

“After a huge amount of change behind the scenes, we’re starting to see evidence of progress.”

Sergio Bucher
Chief Executive Officer



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Dear shareholder,

It has been a tough year for UK retail and our trading performance in FY2018 reflects that. Nevertheless, we are encouraged by the signs that our transformation is gaining traction. We have been reshaping our business, taking some hard decisions, including announcing more store closures, to make sure that Debenhams is in a strong financial position to trade successfully in a highly competitive and promotional marketplace. I would like to thank all my colleagues for their resilience and support in delivering the necessary changes and building the foundations for our transformation of Debenhams.

We announced our new strategy, Debenhams Redesigned, in April 2017. see the framework of our strategy below and Strategy In Action (SIA) pages 10 to 19. The strategy aimed to address the challenges that face department store retailing and to create a business that makes shopping confidence boosting, sociable and fun for our customers. In order

to deliver our strategy, we needed to restructure the organisation to make it simpler, leaner and more nimble. We have made huge progress with this reorganisation and we have assembled a strong management team.

Five key priorities identified

At our interims in April, acknowledging the rapid change in our industry, we identified five priority actions within our strategy that will help mitigate the trading environment; that are scalable; and that will deliver positive returns. These priorities are:

- Delivering above-market digital sales growth driven by technological change focused on mobile
- Sustaining leadership in Beauty through innovative customer engagement both instore and online
- Revitalising fashion product under new leadership, with Designers@Debenhams reinvention under way
- Changing the instore experience for customers through our redesigned service model and store presentation
- Accelerating cost reduction activity to underpin announced annualised savings of £20 million

Strength in digital sales growth

Debenhams is one of the top ten most visited retail websites in the UK and a clear destination at peak shopping dates in the calendar. We have delivered strong growth in digital sales in FY2018, up 12% to £530 million. This accelerated well ahead of the wider market in H2, driven by continuing agile development focused on mobile. The smartphone is increasingly the centre of our interaction with customers and mobile demand accounts for over half our digital sales. Our partnership with Mobify, a digital experience platform, has successfully delivered a faster, more responsive mobile website and improved customer experience. We plan to extend this to our customers shopping via their desktops and expect to continue to drive profitable, above-market growth in the coming year.

Sustaining leadership in Beauty

Debenhams is a leader in the UK premium beauty market, which has slowed this year after several years of strong growth. Our Beauty Redesigned strategy aims to sustain our leadership through making our beauty halls even more of a Destination, through

driving Digital engagement with our customers and offering Different brands and categories where we see growth opportunities. We took a minority stake in digital beauty services provider blow LTD. Our Beauty Hall of the Future has opened in two locations; our new store in Watford and our modernised store at Meadowhall, with elements of our new thinking being rolled out to more stores. We have launched the BeautyClub Community, a social media platform for beauty devotees, where our 1.3m BeautyClub members and instore beauty consultants can share advice, tips and recommendations, building content and gaining rewards based on their participation. This is an exciting development, the first of its kind in the UK, that brings our channels together, tapping into a highly socially-engaged customer.

Revitalising fashion product

Under the leadership of Steven Cook (see overleaf), we have restructured the organisation of our Fashion & Home business unit: reducing complexity, aligning the management of the trading divisions and improving accountability.

A strategy that aims to create shareholder value

Debenhams Redesigned

Our objective is to build a successful future for Debenhams against a fast changing background, with a mission to make shopping **confidence-boosting, sociable and fun**. Our plan is to transform the shopping experience at Debenhams, creating great reasons for our customers to come to us whether they are sitting at home, commuting to work or enjoying leisure time browsing in stores. The strategic framework illustrates our Debenhams Redesigned strategy:

- 1 Above market growth
- 2 Growth in beauty through digital/social
- 3 Improve fashion product
- 4 Change instore experience
- 5 Deliver cost reduction activity



Destination 2

We aim to make Debenhams a destination for Social Shopping by focusing on three key areas to grow: Beauty and beauty services; Fashion via accessories; and food and events – which we call Meet me @ Debenhams. If we can be higher in our customer's consideration for these categories, this will increase frequency of visits. Our customers visit us less frequently than some of our peers and by exploiting our market-leading position in premium beauty; encouraging cross-shopping between fashion and accessories and creating exciting places to eat and drink, we can increase traffic and spend per customer.



Digital 1

Growth in mobile demand is driving growth in UK non-food retail sales and is a significant opportunity overseas. We saw continuing rapid growth in mobile demand in 2018 of 20%, and it now accounts for almost 60% of UK Group digital sales. By using mobile to integrate our channels and become the primary means of interacting with our customers, we will increase loyalty and personalisation and broaden our reach. We intend to increase our digital distribution both through our own infrastructure and via strategic partnerships.



Different 3 4

We are redesigning the culture at Debenhams, from being process-driven, to customer-led. We aim to foster creativity and innovation, underpinned by data-driven decision-making. We are reinventing Designers@Debenhams, making the proposition more relevant and managing our brand portfolio more robustly. We are building ranges for our online customers first. By being different in how we create and manage our brands and products; we will build their desirability and value.



Underpinned by Simplify & Focus 5

We have reviewed our processes and the way we do business in all areas to simplify them and improve our flexibility, with the aim of making more effective use of our people, our inventory and our infrastructure, including how we generate and deploy our cash. We have now started to address the structural challenge within our store estate: segmenting the portfolio between the investable core; those markets we plan to exit; and a low cost model for the balance of the UK chain.

This strategy will deliver growth and efficiency over the next three years and beyond, delivering an enhanced experience for our customers, helping our colleagues to serve our customers better and creating value for our shareholders.

CEO'S STRATEGIC PERSPECTIVE CONTINUED

This will underpin our work to differentiate our brands better. We are revitalising Designers@Debenhams, which remains an important asset of the business, with some changes to our portfolio of Designers. The first collection from our newest partner, Richard Quinn, winner of the London Fashion Week Queen Elizabeth II award, was very well received. In those brands where our work is most advanced, we have seen a strong improvement in full price sell-through.

Changing instore experience

We started our work on instore experience by addressing some of the issues that have hindered our customers from enjoying their shopping experience with us. We introduced customer service measures to our KPIs and in FY2018 we have seen a significant improvement in our net promoter scores. Building on the lessons from our store "test-lab" at Stevenage we restarted our store investment programme, with six stores, Uxbridge, Westfield, Reading, Cambridge, Leicester and Meadowhall, being modernised in time for the autumn season. We have opened our "store of the future" at Watford, which brings together our latest thinking instore presentation and layout. We are assessing how to focus our investment plans, within a lower capex budget to deliver the best returns.

Accelerating cost reduction activity

We announced in January that we were working on a new, more flexible operating model that would result in reorganisation and restructuring activity both in our stores and support centre. We have reduced the layers of management, taking out 320 roles in stores and c300 roles in the support centre, delivering £12 million of cost savings in FY2018, and secured further efficiencies to deliver the annualised £20 million identified. Market conditions remain volatile and challenging. We are therefore taking a prudent approach and assume no improvement in the trading environment for the foreseeable future. We have identified a further £30 million of cost savings for FY2019, annualising to c£50 million by FY2020.

Strengthening our financial position

As well as driving out further cost opportunities beyond those already announced, we are focusing on self-help and prioritising cash generation. In order to give us maximum flexibility amidst difficult trading conditions we are taking the opportunity to strengthen our balance sheet further. Whilst still pushing ahead with key strategic initiatives, we are planning for a material reduction in FY2019 capital expenditure to £70 million. As a result, we expect net debt to be lower in FY2019 than in FY2018. We are also conducting a strategic review of non-core assets, aiming to focus investment behind our strategy.



Introducing our new CFO, Rachel Osborne

Rachel joined in September 2018. She was previously CFO at Domino's Pizza Group plc and has also held finance roles at both Kingfisher plc and the John Lewis Partnership.

→ [Read more on page 44](#)

Debenhams management team

The team delivering the transformation of Debenhams



Executive committee (left to right):

- David Smith**
MD of International
 - Angela Morrison**
Technology and Supply Chain Director
 - Sally Hyndman**
HR Director
 - Ross Clemmow**
MD of Retail, Digital, Food & Events
 - Steven Cook**
MD of Fashion & Home
 - Sergio Bucher**
CEO
 - Rachel Osborne**
CFO
 - Richard Cristofoli**
MD of Marketing & Beauty Services
- [Read more on page 47](#)

Putting Debenhams on firmer foundations

Early evidence of strategic progress

Looking different

The Debenhams Redesigned strategy sets out to reinvent the shopping experience for customers. Whilst we have made real improvements to our stores and continue to improve our product offering, we also want to signify clearly to customers that Debenhams is changing and give them more reasons to come instore – our new brand identity signals the next phase in our continued transformation. You will see it on our website, in all our communications, especially on social and digital platforms, and in our new and modernised stores.

Store of the future

I am as convinced as ever that the high street has a big role to play in the future of retail. We invited some of our stakeholders to see our vision of the future of department stores, as displayed at our new store in Watford. It is obvious that online platforms, including ours, provide a very convenient way of shopping. However, shopping is one of the favourite hobbies for many people around the world and particularly in the UK. If the high street wants to compete, we need to make sure that every shopping trip has a little something that is memorable: the product, the experience, the service, the environment, the food, the drinks, the friends. Watford brings to life what we call Social Shopping: that is, shopping as a fun experience you can do on your own or share with friends, with family, wrapped in a set of digital experiences. Watford will form the template for the future revitalisation of our store portfolio, which will underpin the transformation of your company.

Changes to the senior team

We have said Hello and Goodbye to some members of the senior team. In January, we welcomed an important new member of the executive committee, Steven Cook, who has joined from Holt Renfrew as Managing Director of Fashion & Home. I would like to take a moment to thank Matt Smith, our CFO, who left in August 2018, for his contribution to Debenhams over the past three years including developing and shaping the strategy and strengthening our financial position. I am delighted that we have appointed a very able successor to Matt in Rachel Osborne, who has joined us from Dominos plc, with invaluable experience across retail and consumer-facing businesses. I'd also like to thank Paul Eardley, who served most ably as Company Secretary for 11 years. We all hope he enjoys his well-earned retirement.

Sergio Bucher

Chief Executive Officer
25 October 2018

SEPTEMBER 2017

Debenhams announces partnership with blow LTD to drive beauty services growth

Opens first southern hemisphere store in Melbourne, Australia



OCTOBER 2017

Preliminary results and strategic update introducing new KPIs

First downsized store launched at Uxbridge

JANUARY 2018

Steven Cook joins as MD, Fashion & Home

Debenhams reports tough Christmas trading, but strong digital performance

Initiates move towards new operating model and confirms £20 million cost saving target



MARCH 2018

Furniture trials with partners Maisons du Monde and Swoon open in Westfield

APRIL 2018

Interims introduce five priority actions under Redesigned strategy

Confirms de-layered management structure both in stores and at support centre

- 1 Above market growth
- 2 Growth in beauty through digital/social
- 3 Improve fashion product
- 4 Change instore experience
- 5 Deliver cost reduction activity



MAY 2018

New Designer collaboration with Richard Quinn launches

JUNE 2018

Q3 trading update notes deterioration in market environment

Announce strategic review of non-core assets



AUGUST 2018

First Sweat! gym opens at Sutton, Surrey

Appointment of new CFO, Rachel Osborne