552 M |
| JV Partner Debt Assumed | | US\$0 M | | (C\$48 M) ⁽²⁾ |
| Proceeds to HBC | | <u>US\$600 M</u> | C\$750 M | <u>C\$352 M</u> |



- (1) 50% equity interest in 2 mall properties, net of existing debt
 (2) Current Yorkdale Mortgage

Partnership with Best-in-Class REITs



- The largest retail REIT in the US
- 225 properties covering 189 million square feet
- Relationships with top retailers – current tenants include The Gap and H&M among others
- Occupancy rates in excess of 96%

US JV Governance/Leadership:

- **HBC will appoint 2 directors and Simon will appoint 2 directors to the board of the US JV**
- **Joint decision making**
- **Dedicated management team, focused on acquisitions and growth opportunities**



- The largest retail REIT in Canada
- 340+ properties covering 84 million square feet
- Relationships with top retailers – current tenants include Walmart, Loblaws and Shoppers Drug Mart among others
- 97% average occupancy rate since 1996

Canada JV Governance/Leadership:

- **HBC will appoint 2 directors and RioCan will appoint 2 directors to the board of the Canada JV**
- **Joint decision making**
- **Dedicated management team, focused on acquisitions and growth opportunities**
- **Separate partnership holding for certain ground leases to be managed by HBC**



Significant Growth Potential for JVs

- Mandate to acquire retail properties and diversify tenant base
 - Focus on adding attractive retail properties, as well as opportunistic retail situations and assets, outside the HBC footprint
 - US JV to explore international market opportunities
- Ability to leverage combined real estate expertise of HBC and new JV partners, as well as brand value of HBC banners
 - JVs entitled to exclusivity on select retail property investment opportunities identified by HBC, Simon and RioCan
 - HBC banner stores are highly sought after tenants, making the JVs attractive partners for property owners and providing the JVs with an anchor tenant for select investments
- Optimal structure to fund expansion
 - Attractive cost of capital is expected to maximize returns on property investments for HBC shareholders
 - Greater debt capacity and partners' capital will support more rapid expansion



JV Transactions Support Growth of HBC Retail

- Increased financial flexibility to invest in growth
 - C\$1.1 billion of debt eliminated from the HBC balance sheet
 - HBC retains the ability to pursue an IPO or other monetization of the JVs
- Access to funds to upgrade existing properties
 - Partner commitments to be invested in tenant improvements: Up to US\$100 million (C\$125 million) in the US and C\$52.5 million in Canada
- Enhanced real estate development opportunities
 - JVs' mandate and structure supports the growth and upgrading of HBC's footprint
- Sub-leases ensures HBC maintains operating control of all properties contributed to the JVs
 - JVs offer long-term leases with average life of 20 years, plus renewals



US JV Implied Capital Structure

Implied Capital Structure at Close

**US\$1,114M
(C\$1,392M)**
HBC 95.7%
Implied Equity

**US\$50M
(C\$63M)**
Simon 4.3%
Implied Equity

**US\$600M
(C\$750M)**
New Debt

**US\$1,764M
(C\$2,205M)**
Total Implied Capital

- At close, the JV will draw down new debt of US\$600 million (C\$750 million), which will be funded by third-party lenders
 - New debt will fund US\$600 million (C\$750 million) payment to HBC
- US\$278.5 million (C\$348 million) equity commitment from Simon
- Acquisitions of future properties by the JV will be funded by:
 - Undrawn Simon equity commitment
 - New debt and/or cash contributions from Simon
- Valuation for US\$278.5 million (C\$348 million) equity investment is fixed
 - Simon will own 20% of JV after full US\$278.5 million (C\$348 million) investment



Canada JV Implied Capital Structure

Implied Capital Structure at Close

C\$1,280M
HBC 89.9%
Implied Equity

C\$144M
RioCan 10.1%
Implied Equity

C\$552M
New and Assumed
Debt

C\$1,976M
Total Implied Capital

- At close, the JV will draw down new debt of C\$352 million, which will be funded by third-party lenders, and assume C\$200 million of debt secured against its properties⁽¹⁾
 - New debt will fund C\$352 million payment to HBC
- C\$325 million equity commitment from RioCan
- Acquisition of future properties by the JV will be funded by:
 - Undrawn RioCan equity commitment
 - New debt and/or cash contributions from RioCan
- Valuation for C\$325 million equity investments is fixed
 - RioCan will own 20.2% after full C\$325 million equity contribution
 - RioCan has committed to fund the C\$181 million equity balance by the 3rd anniversary of the closing date



(1) The Canada JV will assume C\$152 million of debt secured against the properties contributed by RioCan and C\$48 million of debt secured against one of the properties contributed by HBC

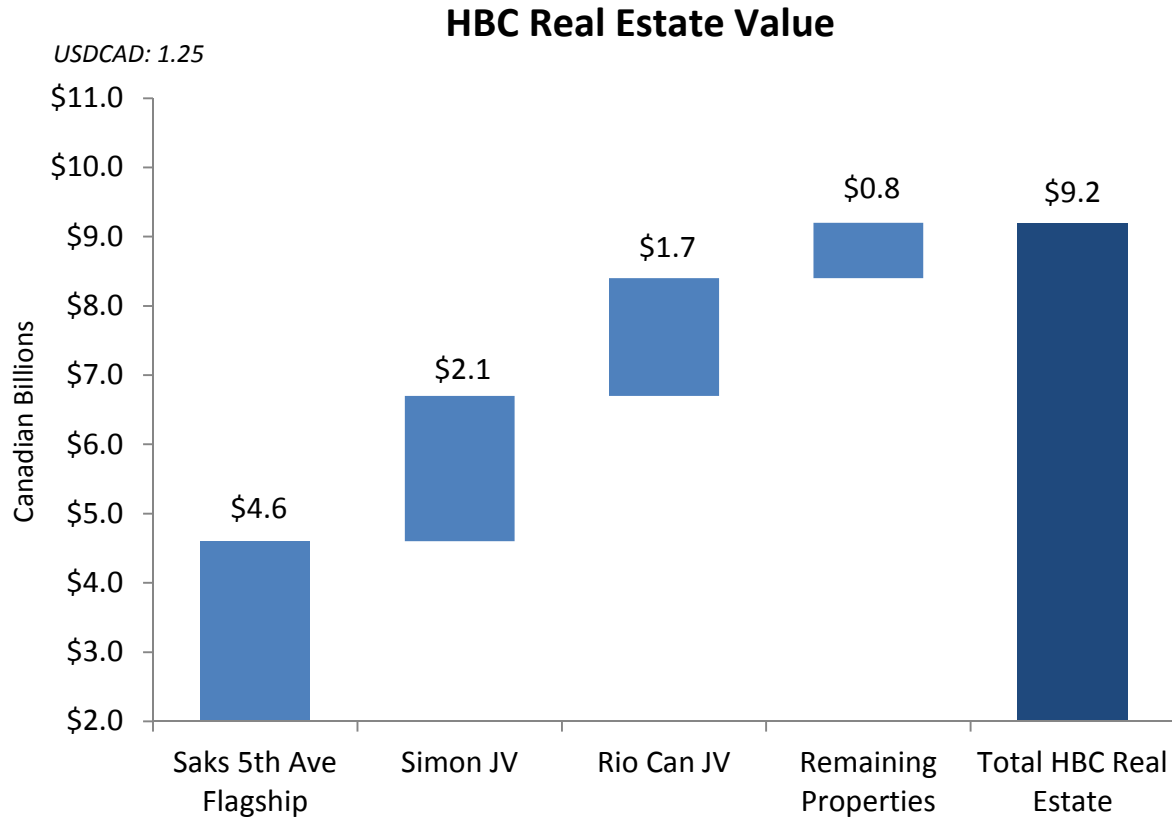
(2) 50% equity interest in Oakville and Georgian Malls

Valuation Considerations

- Managements Sum-of-the-parts valuation is appropriate
 - Saks Fifth Avenue flagship
 - Recent mortgage financing and appraisal support valuation
 - US JV (Simon)
 - Canada JV (RioCan)
 - Remaining real estate assets
 - Lord & Taylor Fifth Avenue flagship, among others
 - HBC Retail
- JV transactions and Saks appraisal provide indicative third-party valuations
 - Supports total valuation for the real estate alone of \$9.2 billion



Sum-of-the-Parts Valuation Of HBC



HBC Retail



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Path to Enhanced Value Creation

- Sale of 20% interest in two JVs effected at a blended cap rate of approximately 5.7%
 - Choice REIT and CT REIT are trading at a cap rate of approximately 6.3% and 5.7%, respectively (calculated based on the annualized last quarter cash NOI)
- Future acquisitions are expected to grow, diversify and increase the quality of each JVs real estate portfolio
- HBC retains ability to take the JVs public through REIT IPOs
 - HBC can initiate a Canadian JV IPO at any time
 - HBC can initiate a US JV IPO after 3 year, or at any time with Simon's consent



Anticipated Accounting Considerations

- HBC expects to account for the JVs using the Equity Method
 - No consolidation at HBC
- Single line investment presentation based on:
 - Carrying value of HBC's share of assets and liabilities contributed; plus
 - Gains on sales of properties to the extent of other venturers' equity interests
- Sale/leaseback accounting applies as HBC property contributions will be treated as sales
- Equity recognition at HBC on proportional share of JV entities' profit/loss, adjusted for difference in amortization (fair value at JVs versus book value at HBC)
- Supplemental financial information in respect of the JVs to be disclosed in HBC's financial statement notes and/or MD&A



Financial Statement Impact – Income Statement

| Pro Forma Income Statement - HBC | | | |
|--|-----------------|-------------------------|------------------|
| TTM Q3/14 - Pro Forma the JV Transaction | | | |
| <i>US JV USDCAD: 1.25</i> <i>(mm of Canadian dollars)</i> | HBC Reported | Adjustments for JVs* | HBC Pro Forma |
| Revenue | 7,944 | - | 7,944 |
| Cost of Sales | (4,855) | - (1) | (4,855) |
| SG&A | (2,819) | (19) | (2,838) |
| D&A | (331) | 64 | (267) |
| Gain on Queen Street Sale | 308 | - | 308 |
| Operating Income | 247 | 45 | 292 |
| Finance Costs | (189) | 49 | (140) |
| Equity Method JV income | - | (100) | (100) |
| EBT | 58 | (6) | 52 |
| Income Tax Benefit | 106 | 2 | 108 |
| Net Income for the period | 164 | (4) | 160 |

*Excludes Gains from Sale of Properties

| Pro Forma Income Statement - JV Entities | | | |
|--|-----------|--------------|--------------|
| <i>US JV USDCAD: 1.25</i> <i>(mm of Canadian dollars)</i> | US JV | Canada JV | JVs Total |
| Revenue from HBC Properties | 161 | 104 | 265 |
| Revenue from Other Properties | - | 18 | 18 |
| SG&A | (4) | (3) | (7) |
| D&A | (43) | (40) | (83) |
| Finance Costs | (32) | (21) | (53) |
| Net Income | 82 | 58 | 140 |

| HBC JV Income | US JV | Canada JV | JVs Total |
|-----------------------------------|-------------|--------------|--------------|
| HBC Ownership | 96% | 90% | |
| HBC Share of Net Income | 79 | 52 | 131 |
| HBC Share of Amortization | 41 | 35 | 76 |
| HBC Share of Amortization at Cost | (56) | (5) | (61) |
| HBC Share of Rent Expense | (154) | (92) | (246) |
| Equity Method JV Income | (90) | (10) | (100) |



(1) \$265M HBC rent expense offset by \$246M credit based on ownership share in JVs. All other pre-tax JV related line items and adjustments flow through Equity Method JV Income (-100)

Estimated Cash Flow Impact

TTM Q3/14 – Pro Forma the JV Transaction

(mm of Canadian dollars)

| | |
|----------------------------------|-------------|
| Gross Cash Rent Paid to JVs | (221) |
| JV Distributions Received by HBC | 152 |
| <hr/> | |
| Net Cash Rent | (69) |
| Cash Interest Savings at HBC | 49 |
| Net Cash Flow Impact | (20) |



Financial Statement Impact – Balance Sheet

| ProForma Balance Sheet Highlights | | | |
|--|---------------|----------------|---------------|
| HBC Consolidated as at November 1, 2014 | | | |
| <i>(mm of Canadian dollars)</i> | Reported | Adjustments | Pro Forma |
| Assets | | | |
| Current assets | 2,926 | - | 2,926 |
| PPE | 4,111 | (1,293) | 2,818 |
| Deferred tax assets | 244 | (49) | 195 |
| Investment in JV - Simon | - | 421 | 421 |
| Other assets | 1,261 | - | 1,261 |
| Total Assets | 8,542 | (921) | 7,621 |
| Liabilities | | | |
| Current Liabilities | 2,596 | 10 | 2,606 |
| LT Loans and Borrowings | 2,487 | (1,137) | 1,350 |
| Investment in JV - RioCan | - | 57 | 57 |
| Other Liabilities | 500 | - | 500 |
| Remaining LT liabilities | 784 | - | 784 |
| Total Liabilities | 6,367 | (1,070) | 5,297 |
| Shareholders Capital | | | |
| Share Capital | 1,420 | - | 1,420 |
| Retained Earnings | 591 | 149 | 740 |
| Contributed Surplus | 55 | - | 55 |
| OCI | 109 | - | 109 |
| Total Equity | 2,175 | 149 | 2,324 |
| Total liabilities and equity | 8,542 | (921) | 7,621 |
| LEVERAGE⁽¹⁾ | 5.38 x | | 3.75 x |



(1) Ratio of debt to TTM normalized EBITDA, less "net rent" per slide 16

Concluding Remarks

- Surface value from HBC's extensive real estate portfolio
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Q&A

Appendix A

HBC Properties to Be Transferred to the JVs



Properties to be Transferred to the US JV

- Fee Owned

| # | Property | Banner | GLA (SF) |
|----|----------------------------|--------|-----------|
| 1 | Eastchester | L&T | 198,523 |
| 2 | Fashion Center (Ridgewood) | L&T | 155,480 |
| 3 | Stamford | L&T | 155,037 |
| 4 | Westfield | L&T | 142,301 |
| 5 | Garden City (Long Island) | L&T | 154,042 |
| 6 | Miracle Mile | L&T | 125,880 |
| 7 | Bridgewater Commons | L&T | 139,581 |
| 8 | King of Prussia Plaza | L&T | 119,345 |
| 9 | Fair Oaks Mall | L&T | 159,860 |
| 10 | Freehold Raceway Mall | L&T | 122,820 |
| 11 | Rockaway Town Square Mall | L&T | 150,238 |
| 12 | Willowbrook Mall (Wayne) | L&T | 120,872 |
| 13 | Woodfield Mall | L&T | 130,872 |
| 14 | Twelve Oaks Mall | L&T | 121,800 |
| 15 | The Mall in Columbia | L&T | 120,003 |
| 16 | Walden Galleria | L&T | 99,534 |
| 17 | Beverly Hills | SFA | 156,267 |
| 18 | Troy | SFA | 152,025 |
| 19 | Tysons Corner | SFA | 116,795 |
| 20 | North Star Mall | SFA | 79,510 |
| | Subtotal - Fee-Owned | | 2,720,785 |



Properties to be Transferred to the US JV

- Ground Leased

| # | Property | Banner | GLA (SF) |
|----|-------------------------------|--------|-----------|
| 21 | Quakerbridge Mall | L&T | 152,649 |
| 22 | Garden State Plaza | L&T | 129,737 |
| 23 | Walt Whitman | L&T | 119,874 |
| 24 | Burlington Mall | L&T | 118,000 |
| 25 | Livingston Mall | L&T | 169,088 |
| 26 | Tysons Corner Center | L&T | 119,735 |
| 27 | Westfarms Mall | L&T | 120,283 |
| 28 | South Shore Plaza (Braintree) | L&T | 125,741 |
| 29 | Palisades Center | L&T | 120,721 |
| 30 | Natick Mall | L&T | 114,823 |
| 31 | South Shore | L&T | 119,962 |
| 32 | Northbrook Court | L&T | 125,950 |
| 33 | Carousel Center | L&T | 117,627 |
| 34 | Danbury Fair Mall | L&T | 79,420 |
| 35 | Atlanta | SFA | 151,372 |
| 36 | Chevy Chase Mall | SFA | 108,036 |
| 37 | Dadeland | SFA | 76,338 |
| 38 | Fashion Show Mall | SFA | 159,190 |
| 39 | Walt Whitman Mall | SFA | 96,821 |
| 40 | Chicago Place Mall | SFA | 167,424 |
| 41 | Beachwood Place | SFA | 100,897 |
| 42 | South Coast Plaza | SFA | 102,813 |
| | Subtotal - Ground Leased | | 2,696,501 |



Properties to be Transferred to the Canada JV

- Fee Owned

| | Property | Banner | GLA (SF) |
|---|-----------------------------|--------|------------------|
| 1 | Downtown Vancouver | HBC | 636,828 |
| 2 | Downtown Montreal | HBC | 655,396 |
| 3 | Downtown Calgary | HBC | 448,834 |
| 4 | Downtown Ottawa | HBC | 335,305 |
| 5 | Devonshire Mall | HBC | 165,584 |
| | Subtotal - Fee Owned | | 2,241,947 |

- Ground Leased

| | Property | Banner | GLA (SF) |
|----|---------------------------------|--------|------------------|
| 6 | Carrefour Laval | HBC | 177,022 |
| 7 | St. Bruno | HBC | 131,808 |
| 8 | Yorkdale Shopping Centre | HBC | 303,438 |
| 9 | Scarborough Town Centre | HBC | 231,759 |
| 10 | Square One | HBC | 200,729 |
| | Subtotal – Ground Leased | | 1,044,756 |



Appendix B

RioCan Properties to be Transferred to the
Canada JV (50%)



RioCan Malls

Oakville Place & Georgian Mall

| | <i>Georgian Mall</i> | Oakville Place |
|--|----------------------|-----------------------|
|--|----------------------|-----------------------|

| | | |
|----------------------------------|-----------------|-------------------|
| Location | Barrie, Ontario | Oakville, Ontario |
| GLA | 475,347 sq/ft | 465,233 sq/ft |
| Occupancy (December 2014) | 97.69% | 99.01% |

